



UNCG
The Financial Report
2011-2012



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Cover photo: Student Life by David Wilson

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Business Affairs

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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, 2012. The report is comprised of three sections: 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.

For the 2011-12 fiscal year, the University experienced a \$13 million reduction in its State Appropriations (including Federal Recovery Funds in fiscal year 2011). This was offset by a \$13 million reduction in operating expenses and an \$8 million increase in net tuition and fees. While UNCG remains one of the best higher education bargains in the country, we are also acutely aware of the challenges many students, families, and taxpayers face to cover these costs and continue to assess ways to continue to provide a quality educational experience at a reasonable cost.

The Business Affairs staff help enable many faculty and students to *Do Something Bigger Altogether*. One example involves property acquisition, financial modeling, and coordination of design and construction of residence halls and apartments with learning communities. Other examples include fiscal services support for faculty research oriented contracts and grants or the investment of the endowment. The sustainability initiatives led by our staff not only reduce our operating costs, but also help engage today's students to prepare for a world of new environmental challenges.

Although there are many challenges, this is an exciting time at UNCG. On behalf of the women and men of the Business Affairs division, it is our honor to serve our students, faculty, staff, and other constituents every hour of every day.

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, 2012. This discussion, the preceding transmittal letter, 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, bond holders, and other creditors. 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

	<u>6/30/12</u>	<u>6/30/11</u>
Assets:		
Current Assets	\$ 137,502,112	\$ 128,200,472
Noncurrent Capital Assets, Net of Accumulated Depreciation	557,392,385	499,969,372
Other Noncurrent Assets	241,431,797	262,361,009
Total Assets	<u>936,326,294</u>	<u>890,530,853</u>
Liabilities:		
Current Liabilities	31,438,325	30,940,367
Noncurrent Liabilities	262,922,929	218,833,364
Total Liabilities	<u>294,361,254</u>	<u>249,773,731</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	353,341,164	348,697,275
Restricted - Nonexpendable	113,703,826	109,584,624
Restricted - Expendable	99,284,725	106,809,952
Unrestricted	75,635,325	75,665,271
Total Net Assets	<u>\$ 641,965,040</u>	<u>\$ 640,757,122</u>

The total assets of the University increased by \$45.8 million for the year (\$9.3 million increase for current assets and a \$36.5 million increase for noncurrent assets). This overall increase was attributable to an increase of \$57.4 million in capital assets, net of accumulated depreciation, decreases of \$13.8 million in endowment investments and \$7.0 million in noncurrent restricted cash and cash equivalents, an increase of \$5.3 million in current cash and cash equivalents, an increase in other assets of \$5.2 million, and a decrease of \$1.3 million in accounts receivable, net. The increase in capital assets, net of accumulated depreciation, is the direct result of the construction, capitalization, and completion of major renovations during the fiscal year. The most significant factors to this increase were the continuation of the comprehensive renovation of the seven Quad Residence Halls and the start of the comprehensive Dining Hall renovation project. Major renovation projects such as the HHP Locker Room, Curry Building, Jackson Library Phase I, and Ragsdale and Mendenhall Fire Safety were completed and capitalized during the fiscal year. The decrease in endowment investments is due to decreases in the value of all types of investments during the fiscal year. The decrease in noncurrent restricted cash and cash equivalents is from the expenditure of funds on the various construction projects previously discussed. The increase in current cash and cash equivalents is primarily due to the reclassification of cash from noncurrent to current related to accounts payable for construction projects at June 30, 2012. The increase in other assets is due to a large deposit made by the Capital Facilities Foundation prior to June 30, 2012 for the purchase of real estate which was finalized on July 10, 2012. The decrease in accounts receivable, net is related to the loss of the large federal grant for the SERVE regional laboratory (discussed later) which resulted in a significant decrease in intergovernmental receivable. All other asset categories, both current and noncurrent, were unchanged when compared to the prior year.

The total liabilities of the University increased by \$44.6 million for the year (\$0.5 million increase for current liabilities and a \$44.1 million increase in noncurrent liabilities). This overall increase in total liabilities consists of

a \$74.5 million increase in bonds payable, \$29.2 million net decrease in notes payable, a \$0.7 million increase in interest payable, a \$0.7 million decrease in accounts payable and accrued liabilities, a \$0.6 million decrease in funds held for others, and a decrease of \$0.1 million in all other liability categories, both current and noncurrent. The increase in bonds payable is due to the issuance of new bonds for \$77.5 million during the fiscal year. The proceeds from this bond sale were used to provide funding for the Dining Hall Renovation project, additional funding for the comprehensive renovation of the seven Quad Residence Halls, and to retire a \$46 million note associated with the Quad Residence Hall renovation project. The corresponding change in Notes Payable is due primarily to the retirement of the aforementioned \$46 million note, an increase of \$21.7 million in a line of credit with SunTrust Bank which is being used for the construction of a mixed-used village, and a \$4.0 million reduction in a line of credit with PNC Bank for land acquisition. The increase of interest payable is due to the issuance of new bonds and additions to existing lines of credit. The decrease in accounts payable is due to the completion or near completion of several construction projects during the fiscal year. The decrease in funds held by others is attributable to decreases in the value of the investments held by the University's external investment pool participants.

The combination of the increase in total assets of \$45.8 million and the increase in total liabilities of \$44.6 million yields an overall increase in total net assets of \$1.2 million. This change consists of an increase in the category of invested in capital assets, net of related debt of \$4.6 million, an increase in the category of restricted nonexpendable net assets of \$4.1 million, a decrease in the category of restricted expendable net assets of \$7.5 million, and a minimal decrease in the category of unrestricted net assets. The increase in the invested in capital assets, net of related debt is due to the capitalization of construction costs related to the Quad Residence Halls Renovation and Dining Hall Renovations projects, as well as the capitalization of several building renovation projects. The increase in the restricted nonexpendable net asset category is due to the continued receipt of endowed gifts. The decrease in restricted expendable net assets is the result of significant decreases in the value of endowment investments.

