



THE UNIVERSITY *of* NORTH CAROLINA
GREENSBORO

The Financial Report
2008 - 2009



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Cover photo: The UNCG Historic Quad

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THE UNIVERSITY of NORTH CAROLINA
GREENSBORO

Business Affairs

254 Mossman Building
PO Box 26170, Greensboro, NC 27402-6170
336.334.5822 Phone 336.334.3071 Fax

The Chancellor and The Board of Trustees
of The University of North Carolina at Greensboro

I am pleased to present the University's Financial Report for the year ended June 30, 2009. The report is comprised of three sections: the management's discussion and analysis of the three required financial statements; the financial statements; and the related footnote disclosures. The accompanying financial statements are presented in accordance with accounting principles generally prescribed by the Governmental Accounting Standards Board.

The fiscal challenges we faced in the 2008-09 year were extraordinary. While our enrollment continued to increase, the University endured a significant year to year decrease in support from the state. The value of our endowment investments also decreased significantly. Through the hard work and dedication of our faculty and staff, the effects of these financial pressures were somewhat mitigated although their long term impact are not yet known.

I would like to recognize the employees working within the Office of Accounting Services who prepared this financial report. A tremendous amount of time and effort was required of them in order to make this report possible.

Sincerely,

Reade Taylor
Vice Chancellor for Business Affairs

The University of North Carolina at Greensboro Management's Discussion and Analysis

Introduction

The University of North Carolina at Greensboro (the "University") provides the following management discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2009. This discussion, the following financial statements, and the related notes to the financial statements have been prepared by management and comprise the University's complete financial report. The financial statements, notes to the financial statements, and this discussion are the responsibility of management.

The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. However, this discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the related financial statements and notes to the financial statements.

Using the Financial Report

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories.

Statement of Net Assets

The Statement of Net Assets is a "point of time" financial statement that presents the assets, liabilities, and net assets of the University. The purpose of this financial statement is to present to the readers of the University's Financial Report a fiscal snapshot as of the end of the fiscal year (i.e., June 30th). The Statement of Net Assets presents both the current and noncurrent portions of assets and liabilities. The differences between current and noncurrent assets and liabilities are discussed further in the notes to the financial statements.

From the data presented, readers of this statement are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. The Statement of Net Assets also provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories: invested in capital assets, net of related debt; unrestricted net assets; and restricted net assets, which are reflected in two subcategories – expendable and nonexpendable. These three categories of net assets are discussed further in the notes to the financial statements.

A condensed Statement of Net Assets is reflected in the following table.

Condensed Statement of Net Assets

	6/30/09	6/30/08 As Restated
Assets:		
Current Assets	\$ 115,242,831	\$ 112,916,832
Noncurrent Capital Assets, Net of Accumulated Depreciation	412,268,459	404,975,940
Other Noncurrent Assets	173,407,822	217,809,549
Total Assets	<u>700,919,112</u>	<u>735,702,321</u>
Liabilities:		
Current Liabilities	26,725,825	53,368,179
Noncurrent Liabilities	134,389,349	109,025,019
Total Liabilities	<u>161,115,174</u>	<u>162,393,198</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	306,033,752	297,103,253
Restricted - Nonexpendable	93,537,684	93,763,373
Restricted - Expendable	68,446,159	108,189,820
Unrestricted	71,786,343	74,252,677
Total Net Assets	<u>\$ 539,803,938</u>	<u>\$ 573,309,123</u>

The total assets of the University decreased by \$34.8 million for the year (\$2.3 million increase for current assets and a \$37.1 million decrease for noncurrent assets). This overall decrease was attributable to increases of \$7.3 million in capital assets, net of accumulated depreciation, and \$2.0 million in current cash and cash equivalents, and decreases of \$31.3 million in endowment investments and \$8.0 million in noncurrent restricted cash and cash equivalents. The increase in capital assets, net of accumulated depreciation, is the direct result of the completion and capitalization of several building renovations during the fiscal year. These building renovations include the Health and Human Performance Building Roof Replacement, Bryan Building Data Center Upgrade, Grogan Fire and Sprinkler System, Weil-Winfield Fire and Sprinkler System, West Lee Street Parking Lot, Weil-Winfield Window Renovations, EUC West Side Landscaping, Stone Building Waterproofing, Sink Building Roof Replacement, and a few other smaller renovation projects. The increase in cash and cash equivalents is the result of increases in student tuition and fees and from increases in noncapital gifts as a result of the Students First Capital Campaign. The decrease in endowment investments is the direct result of sharp decreases in the world wide financial markets during the fiscal year. All other asset categories, both current and noncurrent, decreased by \$4.8 million.

The total liabilities of the University decreased by \$1.3 million for the year (\$26.6 million decrease for current liabilities and a \$25.3 million increase in noncurrent liabilities). This overall decrease in total liabilities consists of a \$29.8 million decrease in notes payable, a \$26.0 million increase in bonds payable, a \$1.7 million decrease in unearned revenue, a \$1.6 million increase in accounts payable and accrued liabilities, a \$1.4 million increase in funds held for others, a \$1.1 million increase in due to primary government, a \$0.8 million increase in the compensated absences, a \$0.8 million decrease in funds held in trust for pool participants, a \$0.7 million decrease in annuity and life income payable liability, a \$0.5 million increase in deposits payable, and a increase of \$0.3 million in all other liability categories, both current and noncurrent. The increase in bonds payable and decrease in notes payable is directly attributable to the University's issuance of \$29.5 million in General Revenue Bonds, Series 2009A. The proceeds from the 2009A Bonds were used to acquire

the Spring Garden Street Apartments from the Capital Facilities Foundation (a blended component unit of the University) via the retirement of a \$29.5 million construction note payable held by the Capital Facilities Foundation. The decrease in unearned revenue is due to a sharp decline in summer Youth Camp attendance and in installment or advanced funding type grants. The increase in accounts payable is due to increased construction activity during the second part of fiscal year 2009. The increase in funds held for others is due to the increases in financial aid awards that flow through agency funds. The increase in due to primary government is the result of the University being required to record a liability for the parking fines that were collected between 1996 and 2005 and are currently escrowed pending final legal action. The increase in compensated absences is due to higher salary rates approved by the Legislature in the 2008 session.

The combination of the decrease in total assets of \$34.8 million and the decrease in total liabilities of \$1.3 million yields an overall decrease in total net assets of \$33.5 million. This change consists of an increase in the category of invested in capital assets, net of related debt of \$8.9 million, a decrease in the category of nonexpendable net assets of \$.2 million, a decrease in the category of restricted expendable net assets of \$39.7 million, and a decrease in the category of unrestricted net assets of \$2.5 million. The increase in the invested in capital assets, net of related debt is due to the capitalization of several building renovation projects completed this fiscal year. The decrease in the nonexpendable net asset category is due to an increase in underwater endowments which was partially offset by the receipt of endowed gifts as part of the Students First Capital Campaign. The decrease in restricted expendable net assets is due to the sharp decline in the value of investments during the fiscal year. The decrease in unrestricted net assets is attributable to the University's need to expend unrestricted non-state resources to partially offset significant reductions in State support during the fiscal year.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues earned by the institution, both operating and nonoperating, and the expenses incurred by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses earned or incurred by the institution.

Generally speaking, operating revenues are earned for providing goods and services to the various constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues earned for which goods and services are not provided. State appropriations and federal financial aid awards are included as nonoperating revenues in accordance with GASB guidelines, even though these revenues are instrumental to the University's mission and operations. Nonoperating expenses are expenses not directly related to the normal operations of the University (e.g., interest expense and other fees on capital asset related debt) and are netted against nonoperating revenues on the Statement of Revenues, Expenses, and Changes in Net Assets. Other revenues include capital contributions and additions to the principal of permanent and term endowments.

A condensed Statement of Revenues, Expenses, and Changes in Net Assets is reflected in the following table.

**Condensed Statement of
Revenues, Expenses and Changes in Net Assets
For the Years Ended**

	6/30/09	6/30/08 As Restated
Operating Revenues		
Student Tuition and Fees, Net	\$ 71,298,125	\$ 69,537,463
Grants and Contracts	22,632,842	19,045,268
Sales and Services, Net	38,565,357	39,194,859
Interest Earnings on Loans	370,475	7,691
Other Operating Revenues	466,056	682,009
Total Operating Revenues	<u>133,332,855</u>	<u>128,467,290</u>
Operating Expenses		
Salaries and Benefits	219,459,663	203,172,760
Supplies and Materials	20,142,252	23,579,672
Services	50,023,559	51,550,184
Scholarships and Fellowships	15,437,382	14,030,475
Utilities	9,015,807	9,569,022
Depreciation	13,117,748	12,296,692
Total Operating Expenses	<u>327,196,411</u>	<u>314,198,805</u>
Operating Loss	<u>(193,863,556)</u>	<u>(185,731,515)</u>
Nonoperating Revenues (Expenses)		
State Appropriations	138,168,464	156,611,887
State Aid - Federal Recovery Funds	8,021,211	0
Noncapital Grants and Gifts	45,925,081	32,586,645
Investment Income (Net of Investment Expense)	(33,285,737)	2,647,956
Interest and Fees on Debt	(4,857,652)	(5,323,242)
Other Nonoperating Expenses	(1,613,368)	(922,608)
Net Nonoperating Revenues	<u>152,357,999</u>	<u>185,600,638</u>
Loss Before Other Revenues	<u>(41,505,557)</u>	<u>(130,877)</u>
Other Revenues		
Capital Appropriations	0	5,716,100
Capital Grants and Gifts	4,004,980	6,536,590
Refund of Prior Year Capital Appropriations	(1,231,893)	0
Total Other Revenues	<u>2,773,087</u>	<u>12,252,690</u>
Income (Loss) before Additions to Endowments	<u>(38,732,470)</u>	<u>12,121,813</u>
Additions to Permanent Endowments	<u>5,227,285</u>	<u>7,664,570</u>
Increase (Decrease) in Net Assets	<u>(33,505,185)</u>	<u>19,786,383</u>
Net Assets - July 1, 2008	<u>573,309,123</u>	<u>553,522,740</u>
Net Assets - June 30, 2009	<u>\$ 539,803,938</u>	<u>\$ 573,309,123</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a decrease in the net assets at the end of the year and a decrease of \$40.1 million (11.8%) in total revenues. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Operating revenues increased by \$4.9 million (3.8%), whereas operating expenses increased by \$13.0 million (4.1%), for a combined net increase in operating loss of \$8.1 million. The largest increase within operating revenues was in federal grants and contracts, which increased by \$4.9 million (35.0%), due to increased research activity. In the preceding table, federal student financial aid revenue has been reclassified from operating revenue to nonoperating revenue for both years as required by the Governmental Accounting Standards Board. Net student tuition and fees increased by \$1.8 million (2.5%) due to increases in student enrollment and in student fee rates, but these increases were partially offset by higher financial aid awards recorded as tuition discounts. The largest decrease within operating revenues was in State, local, and nongovernmental grants and contracts, which decreased by \$1.3 million (25.3%). This decrease is reflective of budget shortfalls for both State and local governments which had an effect on grant funding. Other sources of operating revenues decreased by \$0.5 million (1.2%). The increase in operating expenses is the result of a \$16.3 million (8.0%) increase in salaries and benefits, a \$3.4 million (14.6%) decrease in supplies and materials, a \$1.5 million (3.0%) decrease in services, \$1.4 million (10.0%) increase in scholarships and fellowships, a \$0.6 million (5.8%) decrease in utilities, and a \$0.8 million (6.7%) increase in depreciation. The increase in salaries and benefits is related to new positions and salary increases funded by increased enrollment and legislative salary increases approved in the 2008 session. The decrease in supplies and materials and services are related to reduced funding from the State's general fund due to statewide budget cuts implemented during the fiscal year. The increase in scholarships and fellowships is due to higher institutionally funded and endowment funded awards. The decrease in utilities is due to a higher level of conservation practices and energy efficient upgrades in buildings across campus during the fiscal year. The increase in depreciation is due to depreciation being recorded on newly capitalized major building additions and renovations, which include the Spring Garden Apartments, Health and Human Performance Building Roof Replacement, Bryan Building Data Center Upgrade, Dorm Fire and Sprinkler Renovations, and Stone Building Waterproofing.
- State appropriations decreased by \$18.4 million (11.8%) which was attributable to reduced funding from the State's general fund due to statewide budget cuts implemented during the fiscal year. State appropriations were also decreased by the use of federal stimulus funds which was substituted for State appropriations for the purpose of paying teaching faculty salaries. These federal stimulus funds, \$8.0 million, are reported as nonoperating revenues under the State aid - Federal recovery funds caption. Investment income decreased by \$35.9 million because of sharp declines in all types of investments due to the global recession. The total return on the University's external investment pool declined to a loss of 20.7% for the current fiscal year compared to a loss of 0.2% for the prior fiscal year. Noncapital grants increased by \$8.4 million (29.5%), due to a \$2.5 million increase in federal student financial aid awards and an increase in research activities funded from federal nonexchange type grants. Noncapital gifts increased by \$5.0 million, as the Students First Capital Campaign was brought to a successful close. Interest and fees on debt decreased by \$0.4 million because of the retirement of the Housing and Dining System, Series G revenue bonds, the \$29.5 million note payable for the Spring Garden Street Apartments and the defeasance of the Housing and Dining System, Series F revenue bonds. The caption other nonoperating expenses consists of surplus property sales (a revenue), the loss on the disposal of capitalized assets, and the amount of parking fines from 1996 to 2005 that have been held in escrow pending a final legal settlement about the disposition of those fines. Surplus property sales of \$35,408 represent a \$17,803 decrease from the prior year due to fewer public sales events being held during the fiscal year. The loss on the disposal of capitalized assets was \$566,466 which represented a decrease from the prior year of \$406,354. The amount of parking fines currently being held in escrow and expected to be remitted to the State is \$1,082,310. These various net nonoperating revenue categories as a whole decreased by \$33.2 million (17.9%).
- Other revenues consist of capital gifts and grants, additions to permanent endowments, and net capital appropriations. Capital gifts and grants decreased by \$2.5 million due to reduced funding from the statewide certificates of participation because of the completion of renovation projects during the fiscal year. Additions to permanent endowments decreased by \$2.4 million due to a reduction in endowed gifts during the final year of the Students First Capital Campaign. The University received no capital appropriations from the State during the fiscal year. Instead the University was required to return \$1.2 million in prior year capital appropriations to the State's general fund to assist in balancing the State's budget during the fiscal year.