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 earned 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**

	<u>6/30/12</u>	<u>6/30/11</u>
Operating revenues		
Student Tuition and Fees, Net	\$ 84,449,501	\$ 76,524,497
Grants and Contracts	16,676,350	18,943,031
Sales and Services, Net	39,272,492	40,082,465
Interest Earnings on Loans	167,665	49,578
Other Operating Revenues	472,700	803,963
Total Operating Revenues	<u>141,038,708</u>	<u>136,403,534</u>
Operating Expenses		
Salaries and Benefits	228,186,498	230,816,024
Supplies and Materials	19,976,479	24,575,700
Services	49,254,567	53,718,467
Scholarships and Fellowships	33,775,389	36,037,248
Utilities	8,619,851	8,607,608
Depreciation	14,805,994	14,082,168
Total Operating Expenses	<u>354,618,778</u>	<u>367,837,215</u>
Operating Loss	<u>(213,580,070)</u>	<u>(231,433,681)</u>
Nonoperating Revenues (Expenses)		
State Appropriations	150,359,030	153,918,851
State Aid - Federal Recovery Funds	0	9,243,555
Noncapital Grants and Gifts	66,154,424	72,337,801
Investment Income (Loss) (Net of Investment Expense)	(3,503,084)	37,048,884
Interest and Fees on Debt	(5,580,157)	(4,746,874)
Federal Subsidy on Debt	120,494	119,384
Other Nonoperating Expenses	(793,155)	(105,247)
Net Nonoperating Revenues	<u>206,757,552</u>	<u>267,816,354</u>
Income (Loss) Before Other Revenues	<u>(6,822,518)</u>	<u>36,382,673</u>
Other Revenues		
Capital Grants and Gifts	3,417,631	17,623,492
Total Other Revenues	<u>3,417,631</u>	<u>17,623,492</u>
Income (Loss) Before Additions to Endowments	(3,404,887)	54,006,165
Additions to Endowments	<u>4,612,805</u>	<u>4,770,544</u>
Increase in Net Assets	1,207,918	58,776,709
Net Assets - July 1, 2011	<u>640,757,122</u>	<u>581,980,413</u>
Net Assets - June 30, 2012	<u>\$ 641,965,040</u>	<u>\$ 640,757,122</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflect an increase in the net assets at the end of the year and a decrease of \$69.3 million (16.1%) 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 \$4.6 million (3.4%), whereas operating expenses decreased by \$13.2 million (3.6%), for a combined net decrease in operating loss of \$17.9 million. The largest increases within operating revenues were in student tuition and fees, net, which increased by \$7.9 million (10.4%) and an increase of \$0.4 million (23.0%) in State and local grants and contracts. The increase in net student tuition and fees is due to increases in tuition and fee rates, but these increases were partially offset by higher financial aid awards recorded as tuition discounts. The increase in State and local grants and contracts is due to significant additional revenues from a local government-sponsored grant directed to the University by UNC General Administration. The largest decreases within operating revenues were in federal grants and contracts which decreased by \$2.7 million (16.0%) and sales and services, net which decreased by \$0.8 million (2.0%). The decrease in federal grants and contracts is attributable to the loss of a large federal grant for the SERVE regional laboratory. The decrease in sales and services, net, is attributable to the receipt of parking replacement funds for parking operations, in the prior fiscal year, which were not received in the current fiscal year. Parking replacement payments are to compensate parking operations for the permanent loss of parking revenues due to the construction of buildings on the location of surface parking lots.

The decrease in operating expenses is the result of a \$4.4 million (8.3%) decrease in services, \$4.6 million (18.7%) decrease in supplies and materials, a \$2.3 million (6.3%) decrease in scholarships and fellowships, a \$2.6 million (1.1%) decrease in salaries and benefits, a \$0.7 million (5.1%) increase in depreciation, and a minimal increase in utilities. The decreases in services and supplies and materials are related to reductions in State Appropriations. The decrease in scholarship and fellowships is due to decreased availability of financial aid to cover higher tuition and fees costs. The decrease in salaries and benefits is related to the elimination of permanent University positions due to reductions in State Appropriations. The increase in depreciation is due to depreciation being recorded on newly capitalized major building additions and renovations.

- State appropriations decreased by \$3.6 million (2.3%) which was attributable to State budget cuts. Investment income decreased by \$40.6 million because of substantial losses in the value of investments after significant gains in the values of these investments in the previous fiscal year. The total return on the University's external investment pool declined to a loss of 2.8% for the current fiscal year compared to a gain of 21.1% for the prior fiscal year. Noncapital grants decreased by \$6.1 million (8.9%) due to a decrease in federal student financial aid awards. Noncapital gifts decreased minimally due to decreased giving. State aid – federal recovery funds was eliminated this fiscal year compared to \$9.2 million from the prior year as a result of the expiration of the federal stimulus program. Interest and fees on debt increased by \$0.8 million (17.6%). The University received \$120,494 in federal subsidy on debt on the \$31.0 million note payable to Bank of America as part of the "Build America Bonds" program. This subsidy is comparable to \$119,384 from the prior year. The caption other nonoperating expenses consists of surplus property sales (a revenue), bond issue costs, and the loss on the disposal of capitalized assets. Surplus property sales of \$57,110 represent a 9% increase from the prior year due to higher returns from public sales events during the fiscal year. Bond issue costs of \$484,212 were incurred this fiscal year in relation to the bond issuance in September 2011. The loss on the disposal of capitalized assets was \$366,054 which represented an increase from the prior year amount of \$157,641. These various net nonoperating revenue categories as a whole decreased by \$61.1 million (22.8%).
- Other revenues consist of capital grants and gifts and additions to endowments. Capital grants and gifts decreased by \$14.2 million, representing large decreases in funding from the State's COPS and two-thirds GO bond capital project funding sources. Additions to endowments decreased by \$0.2 million.