Capital Asset and Debt Administration

During fiscal year 2008-09, the Health and Human Performance Building Roof Replacement, Bryan Building Data Center Upgrade, Grogan Fire and Sprinkler System, Weil-Winfield Fire and Sprinkler System, West Lee Street Parking Lot, Weil-Winfield Window Renovations, EUC West Side Landscaping, Stone Building Waterproofing, and Sink Building Roof Replacement projects were all completed. The Health and Human Performance Building Roof Replacement was a project that replaced the current low-sloped roof systems with a new modified bitumen roofing system. The residence hall sprinkler and fire prevention projections involve retrofitting older residence halls with sprinkler systems, which has been mandated by the University of North Carolina General Administration.

Major projects included in construction in progress are as follows: \$6.3 million for the complete renovation of the Forney Classroom Building, \$4.3 million for the School of Education Building, \$2.4 million for Recreation Center Roof Replacement, \$1.5 million for North and South Spencer Residence Hall Renovations, \$0.8 million for Residence Hall Fire and Sprinkler System Upgrades, \$0.4 million for the Oakland Avenue Parking Deck Addition, \$0.3 million for Residence Hall HVAC Renovations, \$0.3 million in Athletic Renovations, and \$0.5 million for other various campus projects.

On April 29, 2009 the University issued \$29.5 million in General Revenue Bonds, Series 2009A for the purpose of acquiring the Spring Garden Street Apartments from the Capital Facilities Foundation and \$4.1 million in General Revenue Bonds, Series 2009B for the purpose of defeasing the remaining outstanding Housing and Dining System Revenue Bonds, Series 1997F. The Spring Garden Street Apartments is a 400 bed student housing facility with a related parking facility that was constructed by the Capital Facilities Foundation (a blended component unit of the University) from the proceeds of a \$29.5 million short term note payable. The proceeds of the General Revenue Bonds, Series 2009A were used to retire the note payable and thus acquire the housing facility from the Capital Facilities Foundation. As a result of the defeasance of the Housing and Dining System Revenue Bonds, Series F, with the proceeds from the General Revenue Bonds, Series 2009B, and the University reduced its debt service payments by \$385,889 over the next seven years and achieved an economic gain of \$327,364.

For additional information concerning Capital Assets and Debt Administration, see Notes 5 and 7 in the notes to the financial statements.

Economic Outlook

The national economic recession, the major declines in the value of all types of investments, the decrease in State appropriations during the fiscal year, the permanent cuts in State appropriations for the next two years, and a rapidly growing student enrollment has given the University a challenging economic environment within which to operate. The effects of the recession will continue to negatively impact the State's revenues for several more years even if there are currently nationwide signs of recovery, thus further hindering any chance of receiving increased funding for operations or capital projects. Net State appropriations for the University's operating needs declined by \$10.4 million (6.7%) in fiscal year 2008-09, while the net State appropriations constituted approximately 49 percent of the University's total revenues, up from 46 percent of the University's total revenues in fiscal year 2007-08.

The demand for the University's core products of education and research, as evidenced by record setting enrollments for each of the past nine years, remains exceptionally strong. These record enrollments bring with them campus infrastructure and staffing challenges. The University must expand its on-campus housing, dining, and student recreation facilities to meet the needs of a growing student population. These projects will be financed in future years by long-term bonds, the principal and interest of which would be paid from revenues generated by student fees paid by students who use those facilities. The University also faces the challenge of meeting the administrative needs of the growing student population with the same or reduced staff. Despite enrollment change funding, the cuts in State appropriations and cuts in staff mandated by UNC General Administration has increased the University's students per staff member ratio to 10.86 compared to the University's national peers ratio of 4.48 students per staff member. The University will need to invest in technology improvements in future years that will allow the current staff to provide services to the growing campus community and meet constantly increasing administrative requirements imposed by the federal and State governments and UNC General Administration.

As the past year has demonstrated it is not possible to predict ultimate results, but the University's overall financial condition is strong enough to allow it to continue to grow and strengthen during difficult economic times. Management will continue

the University's ongoing efforts toward revenue diversification, cost containment, and implementation of operating efficiencies wherever possible. Management will also continue to employ the University's long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from investment market volatility. Management believes that despite the challenges enumerated above, the University has sufficient resources to allow it to continue to grow and provide excellent service to students, the campus community, and the Piedmont Triad region.