Capital Asset and Debt Administration

During fiscal year 2011-12, the HHP Locker Room Renovation, Curry Building Renovation, Jackson Library Phase I Renovation, and Ragsdale/Mendenhall Fire Sprinklers projects were all completed.

Major projects included in construction in progress are as follows: \$51.3 million for the Quad Residence Halls Renovation, \$8.3 million for the Dining Hall Renovation, \$0.7 million for the Campus Police Building, \$0.4 million for the Railroad Pedestrian Underpass, \$0.2 million for the Reynolds & Grogan Dorm Renovations, and \$0.5 million for other various campus projects. The Quad Residential Halls renovation project which began May 7, 2011 was completed and ready for fall 2012 occupancy. This project includes complete interior renovations of Cotten, Bailey, Hinshaw, Coit, Shaw, Jamison and Gray Residence Halls.

On September 29, 2011, the University sold \$77,505,000 in general obligation revenue bonds; the proceeds were used to retire the \$46.0 million note payable to U.S. Bank for the Quad Renovation, provide funding for the Dining Hall Renovation project, provide additional funding for the Quad Residence Halls renovation project, and to advance refund \$4,215,000 of outstanding 2002A University of North Carolina System Pool Revenue Bonds (see Note 7 in the notes to the financial statements).

On July 12, 2012 the University issued \$37.5 million in general obligation revenue bonds. These bonds are to provide funds for the construction and equipping of a campus police building and the acquisition of a 400 bed Student Housing Facility on the University's campus.

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

Economic and Strategic Outlook

The continuing slow economic recovery nationwide and especially in North Carolina has adversely affected the State's revenues and ability to adequately fund higher education in the current and recent past fiscal years. The resulting permanent reductions in State appropriations have resulted in the loss of some University positions and significant reductions in non-personnel operating expenses. In an effort to somewhat mitigate the negative impact of these cuts the University has raised tuition and fee rates. Students and parents have met some of these increased costs by taking on more student loan debt.

In order to deal with this challenging economic environment the University is focusing on three strategic areas. The first strategic initiative by the University was to undertake an Academic Program Review project that has engaged the campus in a complete review of all academic programs. The result of this project has been the elimination or eventual elimination of 42 academic programs, which will reduce operating expenses in the future. The second strategic initiative has been to raise admission standards for incoming freshman and to invest resources in programs and activities that increase the likelihood of student success. The third strategic initiative has been an expansion of the University's geographic footprint through the acquisition of land and the development of the Mixed Use Village project along the West Lee Street corridor. Demand for University controlled student housing remains extremely strong and the first phase of the Mixed Use Village project, now under construction, will provide 800 beds in apartment style housing. Related projects in this area, the new campus police building and the railroad pedestrian underpass, will provide the new apartments with security and an easy connection to campus. A Student Recreation Center, additional student housing, and mixed-use spaces are planned for the future in this area.

As the past few years have demonstrated, it is not possible to predict ultimate results, but the University's overall financial condition and its strategic initiatives will allow it to continue to grow, strengthen, and thrive during difficult economic times. Management will continue the University's ongoing efforts toward revenue diversification, cost

containment, and implementation of operating efficiencies wherever possible, in addition to taking an enterprise-wide approach to risk management. 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. Despite the challenges enumerated above, management believes 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

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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, 2012. 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 21 percent and 31 percent respectively, of the assets and net assets of the University; the financial statements of The UNCG Excellence Foundation, Inc., which represent 10 percent and 14 percent respectively, of the assets and net assets of the University; or the financial statements of the Capital Facilities Foundation, Inc., which represent 7 percent and .27 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, 2012, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA
State Auditor

October 19, 2012

Statement of
Net Assets

June 30, 2012

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 88,683,535
Restricted cash and cash equivalents	27,797,734
Short-term investments	784,105
Restricted short-term investments	6,533,724
Receivables, net (Note 4)	6,865,136
Inventories	398,845
Notes receivable, net (Note 4)	1,283,892
Other assets	5,155,141
Total current assets	137,502,112
Noncurrent Assets:	
Restricted cash and cash equivalents	39,911,059
Receivables (Note 4)	659,657
Endowment investments	192,532,176
Other investments	4,239,389
Notes receivable, net (Note 4)	4,089,516
Capital assets - nondepreciable (Note 5)	131,753,124
Capital assets - depreciable, net (Note 5)	425,639,261
Total noncurrent assets	798,824,182
Total assets	936,326,294

LIABILITIES

Current Liabilities:	
Accounts payable and accrued liabilities (Note 6)	17,548,020
Due to primary government	10,689
Deposits payable	835,310
Funds held for others	14,089
Unearned revenue	4,883,350
Interest payable	2,047,496
Long-term liabilities - current portion (Note 7)	6,099,371
Total current liabilities	31,438,325
Noncurrent Liabilities:	
Funds held for others	1,320,150
U. S. government grants refundable	5,084,360
Funds held in trust for pool participants	3,066,522
Long-term liabilities (Note 7)	253,451,897
Total noncurrent liabilities	262,922,929
Total liabilities	294,361,254

NET ASSETS

Invested in capital assets, net of related debt	353,341,164
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	65,089,124
Endowed professorships	16,916,317
Departmental uses	22,922,182
Loans	874,969
Art	1,401,564
Other	6,499,670
Expendable:	
Scholarships and fellowships	50,392,813
Research	31,982
Endowed professorships	15,428,481
Departmental uses	22,124,807
Loans	1,243,244
Capital projects	5,579,863
Debt service	29
Art	671,851
Other	3,811,655
Unrestricted	75,635,325
Total net assets	\$ 641,965,040