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The University of North Carolina at Greensboro
Greensboro, North Carolina

We have audited the accompanying basic financial statements of The University of North Carolina at Greensboro, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2009. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Greensboro Investment Fund, Incorporated, which represent 22 percent, and 28 percent, respectively, of the assets and net assets, of the University; or the financial statements of The UNCG Excellence Foundation, Inc., which represent 10 percent, and 12 percent, respectively, of the assets and net assets, of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Greensboro as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial*

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Reporting for Pollution Remediation Obligations and Statement No. 52, Land and Other Real Estate Held as Investments by Endowments, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we will be issuing our report dated April 26, 2010 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The report on internal control and compliance will be issued under separate cover in the Financial Statement Audit Report of The University of North Carolina at Greensboro published by this Office.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

April 26, 2010

Statement of
Net Assets

June 30, 2009

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 74,903,384
Restricted cash and cash equivalents	22,866,839
Short-term investments	1,693,173
Restricted short-term investments	4,744,018
Receivables, net (Note 4)	9,353,059
Inventories	425,503
Notes receivable, net (Note 4)	1,256,855
Total current assets	115,242,831
Noncurrent Assets:	
Restricted cash and cash equivalents	9,920,335
Receivables (Note 4)	1,004,704
Restricted due from primary government	541,508
Endowment investments	153,226,587
Other investments	3,985,640
Notes receivable, net (Note 4)	4,729,048
Capital assets - nondepreciable (Note 5)	59,374,144
Capital assets - depreciable, net (Note 5)	352,894,315
Total noncurrent assets	585,676,281
Total assets	700,919,112

LIABILITIES

Current Liabilities:	
Accounts payable and accrued liabilities (Note 6)	14,615,493
Due to primary government	1,092,946
Deposits payable	935,862
Funds held for others	15,602
Unearned revenue	3,329,931
Interest payable	1,291,063
Long-term liabilities - current portion (Note 7)	5,444,928
Total current liabilities	26,725,825
Noncurrent Liabilities:	
Funds held for others	2,314,482
U. S. government grants refundable	5,084,360
Funds held in trust for pool participants	2,706,373
Long-term liabilities (Note 7)	124,284,134
Total noncurrent liabilities	134,389,349
Total liabilities	161,115,174

NET ASSETS

Invested in capital assets, net of related debt	306,033,752
Restricted For:	
Nonexpendable:	
Scholarships and fellowships	51,684,051
Endowed professorships	14,328,619
Departmental uses	18,819,888
Loans	908,253
Art	1,378,297
Other	6,418,576
Expendable:	
Scholarships and fellowships	34,752,146
Research	18,066
Endowed professorships	9,951,913
Departmental uses	16,657,500
Loans	1,420,709
Capital projects	1,654,818
Debt service	307,790
Art	404,195
Other	3,279,022
Unrestricted	71,786,343
Total net assets	\$ 539,803,938

The accompanying notes to the financial statements are an integral part of this statement.

Statement of
Revenues, Expenses,
and Changes in
Net Assets

Year Ended
June 30, 2009

REVENUES

Operating Revenues:	
Student tuition and fees, net (Note 9)	\$ 71,298,125
Federal grants and contracts	18,822,284
State and local grants and contracts	2,163,908
Nongovernmental grants and contracts	1,646,650
Sales and services, net (Note 9)	38,565,357
Interest earnings on loans	370,475
Other operating revenues	466,056
Total operating revenues	133,332,855

EXPENSES

Operating Expenses:	
Salaries and benefits	219,459,663
Supplies and materials	20,142,252
Services	50,023,559
Scholarships and fellowships	15,437,382
Utilities	9,015,807
Depreciation	13,117,748
Total operating expenses	327,196,411
Operating loss	(193,863,556)

NONOPERATING REVENUES (EXPENSES)

State appropriations	138,168,464
State aid - federal recovery funds	8,021,211
Noncapital grants - federal student financial aid	15,379,194
Other noncapital grants	21,345,341
Noncapital gifts	9,200,546
Investment loss	(33,285,737)
Interest and fees on debt	(4,857,652)
Other nonoperating expenses	(1,613,368)
Net nonoperating revenues	152,357,999
Loss before other revenues, expenses, gains, or losses	(41,505,557)
Refund of prior years capital appropriations	(1,231,893)
Capital grants	3,996,180
Capital gifts	8,800
Additions to endowments	5,227,285
Decrease in net assets	(33,505,185)

NET ASSETS

Net assets - July 1, 2008	573,309,123
Net assets - June 30, 2009	\$ 539,803,938

The accompanying notes to the financial statements are an integral part of this statement.

CASH FLOWS FROM OPERATING ACTIVITIES

Received from customers	\$ 133,533,092
Payments to employees and fringe benefits	(218,306,511)
Payments to vendors and suppliers	(79,119,491)
Payments for scholarships and fellowships	(15,437,382)
Loans issued	(1,710,793)
Collection of loans	2,531,193
Interest earned on loans	144,847
Other receipts	456,656
	<u> </u>
Net cash used by operating activities	<u>(177,908,389)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	138,168,464
State aid - federal recovery funds	8,021,211
Noncapital grants - federal student financial aid	15,379,194
Other noncapital grants	18,560,494
Noncapital gifts	9,938,217
Additions to endowments	5,227,285
Proceeds from sale of donated real estate	275,928
Related activity agency receipts	2,551,091
	<u> </u>
Net cash provided by noncapital financing activities	<u>198,121,884</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	33,926,125
Refund of prior years capital appropriations	(1,231,893)
Capital grants	6,222,316
Acquisition and construction of capital assets	(20,098,637)
Principal paid on capital debt	(37,720,965)
Interest and fees paid on capital debt and leases	(4,635,137)
Other receipts	35,408
	<u> </u>
Net cash used by capital financing and related financing activities	<u>(23,502,783)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	101,069,950
Investment income	6,475,755
Purchase of investments and related fees	(110,199,973)
	<u> </u>
Net cash used by investing activities	<u>(2,654,268)</u>
Net decrease in cash and cash equivalents	(5,943,556)
Cash and cash equivalents - July 1, 2008	<u>113,634,114</u>
Cash and cash equivalents - June 30, 2009	<u>\$ 107,690,558</u>

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (193,863,556)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation expense	13,117,748
Allowances, write-offs, and amortizations	178,459
Changes in Assets and Liabilities:	
Receivables (net)	356,447
Inventories	53,965
Accounts payable and accrued liabilities	1,406,952
Due to primary government	(23,119)
Unearned revenue	(535,764)
Compensated absences	833,159
Deposits payable	560,892
Notes receivable	6,428
	<u> </u>
Net cash used by operating activities	<u>\$ (177,908,389)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and cash equivalents	\$ 74,903,384
Restricted cash and cash equivalents	22,866,839
Noncurrent Assets:	
Restricted cash and cash equivalents	9,920,335
	<u> </u>
Total cash and cash equivalents - June 30, 2009	<u>\$ 107,690,558</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets acquired through a gift	\$ 8,800
Change in fair value of investments	(34,813,711)
Loss on disposal of capital assets	(566,466)

The accompanying notes to the financial statements are an integral part of this statement.



Note	Page	Description
Note 1	18	Significant Accounting Policies A. Financial Reporting Entity B. Basis of Presentation C. Basis of Accounting D. Cash and Cash Equivalents E. Investments F. Receivables G. Inventories H. Capital Assets I. Restricted Assets J. Funds Held in Trust for Pool Participants K. Noncurrent Long-Term Liabilities L. Compensated Absences M. Net Assets N. Scholarship Discounts O. Revenue and Expense Recognition P. Internal Sales Activities
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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Greensboro is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are blended in the University's financial statements. Although legally separate, The Human Environmental Sciences Foundation, Incorporated, The Weatherspoon Arts Foundation, The UNCG Excellence Foundation, Inc, The University of North Carolina at Greensboro Investment Fund, Incorporated, and The Capital Facilities Foundation, Inc., component units of the University, are reported as if they were part of the University.

The Human Environmental Sciences Foundation, Incorporated is governed by a 24 member board consisting of three ex officio directors and 21 appointed directors. The Foundation's purpose is to aid and promote excellence in higher education, service and research, and the endowment of the School of Human Environmental Sciences at the University of North Carolina at Greensboro. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The Weatherspoon Arts Foundation is governed by a 27 member board consisting of four ex officio directors and 23 appointed directors. The Foundation's purpose is to acquire by gift, purchase, lease, loan, or other means of conveyance works of art and to maintain and enhance the arts collection teaching, research, and public services purposes exclusively for the use and benefit of The University of North Carolina at Greensboro. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The UNCG Excellence Foundation, Inc. is governed by a 36 member board consisting of four ex officio directors and 32 appointed directors. The Foundation's purpose is to aid, support and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro as long as The University of North Carolina at Greensboro qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954 (or corresponding provisions of any future United States Internal Revenue law), its financial statements have been blended with those of the University.

The University of North Carolina at Greensboro Investment Fund, Incorporated is governed by a 15 member board consisting of nine ex officio directors and six appointed directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is an external governmental investment pool. Because the directors of The Investment Fund are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Investment Fund's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The Capital Facilities Foundation, Inc is governed by an eight member board consisting of five ex officio directors and three appointed directors. The Foundation's purpose is to enhance the University's educational mission through assisting with the acquisition, development, financing, construction, management, and operation of capital assets for the University. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

An electronic version of the separate financial statements for the Foundations and the Investment Fund is available by accessing the UNCG Business Affairs home page <http://www.uncg.edu/baf/> and clicking on "Foundation Finance," then "Foundation Audit Reports," or by calling (336) 334-5200. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

B. Basis of Presentation - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C. Basis of Accounting - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D. Cash and Cash Equivalents - This classification includes petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. Investments - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net decrease in the fair value of investments is recognized as a component of investment income.

Money market funds, real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.

F. Receivables - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied, and accrued interest receivable from investments and student loans. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost. Merchandise for resale is valued at the lower of cost or market using the last invoice cost.

H. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 40 years for general infrastructure, 50 years for buildings, and 4 to 20 years for equipment.

The Weatherspoon Art Collection is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

I. Restricted Assets - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

J. Funds Held in Trust for Pool Participants - Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.

K. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable, annuity and life income payable, and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refunds. The University amortizes bond premiums/discounts over the life of the bonds using the proportionate-to-stated interest requirements method. The deferred losses on refunds are amortized over the life of the old debt using the straight-line method. Issuance costs are expensed.

L. Compensated Absences - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the University has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

M. Net Assets - The University's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets - Expendable - Expendable restricted net assets include resources for which the University is legally or contractually

obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

N. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

O. Revenue and Expense Recognition - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, State, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

P. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as Motor Pool, Postal Operations, Printing Services, Telecommunications, and Telephone Services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, The University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$101,498,559 which represents

the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.8 years as of June 30, 2009. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454. Cash on hand at June 30, 2009 was \$19,273. The carrying amount of the University's deposits not with the State Treasurer was \$6,172,726 and the bank balance was \$5,170,085. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2009, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ <u>4,114,249</u>
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B. Investments - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina, to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; time deposits of specified institutions; prime quality commercial paper; and asset-backed securities with specified ratings. Also, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

G.S. 116-36(e) provides that the trustees of the Endowment Fund shall be responsible for the prudent investment of the Fund in the exercise of their sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

Investments of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, The UNCG Excellence Foundation, Inc., and The University of North Carolina at Greensboro Investment Fund, Incorporated are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment pools to manage investments and distribute investment income.

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University's formal policy is the majority of the fixed income holdings will be in U.S. fixed income portfolio of sufficient duration (4 years or more) to provide effective protection in a deflationary environment. Specific allocations to other strategies such as non-U.S. fixed income are allowed on a tactical basis.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's formal policy is the majority of the fixed income holdings will be in a diversified, high quality (AA or better average credit rating). Specific allocations to other strategies such as non-U.S. fixed income are allowed on a tactical basis.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's formal policy is that no one portfolio manager will be responsible for more than 20% of the portfolio.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The University does not have a formal policy for concentration of credit risk.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have a formal policy for foreign currency risk. The foreign securities held by the University are traded in currency of the United States, and thus there is no foreign currency risk for these investments.

External Investment Pool - The University of North Carolina at Greensboro Investment Fund, Incorporated, is an external investment pool sponsored by the University was established on July 1, 1992. The pool is utilized to manage the investments for charitable, nonprofit organizations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Endowment funds of the University, as well as those of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, and The UNCG Excellence Foundation, Inc., represent the pool's internal participants. Other affiliated organizations not included in the University's reporting entity represent the pool's external participants. Fund ownership of the pool is measured using the unit market value method. Under this method, each participating fund's investment balance is determined based on the number of units of ownership purchased when joining the pool. Thereafter, the pooled assets are valued monthly, and a new market value is determined. The external portion of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The external investment pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Board has chosen not to make individual security selection decisions. The Board's primary role is to oversee the allocation of the pool's portfolio among the asset classes, investment vehicles, and investment managers.