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

Year Ended
June 30, 2012

Statement of
Revenues, Expenses,
and Changes in
Net Assets

REVENUES

Operating Revenues:	
Student tuition and fees, net (Note 9)	\$ 84,449,501
Federal grants and contracts	13,864,810
State and local grants and contracts	1,901,425
Nongovernmental grants and contracts	910,115
Sales and services, net (Note 9)	39,272,492
Interest earnings on loans	167,665
Other operating revenues	472,700
Total operating revenues	<u>141,038,708</u>

EXPENSES

Operating Expenses:	
Salaries and benefits	228,186,498
Supplies and materials	19,976,479
Services	49,254,567
Scholarships and fellowships	33,775,389
Utilities	8,619,851
Depreciation	14,805,994
Total operating expenses	<u>354,618,778</u>
Operating loss	<u>(213,580,070)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	150,359,030
Noncapital grants - student financial aid	27,970,916
Other noncapital grants	34,698,872
Noncapital gifts	3,484,636
Investment loss	(3,503,084)
Interest and fees on debt	(5,580,157)
Federal interest subsidy on debt	120,494
Other nonoperating expenses	<u>(793,155)</u>
Net nonoperating revenues	<u>206,757,552</u>
Loss before other revenues	(6,822,518)
Capital grants	3,362,379
Capital gifts	55,252
Additions to endowments	<u>4,612,805</u>
Increase in net assets	1,207,918

NET ASSETS

Net assets - July 1, 2011	<u>640,757,122</u>
Net assets - June 30, 2012	<u>\$ 641,965,040</u>

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

*Statement of
Cash Flows*

CASH FLOWS FROM OPERATING ACTIVITIES

Received from customers	\$ 140,373,955
Payments to employees and fringe benefits	(228,439,205)
Payments to vendors and suppliers	(77,306,058)
Payments for scholarships and fellowships	(33,775,389)
Loans issued	(1,232,851)
Collection of loans	1,328,220
Interest earned on loans	141,895
Other receipts	526,361
	<hr/>
Net cash used by operating activities	(198,383,072)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	150,359,030
Noncapital grants - student financial aid	27,970,916
Noncapital grants	35,521,433
Noncapital gifts	3,524,163
Additions to endowments	4,419,556
William D. Ford direct lending receipts	105,574,878
William D. Ford direct lending disbursements	(105,574,878)
Related activity agency disbursements	(551,800)
	<hr/>
Net cash provided by noncapital financing activities	221,243,298

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	106,198,999
Capital grants	3,362,379
Capital gifts	55,252
Acquisition and construction of capital assets	(72,615,314)
Principal paid on capital debt	(60,900,393)
Interest and fees paid on capital debt	(5,341,608)
Federal interest subsidy on debt received	119,840
Payment of deposit for land acquisition	(5,155,141)
Other receipts	57,110
	<hr/>
Net cash used by capital financing and related financing activities	(34,218,876)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	78,114,702
Investment income	2,459,252
Purchase of investments and related fees	(70,887,930)
	<hr/>
Net cash provided by investing activities	9,686,024

Net decrease in cash and cash equivalents	(1,672,626)
Cash and cash equivalents - July 1, 2011	158,064,954
	<hr/>
Cash and cash equivalents - June 30, 2012	\$ 156,392,328

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

Operating loss	\$ (213,580,070)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	14,805,994
Allowances and write-offs	183,870
Changes in Assets and Liabilities:	
Receivables (net)	441,534
Inventories	(3,954)
Notes receivable (net)	16,879
Accounts payable and accrued liabilities	(427,143)
Due to primary government	9,217
Unearned revenue	261,190
Compensated absences	(68,539)
Deposits payable	(22,050)
	(198,383,072)
Net cash used by operating activities	\$ (198,383,072)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and cash equivalents	\$ 88,683,535
Restricted cash and cash equivalents	27,797,734
Noncurrent Assets:	
Restricted cash and cash equivalents	39,911,059
	156,392,328
Total cash and cash equivalents - June 30, 2012	\$ 156,392,328

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets acquired through the assumption of a liability	\$ 739,745
Assets acquired through a gift	193,250
Change in fair value of investments	(9,837,812)
Loss on disposal of capital assets	(366,054)

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



Note	Page	Description
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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 following component units of the University are reported as if they were part of the University: The University of North Carolina at Greensboro 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.

The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated is governed by an 18 member board consisting of two ex officio directors and 16 appointed directors. The Foundation is organized exclusively for the benefit of the departments and center formerly housed within the School of Human Environmental Sciences at The University of North Carolina at Greensboro prior to July 1, 2011, which consist of the Consumer Apparel and Retail Studies Department, Human Development and Family Studies Department, Interior Architecture Department, Nutrition Department, Social Work Department, and the Center for New North Carolinians. The Foundation's purpose is to aid and promote excellence in higher education, service and research, and the endowment of the five departments and center listed above. 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 28 member board consisting of three ex officio directors and 25 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 33 member board consisting of five ex officio directors and 28 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 19 member board consisting of nine ex officio directors and ten 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 a governmental external 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 a ten member board consisting of five ex officio directors and five 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 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, include 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, money market 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 estimated amounts 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 mutual 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 and merchandise for resale, are valued at cost 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 of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 50 years for general infrastructure, 25 years for building components, 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 for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