US Bank is the custodian for the pool and provides the University with monthly statements defining income and fair value information, which is then allocated among the fund's participants. There are no involuntary participants in the pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the pool's investments. The annual financial report for the external investment pool is available by accessing the Business Affairs home page <http://www.uncg.edu/baf/> and clicking on "Foundation Finance," then "Foundation Audit Reports," or by calling (336) 334-5200.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, for the External Investment Pool.

External Investment Pool

Investment Type	Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10
Debt Securities:	\$	\$	\$	\$
Money Market Funds	8,341,779	8,341,779		
U.S. Treasury Index Fund	3,502,158			3,502,158
Short Term Investment Grade	5,069,376		5,069,376	
Bond Mutual Fund	16,761,391		16,761,391	
Bond Foreign Mutual Fund	8,563,558			8,563,558
	<u>\$ 8,341,779</u>	<u>\$ 21,830,767</u>	<u>\$ 12,065,716</u>	
Other Securities:				
Corporate Securities:				
Common Stocks	7,085,525			
International	732,498			
Mutual Funds:				
International Equity	28,904,979			
Inflation Hedging	2,498,948			
Partnerships:				
Hedge Funds	38,664,641			
Real Estate Securities	7,681,162			
US Equities	17,038,958			
Venture Capital	7,283,528			
Total External Investment Pool	<u>\$ 152,128,501</u>			

At June 30, 2009, investments in the External Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa
Money Market Funds	\$ 8,341,779	\$ 8,341,779	\$
US Treasury Index Fund	3,502,158	3,502,158	
Short Term Investment Grade	5,069,376		5,069,376
Bond Mutual Fund	16,761,391		16,761,391
Bond Foreign Mutual Fund	8,563,558		8,563,558

Rating Agency: Moody's Investor Services, Standard & Poor's

Concentration of Credit Risk: The External Investment Pool Board places no limit on the amount the Board may invest in any one issuer. More than 5% of the long-term investment pool investments are in Forester Partners LP, Forester Opportunities LP, and Adage Capital Partners. These investments are 9.06%, 6.60%, and 5.84% respectively, of the External Investment Pool's total investments.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	6 to 10
Debt Securities:	\$	\$	\$
Money Market Funds	377,882	377,882	
Bond Mutual Fund	3,135,938		3,135,938
Domestic Corporate Bonds	51,437	51,437	
		<u>\$ 429,319</u>	<u>\$ 3,135,938</u>
Other Securities:			
Corporate Securities:			
Common Stocks	828,234		
International	49,436		
Mutual Funds:			
International Equity	1,030,930		
Other Mutual Funds	3,865,909		
Investments in Real Estate	901,151		
Other: Real Estate	1,280,000		
Total Non-Pooled Investments	<u>\$ 11,520,917</u>		

At June 30, 2009, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A
Money Market Funds	\$ 377,882	\$ 377,882	\$	\$
Bond Mutual Fund	3,135,938		3,135,938	
Domestic Corporate Bonds	51,437		25,320	26,117

Rating Agency: Moody's Investor Services, Standard & Poor's

Total Investments - The following table presents the fair value of the total investments at June 30, 2009:

Investment Type	Fair Value
Debt Securities:	\$
Money Market Funds	8,719,661
U.S. Treasury Index Fund	3,502,158
Short Term Investment Grade	5,069,376
Bond Mutual Fund	19,897,329
Bond Foreign Mutual Fund	8,563,558
Domestic Corporate Bonds	51,437
Other Securities:	
Corporate Securities:	
Common Stocks	7,913,759
International	781,934
Mutual Funds:	
International Equity	29,935,909
Inflation Hedging	2,498,948
Other Mutual Funds	3,865,909
Partnerships:	
Hedge Funds	38,664,641
Real Estate Securities	7,681,162
US Equities	17,038,958
Venture Capital	7,283,528
Investments in Real Estate	901,151
Other: Real Estate	1,280,000
Total Investments	<u>\$ 163,649,418</u>

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds and the endowment funds of the affiliated entities is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's pooled endowment funds are equal to 4.25 percent of the average market value of the Investment Pool at December 31 for the past three years. To the extent that the current year earnings do not meet the payout requirements, the University uses accumulated realized appreciation to fund the difference. At June 30, 2009, net appreciation of \$31,710,765 was available to be spent, of which \$29,258,911 was restricted to specific purposes.

During the current year, the University incurred investment losses that exceeded the available accumulated income and net appreciation for certain endowment funds. These losses resulted in a reduction to the specific nonexpendable endowment fund balance. At June 30, 2009, the amount of accumulative investment losses reported against the nonexpendable endowment fund balance was \$3,732,426.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 931,665	\$ 244,944	\$ 686,721
Accounts	1,138,220		1,138,220
Intergovernmental	4,986,706		4,986,706
Pledges	1,093,371	9,115	1,084,256
Investment Earnings	143,866		143,866
Interest on Loans	352,264		352,264
Other	961,026		961,026
Total Current Receivables	\$ 9,607,118	\$ 254,059	\$ 9,353,059
Noncurrent Receivables:			
Pledges	\$ 979,704		\$ 979,704
Other	25,000		25,000
Total Noncurrent Receivables	\$ 1,004,704	\$	\$ 1,004,704
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 1,000,352	\$ 74,182	\$ 926,170
Institutional Student Loan Programs	364,907	34,222	330,685
Total Notes Receivable - Current	\$ 1,365,259	\$ 108,404	\$ 1,256,855
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 5,320,097	\$ 591,049	\$ 4,729,048

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 20,867,301	\$ 296,345	\$	\$ 21,163,646
Art, Literature, and Artifacts	21,047,802	313,975	50	21,361,727
Construction in Progress	8,489,204	10,726,139	2,366,572	16,848,771
Total Capital Assets, Nondepreciable	50,404,307	11,336,459	2,366,622	59,374,144
Capital Assets, Depreciable:				
Buildings	367,489,232	6,204,541	1,159,932	372,533,841
Machinery and Equipment	38,045,372	4,676,040	1,797,795	40,923,617
General Infrastructure	66,178,520	1,126,265		67,304,785
Total Capital Assets, Depreciable	471,713,124	12,006,846	2,957,727	480,762,243
Less Accumulated Depreciation/Amortization for:				
Buildings	77,514,136	7,219,115	1,159,932	83,573,319
Machinery and Equipment	22,678,034	3,237,430	1,231,379	24,684,085
General Infrastructure	16,949,321	2,661,203		19,610,524
Total Accumulated Depreciation	117,141,491	13,117,748	2,391,311	127,867,928
Total Capital Assets, Depreciable, Net	354,571,633	(1,110,902)	566,416	352,894,315
Capital Assets, Net	\$ 404,975,940	\$ 10,225,557	\$ 2,933,038	\$ 412,268,459

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	\$ 5,220,901
Accrued Payroll	5,975,896
Contract Retainage	614,318
Intergovernmental Payables	884,223
Other	1,920,155
Total Accounts Payable and Accrued Liabilities	\$ 14,615,493

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Bonds Payable					
Bonds Payable	\$ 79,345,000	\$ 33,645,000	\$ 7,860,000	\$ 105,130,000	\$ 4,450,000
Add/Deduct Premium/Discount	1,297,448	738,025	123,992	1,911,481	
Deduct Deferred Charge on Refunding	(253,169)	(456,900)	(104,828)	(605,241)	
Total Bonds Payable	80,389,279	33,926,125	7,879,164	106,436,240	4,450,000
Notes Payable					
Notes Payable	34,985,486		29,841,801	5,143,685	368,704
Compensated Absences	12,026,122	8,230,047	7,396,888	12,859,281	626,224
Annuity and Life Income Payable	6,025,897		736,041	5,289,856	
Total Long-Term Liabilities	\$ 133,426,784	\$ 42,156,172	\$ 45,853,894	\$ 129,729,062	\$ 5,444,928

B. Bonds Payable - The University was indebted for bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009	See Table Below
Revenue Bonds Payable							
Housing and Dining System							
Housing and Dining System Revenue Bonds (2000)	G	5.75%	04/01/2010	\$ 6,425,000	\$ 6,230,000	\$ 195,000	(1)
Total Housing and Dining				6,425,000	6,230,000	195,000	
General Revenue Bonds							
General Revenue Bonds (2001)	A	4.35%-5.00%	04/01/2026	19,870,000	4,110,000	15,760,000	
General Revenue Bonds (2001)	B	3.50%-5.38%	04/01/2026	16,445,000	4,790,000	11,655,000	
General Revenue Bonds (2009)	A	3.00%-5.00%	04/01/2034	29,525,000		29,525,000	
General Revenue Bonds (2009)	B	3.00%-4.00%	04/01/2016	4,120,000		4,120,000	
Total General Revenue Bonds				69,960,000	8,900,000	61,060,000	
The University of North Carolina System Pool Revenue Bonds							
General Revenue Bonds (2002A)	(A)	4.00%-5.38%	04/01/2027	8,835,000	1,890,000	6,945,000	
General Revenue Bonds (2004C)	(B)	3.00%-5.00%	04/01/2029	18,350,000	1,950,000	16,400,000	
General Revenue Bonds (2005A)	(C)	3.00%-5.25%	04/01/2026	22,235,000	1,705,000	20,530,000	
Total The University of North Carolina System Pool Revenue Bonds				49,420,000	5,545,000	43,875,000	
Total Bonds Payable (principal only)				\$ 125,805,000	\$ 20,675,000	105,130,000	
Less: Unamortized Loss on Refunding						(605,241)	
Less: Unamortized Discount						(117,216)	
Plus: Unamortized Premium						2,028,697	
Total Bonds Payable						\$ 106,436,240	

(A) The University of North Carolina System Pool Revenue Bonds, Series 2002A
 (B) The University of North Carolina System Pool Revenue Bonds, Series 2004C
 (C) The University of North Carolina System Pool Revenue Bonds, Series 2005A

The University has pledged future revenues, net of specific operating expenses, to repay revenue bonds and certificates of participation as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal & Interest	Estimate of % of Revenues Pledged
(1)	Housing and Dining Revenues	206,213	9,056,667	921,970	2.21%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2009, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2010	\$ 4,450,000	\$ 4,916,145	\$ 368,704	\$ 185,572
2011	4,670,000	4,861,732	396,971	172,270
2012	4,880,000	4,657,719	426,663	157,949
2013	5,095,000	4,445,400	457,840	142,556
2014	5,345,000	4,209,563	490,569	126,038
2015-2019	26,845,000	17,066,271	3,002,938	338,997
2020-2024	26,630,000	10,608,700		
2025-2029	18,315,000	4,571,275		
2030-2034	8,900,000	1,378,750		
Total Requirements	\$ 105,130,000	\$ 56,715,555	\$ 5,143,685	\$ 1,123,382

D. Bond Defeasance - The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

On April 29, 2009, the University issued \$4,120,000 in General Revenue Refunding Bonds, Series 2009B with an average interest rate of 3.538%. The bonds were issued for a current refunding of \$4,200,000 of outstanding Housing and Dining System Revenue Bonds, Series F with an average interest rate of 5.079%. The refunding was undertaken to reduce total debt service payments by \$385,889 over the next seven years and resulted in an economic gain of \$327,364.

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2009, the outstanding balance of prior year defeased bonds was \$24,630,000.

E. Notes Payable - The University was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009
Energy Savings Performance Contract	Banc of America	3.61%	03/01/2019	\$ 5,808,994	\$ 665,309	\$ 5,143,685
Total Notes Payable				\$ 5,808,994	\$ 665,309	\$ 5,143,685

F. Annuities Payable - The Annuity and Life Income Payable balance consists of 153 Charitable Annuity agreements and 15 Charitable Remainder Unitrusts with a market value of \$8.1 million. The \$5.3 million Annuity and Life Income Payable liability is the expected present value payable to the donors based upon their age, the agreed on payment rate, and the applicable federal rate.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for real property and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

Fiscal Year	Amount
2010	\$ 617,148
2011	459,000
2012	150,394
2013	20,840
Total Minimum Lease Payments	<u>\$ 1,247,382</u>

Rental expense for all operating leases during the year was \$714,380.