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 revenue bonds payable, notes payable, annuity and life income payable, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts and deferred losses on refundings. The University amortizes bond premiums/discounts over the life of the bonds using the proportionate-to-stated interest requirements method. The deferred losses on refundings 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 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 the Fuel Depot, 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. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, 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, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$140,728,829 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 1.5 years as of June 30, 2012. 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.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2012 was \$23,024. The carrying amount of the University's deposits not with the State Treasurer was \$15,640,475 and the bank balance was \$15,409,253. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2012, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ <u><u>12,011,765</u></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 some of the fixed income holdings will be in a diversified, high quality (AA or better average credit rating) U.S. fixed income portfolio of sufficient duration (four years or more) to provide effective protection in a deflationary environment. This actively-managed approach will be complemented by an intermediate duration, passive (index tracking) Treasury – only portfolio. Specific allocations to other strategies such as non-U.S. fixed income or a high yield product 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 some of the fixed income holdings will be in a diversified, high quality (AA or better average credit rating) U.S. fixed income portfolio of sufficient duration (four years or more) to provide effective protection in a deflationary environment. This actively-managed approach will be complemented by an intermediate duration, passive (index tracking) Treasury – only portfolio. Specific allocations to other strategies such as non-U.S. fixed income or a high yield product are allowed on a tactical basis.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of 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, thus there is no foreign currency risk for these investments.

External Investment Pool - The University of North Carolina at Greensboro Investment Fund, Incorporated, 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 may be obtained from the Business Affairs Office, 254 Mossman, Greensboro, NC 27402, 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, 2012, for the External Investment Pool.

External Investment Pool				
	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
Money Market Funds	\$ 2,030,554	\$ 2,030,554	\$	\$
Bond Mutual Funds:				
Fixed Income	24,717,940		8,205,475	16,512,465
Foreign Limited Partnership	3,401,261			3,401,261
Total Debt Securities	30,149,755	<u>\$ 2,030,554</u>	<u>\$ 8,205,475</u>	<u>\$ 19,913,726</u>
Other Securities				
Corporate Securities:				
Common Stocks	5,695,283			
International	1,058,479			
Mutual Funds:				
International Equity	33,317,101			
Inflation Hedging	11,827,414			
US Equity	6,955,966			
Partnerships:				
Hedge Funds	46,443,798			
Inflation Hedging	1,294,536			
Real Estate Securities	5,302,319			
US Equity	25,378,334			
Venture Capital	22,833,544			
Total External Investment Pool	<u>\$ 190,256,529</u>			

*Notes to the
Financial
Statements*

At June 30, 2012, investments in the External Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BB/Ba and below
Money Market Funds	\$ 2,030,554	\$ 2,030,554	\$	\$	\$
Bond Mutual Funds:					
Fixed Income	24,717,940		12,512,465	8,205,475	4,000,000
Foreign Limited Partnership	3,401,261		3,401,261		

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 External Investment Pool investments are in Forester Partners LP, Adage Capital Partners LP, and Forester Opportunities LP. These investments are 8.49%, 7.94% and 7.85%, 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, 2012, for the University's non-pooled investments.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
Money Market Funds	\$ 87,160	\$ 87,160	\$	\$	\$
Bond Mutual Funds:					
Fixed Income	4,427,564		1,591,641	2,693,131	142,792
Total Debt Securities	4,514,724	<u>\$ 87,160</u>	<u>\$ 1,591,641</u>	<u>\$ 2,693,131</u>	<u>\$ 142,792</u>
Other Securities					
Corporate Securities:					
Common Stocks	1,215,935				
International	105,049				
Mutual Funds:					
International Equity	1,645,407				
Inflation Hedging	115,013				
REIT Mutual Funds	248,713				
Other	4,794,377				
Real Estate Investment Trust	17,705				
Other: Real Estate	1,175,942				
Total Non-Pooled Investments	<u>\$ 13,832,865</u>				

At June 30, 2012, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below
Money Market Funds	\$ 87,160	\$ 87,160	\$	\$	\$	\$
Bond Mutual Funds:						
Fixed Income	4,427,564	877,569	2,370,522	714,072	146,011	319,390

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, 2012:

	Fair Value
Investment Type	
Debt Securities	
Money Market Funds	\$ 2,117,714
Bond Mutual Funds:	
Fixed Income	29,145,504
Foreign Limited Partnership	3,401,261
Other Securities	
Corporate Securities:	
Common Stocks	6,911,218
International	1,163,528
Mutual Funds:	
International Equity	34,962,508
Inflation Hedging	11,942,427
REIT Mutual Funds	248,713
US Equity	6,955,966
Other	4,794,377
Partnerships:	
Hedge Funds	46,443,798
Inflation Hedging	1,294,536
Real Estate Securities	5,302,319
US Equity	25,378,334
Venture Capital	22,833,544
Real Estate Investment Trust	17,705
Other: Real Estate	1,175,942
Total Investments	\$ 204,089,394

*Notes to the
Financial
Statements*

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2012, is as follows:

Cash on Hand	\$ 23,024
Amount of Deposits with Private Financial Institutions	15,640,475
Deposits in the Short-Term Investment Fund	140,728,829
External Investment Pool	190,256,529
Non-Pooled Investments	<u>13,832,865</u>
Total Deposits and Investments	<u>\$ 360,481,722</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 88,683,535
Restricted Cash and Cash Equivalents	27,797,734
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>39,911,059</u>
Total Deposits	<u>156,392,328</u>
Investments	
Current:	
Short-Term Investments	784,105
Restricted Short-Term Investments	6,533,724
Noncurrent:	
Endowment Investments	192,532,176
Other Investments	<u>4,239,389</u>
Total Investments	<u>204,089,394</u>
Total Deposits and Investments	<u>\$ 360,481,722</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 on 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 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, 2012, net appreciation of \$31,716,772 was available to be spent, of which \$29,495,447 was classified in net assets as Restricted Expendable Scholarships and Fellowships, Restricted Expendable Endowed Professorships, Restricted Expendable Departmental Uses, Restricted Expendable Loans, Restricted Expendable Art, and Restricted Expendable Other, as it is restricted to specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net assets.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2012 the amount of investment losses reported against the nonexpendable endowment balances were \$57,139.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,499,819	\$ 456,155	\$ 1,043,664
Accounts	593,996		593,996
Intergovernmental	3,053,513		3,053,513
Pledges	722,034	5,772	716,262
Investment Earnings	222,548		222,548
Interest on Loans	231,390		231,390
Federal Interest Subsidy on Debt	29,882		29,882
Other	973,881		973,881
Total Current Receivables	\$ 7,327,063	\$ 461,927	\$ 6,865,136
Noncurrent Receivables:			
Pledges	\$ 659,657	\$	\$ 659,657
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 1,174,646	\$ 79,003	\$ 1,095,643
Institutional Student Loan Programs	298,516	110,267	188,249
Total Notes Receivable - Current	\$ 1,473,162	\$ 189,270	\$ 1,283,892
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 4,492,316	\$ 402,800	\$ 4,089,516