NOTE 9 - REVENUES

A summary of eliminations and allowances by revenue classification is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	<u>\$ 86,152,426</u>		<u>\$ 14,728,025</u>	<u>\$ 126,276</u>	<u>\$ 71,298,125</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 16,572,257		\$ 2,747,522	\$ 25,420	\$ 13,799,315
Dining	11,746,970		1,826,772	16,788	9,903,410
Student Union Services	101,695				101,695
Health, Physical Education, and Recreation Services	1,252,033				1,252,033
Parking	3,752,859	142,725		195,718	3,414,416
Athletic	904,258				904,258
Other	5,287,859	4,101,374			1,186,485
Sales and Services of Education and Related Activities	<u>8,190,778</u>	<u>187,033</u>			<u>8,003,745</u>
Total Sales and Services	<u>\$ 47,808,709</u>	<u>\$ 4,431,132</u>	<u>\$ 4,574,294</u>	<u>\$ 237,926</u>	<u>\$ 38,565,357</u>

NOTE 10 - OPERATING EXPENSES BY FUNCTION

The University's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 114,577,963	\$ 3,842,065	\$ 5,923,796	\$ 1,900			\$ 124,345,724
Research	8,536,194	889,390	6,637,461	210,437			16,273,482
Public Service	8,664,922	300,485	5,237,790	245,854	5,728		14,454,779
Academic Support	24,147,951	4,450,503	6,348,690	404,599	576		35,352,319
Student Services	10,730,855	714,704	2,714,208	20,047	861		14,180,675
Institutional Support	24,242,551	2,380,253	8,088,689		545		34,712,038
Operations and Maintenance of Plant	14,735,942	5,828,259	1,567,076		5,843,569		27,974,846
Student Financial Aid				14,531,353			14,531,353
Auxiliary Enterprises	13,823,285	1,736,593	13,505,849	23,192	3,164,528		32,253,447
Depreciation						13,117,748	13,117,748
Total Operating Expenses	<u>\$ 219,459,663</u>	<u>\$ 20,142,252</u>	<u>\$ 50,023,559</u>	<u>\$ 15,437,382</u>	<u>\$ 9,015,807</u>	<u>\$ 13,117,748</u>	<u>\$ 327,196,411</u>

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment, otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$180,296,599, of which \$81,271,581 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$2,730,725 and \$4,876,295 respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$2,730,725, \$2,304,401, and \$1,794,990, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2009, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$180,296,599, of which \$74,885,679 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$5,122,180 and \$4,493,141, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$470,526 for the year ended June 30, 2009.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2009, were \$90,660. The voluntary contributions by employees amounted to \$1,189,469 for the year ended June 30, 2009.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$2,719,059 for the year ended June 30, 2009.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by North Carolina General Statute 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement

System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the University contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2008, and 2007, were 4.1% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$6,402,448, \$5,866,349, and \$4,825,805, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Disability Income - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2008, and 2007, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$812,018, \$744,025, and \$660,373, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The General Property Coverage Policy is the Fund's basic policy and is used to provide insurance against losses caused by Fire and Lightning, Extended Coverage, Vandalism, Sprinkler Leakage and Theft. However, the University is covered only for those named perils for which the University has paid a premium and for which the named peril is indicated in the Declarations. Extended coverage has been purchased for all residence halls (buildings only) and the West Entranceway. Extended coverage for buildings and contents has been purchased for the following buildings: Chemical Storage Facility, the Baseball Complex, the Sullivan Science Building,

the Graphics and Printing Services Building, and the Elliott University Center. Vandalism and malicious mischief insurance (VMM) has been purchased for the Elliott University Center and the West Entranceway. The University must fund the cost of this insurance. Both the extended coverage and VMM are subject to a \$500 per event deductible and the cost is based on the declared value of each structure.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These purchased coverages are: postal bond (coverage limit \$30,000); athletic staff accident (accidental death and dismemberment \$1.0 million overall maximum for any one accident, maximum death specific loss \$25,000, maximum specific loss \$25,000; maximum medical coverage limit \$75,000, \$300,000 for any one individual); selective athletic staff travel (Class 1 \$10,000, Class 2 \$50,000 accidental death and dismemberment, \$5.0 million aggregate); physicians professional medical liability (\$1.0 million per person, \$3.0 million total); non-professional medical liability (\$1.0 million per person, \$3.0 million total); fine art (property coverage – museum collection and temporary loan, Limits of Liability: \$250.0 million limit at insured premises, \$50.0 million at any other location, \$50.0 million limit in transit on any one conveyance, \$50.0 million limit for international transportation, exhibition, and location, \$70.0 million for TRIA (Terrorism Risk Insurance Act), and \$250.0 million limit in any one loss or disaster; Deductibles: \$0 for loan items, \$2,500 for owned items); musical instruments (\$2.85 million cash replacement value with \$1,000 deductible); robbery and safe burglary (\$500,000 per event, \$1,000 deductible); boiler and machinery (\$25.0 million equipment breakdown limit, \$5,000 deductible); “all-risk” for equipment covering all perils except fire (replacement cost, \$500 deductible per event).

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

The North Carolina Workers’ Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University’s primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers’ Compensation Act. The University retains the risk for workers’ compensation.

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

Additional details on the State-administered risk management programs are disclosed in the State’s *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$43,999,625 at June 30, 2009.

B. Pending Litigation and Claims - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

C. Other Contingent Receivables - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of

permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

Purpose	Amount
Pledges to The UNCG Excellence Foundation Endowment Fund	\$ 2,906,264
Pledges to the Human Environmental Sciences Foundation Endowment Fund	116,626
Pledges to the UNCG Endowment Fund	3,291,278

NOTE 15 - RELATED PARTIES

The University and North Carolina Agricultural and Technical State University have formed a jointly governed nonprofit organization, Gateway University Research Park, Inc. The purpose of this organization is to provide a collaborative research environment that fosters academic enrichment, research growth, technology transfer, commercialization and discovery while encouraging and promoting regional economic development.

During the fiscal year the University made payments totaling \$545,774 to the Gateway University Research Park, Inc. These payments consisted of \$340,635 for the operation and maintenance of University facilities at the Gateway University Research Park, \$150,000 (4th year of a 5 year commitment) for operating funding for the Gateway University Research Park, and \$55,139 to complete the renovations for the SERVE, Inc. offices located at the north campus of the Gateway University Research Park.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement 31 which required endowments to report land and other real estate investments at historical cost.

In addition, beginning with the year ended June 30, 2009, the University reports federal student financial aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

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Office of the Controller 2008-09

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Karen L. Stevenson
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Jennifer W. Leung
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