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 33,750,310	\$ 6,246,648	\$	\$ 39,996,958
Art, Literature, and Artifacts	21,833,319	204,885	19,590	22,018,614
Construction in Progress	46,230,358	55,282,371	31,775,177	69,737,552
Total Capital Assets, Nondepreciable	101,813,987	61,733,904	31,794,767	131,753,124
Capital Assets, Depreciable:				
Buildings	431,580,498	38,531,116		470,111,614
Machinery and Equipment	50,729,442	3,930,218	2,443,758	52,215,902
General Infrastructure	67,237,516	175,000		67,412,516
Total Capital Assets, Depreciable	549,547,456	42,636,334	2,443,758	589,740,032
Less Accumulated Depreciation for:				
Buildings	99,215,048	9,361,764		108,576,812
Machinery and Equipment	27,200,760	2,773,398	2,097,294	27,876,864
General Infrastructure	24,976,263	2,670,832		27,647,095
Total Accumulated Depreciation	151,392,071	14,805,994	2,097,294	164,100,771
Total Capital Assets, Depreciable, Net	398,155,385	27,830,340	346,464	425,639,261
Capital Assets, Net	\$ 499,969,372	\$ 89,564,244	\$ 32,141,231	\$ 557,392,385

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	<u>Amount</u>
Accounts Payable	\$ 6,610,999
Accrued Payroll	6,073,102
Contract Retainage	2,837,144
Other	<u>2,026,775</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 17,548,020</u>

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, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Revenue Bonds Payable	\$ 95,250,000	\$ 77,505,000	\$ 9,190,000	\$ 163,565,000	\$ 5,105,000
Add/Deduct Premium/Discount	3,664,584	7,137,002	873,423	9,928,163	
Deduct Deferred Charge on Refunding	(1,973,196)	(150,332)	(80,669)	(2,042,859)	
Total Revenue Bonds Payable	<u>96,941,388</u>	<u>84,491,670</u>	<u>9,982,754</u>	<u>171,450,304</u>	<u>5,105,000</u>
Notes Payable	97,000,834	21,707,329	50,917,639	67,790,524	457,840
Compensated Absences	12,878,161	10,558,932	10,627,470	12,809,623	536,531
Annuity and Life Income Payable	7,848,990		348,173	7,500,817	
Total Long-Term Liabilities	<u>\$ 214,669,373</u>	<u>\$ 116,757,931</u>	<u>\$ 71,876,036</u>	<u>\$ 259,551,268</u>	<u>\$ 6,099,371</u>

B. Revenue Bonds Payable - The University was indebted for revenue 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, 2012	Principal Outstanding June 30, 2012
Revenue Bonds Payable						
General Revenue Bonds						
General Revenue Bonds (2009)	A	3.00%-5.00%	04/01/2034	\$ 29,525,000	\$ 2,000,000	\$ 27,525,000
General Revenue Bonds (2009)	B	3.00%-4.00%	04/01/2016	4,120,000	1,640,000	2,480,000
General Revenue Bonds (2011)		2.00%-5.00%	04/01/2036	77,505,000	115,000	77,390,000
Total General Revenue Bonds				<u>111,150,000</u>	<u>3,755,000</u>	<u>107,395,000</u>
The University of North Carolina System Pool Revenue Bonds						
General Revenue Bonds (2002A)	(A)	5.00%-5.38%	04/01/2027	8,835,000	7,255,000	1,580,000
General Revenue Bonds (2004C)	(B)	3.50%-5.00%	04/01/2029	18,350,000	3,575,000	14,775,000
General Revenue Bonds (2005A)	(C)	3.50%-5.25%	04/01/2026	22,235,000	4,675,000	17,560,000
General Revenue Bonds (2010B-2)	(D)	3.25%-5.25%	04/01/2026	23,780,000	1,525,000	22,255,000
Total The University of North Carolina System Pool Revenue Bonds				<u>73,200,000</u>	<u>17,030,000</u>	<u>56,170,000</u>
Total Revenue Bonds Payable (principal only)				<u>\$ 184,350,000</u>	<u>\$ 20,785,000</u>	<u>163,565,000</u>
Less: Unamortized Loss on Refunding						(2,042,859)
Plus: Unamortized Premium						9,928,163
Total Revenue Bonds Payable						<u>\$ 171,450,304</u>

(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
(D) The University of North Carolina System Pool Revenue Bonds, Series 2010B-2

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2012, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 5,105,000	\$ 7,838,794	\$ 457,840	\$ 1,067,217
2014	5,335,000	7,618,119	31,490,569	1,022,800
2015	5,610,000	7,364,407	11,656,764	530,298
2016	5,885,000	7,094,369	560,952	330,135
2017	7,760,000	6,842,963	22,306,078	150,728
2018-2022	38,465,000	29,113,469	1,318,321	72,092
2023-2027	39,450,000	19,228,294		
2028-2032	31,440,000	10,629,225		
2033-2037	24,515,000	2,939,000		
Total Requirements	\$ 163,565,000	\$ 98,668,640	\$ 67,790,524	\$ 3,173,270

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

On September 29, 2011, the University issued \$4,165,000 in Series 2011 General Revenue Refunding bonds with an average interest rate of 4.3224%. The bonds were issued to advance refund \$4,215,000 of outstanding 2002A University of North Carolina System Pool Revenue Bonds with an average interest rate of 5.143%. The net proceeds of the refunding bonds (along with other resources) were used to purchase securities from a federally sponsored pool. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by \$580,495 over the next 16 years and resulted in an economic gain of \$442,957. At June 30, 2012, the outstanding balance was \$4,215,000 for the defeased 2002A University of North Carolina System Pool Revenue Bonds.

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, 2012	Principal Outstanding June 30, 2012	See Table Below
Energy Savings Performance Contract	SunTrust Equip. Finance Corp.	3.61%	03/01/2019	\$ 5,808,994	\$ 1,857,647	\$ 3,951,347	
Construct 400 bed Student Housing facility **	Bank of America	1.08% *	05/01/2014	31,000,000		31,000,000	(1)
Property acquisition	PNC	3.00% *	01/01/2015	14,122,824	3,990,976	10,131,848	
Construct Spartan Village Phase 1	SunTrust	1.09% *	11/01/2016	21,707,329		21,707,329	
Provide operating funds for Capital Facilities Foundation	Bryan Foundation	4.50%	12/31/2014	1,000,000		1,000,000	
Total Notes Payable				\$ 73,639,147	\$ 5,848,623	\$ 67,790,524	

* For variable rate debt, interest rates in effect at June 30, 2012 are reflected in the table above.

Interest on the variable rate Bank of America notes payable is calculated at 1.08% at June 30, 2012. The interest rate is set on the first day of the month and can be reset on the first day of the following month. The rate is calculated at the sum of (1) LIBOR Base Rate and (2) 85 basis points [.85%], calculated on the basis of a 365 day year for the actual number of days elapsed but at no time greater than a total interest rate of 12%.

Interest on the variable rate PNC line of credit (LOC) is calculated at 3% at June 30, 2012. The interest rate is set on the first day of the month and can be reset on the first day of the following month. The rate is calculated at the sum of (1) LIBOR Base Rate and (2) 200 basis points [2%], calculated on the basis of a 365 day year for the actual number of days elapsed but at no time less than a total interest rate of 3%. The maximum amount approved for this LOC is \$20 million.

Interest on the variable rate SunTrust line of credit (LOC) is calculated at 1.09% at June 30, 2012. The interest rate is set on the first day of the month and can be reset on the first day of the following month. The rate is calculated at 75% of the sum of (1) the one month LIBOR Base Rate and (2) 124 basis points [1.24%], calculated on the basis of a 365 day year for the actual number of days elapsed. There is no minimum or maximum interest rate. The maximum amount approved for this LOC is \$67 million.

** The University has elected to treat the Bank of America note as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 35% of the interest payable on this note. For this note, the interest rate included above is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury. If the subsidy is factored in, the effective rate is .71%.

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The University plans to refinance the notes maturing on May 1, 2014, January 1, 2015 and November 1, 2016 with other long-term financing. The University has pledged future revenues, net of specific operating expenses, to repay notes payable as shown in the following table:

Ref	Revenue Source	Total Future Revenues Pledged	Current Year		Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal Interest	
(1)	Jefferson Suites Revenues	31,417,105		344,270	42%
(1)	Federal Interest Subsidy on Debt**	224,595	120,494		100%

** Federal Interest Subsidy on Debt revenue is pledged to pay 35% of the interest incurred on the Build America Bonds. The amount pledged does not include any principal payments.

F. Annuities Payable – The Annuity and Life Income Payable balance consists of 159 Charitable Annuity agreements and 16 Charitable Remainder Unitrusts with a market value of \$11.3 million. The \$7.5 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- 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, 2012:

Fiscal Year	Amount
2013	\$ 400,760
2014	309,581
2015	104,257
2016	75,000
2017	37,500
Total Minimum Lease Payments	\$ 927,098

Rental expense for all operating leases during the year was \$665,406.

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 Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 113,286,462		\$ 28,623,280	\$ 213,681	\$ 84,449,501
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 18,947,744	\$ 334,761	\$ 4,519,614	\$ 34,490	\$ 14,058,879
Dining	13,412,683	300	3,000,577	22,052	10,389,754
Student Union Services	104,365				104,365
Health, Physical Education, and Recreation Services	1,291,463	26,952			1,264,511
Parking	3,710,285	138,004		27,098	3,545,183
Athletic	897,366	15,587			881,779
Other	5,474,114	3,066,938		1,312	2,405,864
Sales and Services of Education and Related Activities	6,882,558	260,401			6,622,157
Total Sales and Services	\$ 50,720,578	\$ 3,842,943	\$ 7,520,191	\$ 84,952	\$ 39,272,492

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	\$ 116,544,235	\$ 4,107,317	\$ 7,737,218	\$ 300	\$ 2,840	\$	\$ 128,391,910
Research	10,608,903	807,774	5,524,237	36,920			16,977,834
Public Service	6,982,376	211,196	2,304,879	54,750	5,825		9,559,026
Academic Support	27,660,986	6,716,618	6,908,300	1,957,101	3,171		43,246,176
Student Services	10,831,867	1,162,971	3,024,325	13,600			15,032,763
Institutional Support	25,664,300	1,723,681	5,574,171		13,976		32,976,128
Operations and Maintenance of Plant	13,969,358	3,111,690	2,481,233		5,539,638		25,101,919
Student Financial Aid				31,692,873			31,692,873
Auxiliary Enterprises	15,924,473	2,135,232	15,700,204	19,845	3,054,401		36,834,155
Depreciation						14,805,994	14,805,994
Total Operating Expenses	<u>\$ 228,186,498</u>	<u>\$ 19,976,479</u>	<u>\$ 49,254,567</u>	<u>\$ 33,775,389</u>	<u>\$ 8,619,851</u>	<u>\$ 14,805,994</u>	<u>\$ 354,618,778</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 (Plan) 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$182,867,735, of which \$78,268,906 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$5,823,207 and \$4,696,134, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$5,823,207, \$3,997,274, and \$2,840,309, 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.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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, 2012, 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 \$182,867,735, of which \$79,558,428 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$5,441,796 and \$4,773,506, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans - Internal Revenue Code 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 \$490,223 for the year ended June 30, 2012.

Internal Revenue Code 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, 2012, were \$87,682. The voluntary contributions by employees amounted to \$1,266,217 for the year ended June 30, 2012.

Internal Revenue Code 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. The plan administrators are The University of North Carolina. No costs are incurred by the University. The voluntary contributions by employees amounted to \$2,743,631 for the year ended June 30, 2012.

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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the University contributed 5.0% 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, 2011, and 2010, were 4.9% and 4.5%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended

June 30, 2012, 2011, and 2010, which were \$7,891,367, \$7,866,532, and \$6,971,415, 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.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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 by the General Assembly. For the fiscal year ended June 30, 2012, 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, 2011, and 2010, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$820,702, \$834,816, and \$805,586, 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, students and/or visitors; 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.

The risk of tort claims of up to \$1,000,000 per claimant is 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, Broad Form Coverage, and Special Form Coverage. 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 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 (VMN) has been purchased for the Elliott University Center. The University must fund the costs of this insurance. Both the Extended coverage and VMN are subject to a \$5,000 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 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 \$90,000, with \$3,000 deductible); selective athletic travel (\$10,000 accidental death and dismemberment); physicians professional medical liability (\$1.0 million per person, \$3.0 million total); non-physicians professional medical liability (\$1.0 million per person, \$3.0 million total); leased computer equipment (stated value with \$500 deductible); fine art (property coverage – museum collection and temporary loan, Limits of Liability: \$250.0 million limit at insured premises, \$25.0 million at any other location, \$25.0 million limit in transit on any one conveyance, \$25.0 million limit for international transportation, exhibition, and location, \$70.0 million for TRIA (Terrorism Risk Insurance Act), and \$250.0 million aggregate limit in any one loss or disaster; Deductibles: \$2,500 for loan items, \$2,500 for owned items; musical instruments (\$1.45 million cash replacement value with \$1,000 deductible); robbery and safe burglary (\$500,000 per event, \$1,000 deductible); commercial crime and employee dishonesty (\$5.0 million – computer fraud, \$5.0 million – public employee dishonesty); boiler and machinery (\$50.0 million equipment breakdown limit, \$5,000 deductible); “all-risk” for equipment covering all perils including fire (replacement cost, \$5,000 deductible per event); University intern liability (\$1.0 million per incident / \$3.0 million per year); volunteer liability (\$1.0 million per incident / \$3.0 million per year); camp accident (\$250,000 accidental death and dismemberment maximum annual limit); business travel (100% of stated services, \$10,000 maximum accidental death and dismemberment maximum benefit, \$100,000 medical evacuation maximum benefit); study abroad accident and health (\$250,000 per injury or sickness medical expenses, \$10,000 accidental death and dismemberment, \$50,000 repatriation of remains, \$100,000 lifetime benefit limit, \$1,500 bedside visit); international students accident (\$150,000 maximum limit for medical expenses, \$10,000 accidental death and dismemberment with \$5,000 limit for spouse and \$1,000 limit for children, \$15,000 for repatriation of remains and \$50,000 lifetime benefit for medical evacuation).

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit 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 \$50,116,141 at June 30, 2012. The Capital Facilities Foundation, Inc. (a blended component unit) made a deposit of \$5,451,152, prior to June 30, 2012, to purchase real estate. This property was purchased for this amount on July 10, 2012.

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	\$ 527,434
Pledges to the Human Environmental Sciences Foundation Endowment Fund	23,200
Pledges to the UNCG Endowment Fund	1,640,695

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., which is also a component unit of the State of North Carolina. 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 \$1,928,640 to Gateway University Research Park, Inc. These payments consisted of: \$554,795 for the operation and maintenance of University facilities at the Gateway University Research Park; \$187,500 (second year of a three year commitment) for operating funding for the Gateway University Research Park; \$100,720 for rental expense at the south campus of the Gateway University Research Park; \$250,000 for the second year of a two year commitment to enhance the Joint School of Nanoscience and Nanoengineering community outreach; \$435,000 grant to complete the purchase, installation, and operation of an MRI machine; \$400,000 grant to move and install equipment at the south campus; and \$625 for other facility use fees and maintenance expenses.

NOTE 16 - SUBSEQUENT EVENTS

Bonds

On July 12, 2012 the University issued \$37,550,000 in tax-exempt General Revenue and Refunding Revenue Bonds, Series 2012A. These bonds are dated July 12, 2012, and will bear interest from that date. Interest on the bonds will be payable semiannually on each October 1st and April 1st, commencing October 1, 2012. The bonds will mature from April 1, 2013 to April 1, 2037 and were issued at coupon rates ranging from 2% to 5%. The bonds were issued to provide funds for the construction and equipping of a campus police building on the University's campus and for the acquisition of a 400 bed Student Housing Facility located on the University's campus.

Current Refunding

On July 12, 2012, the University issued \$1,460,000 in General Revenue and Refunding Revenue Bonds, Series 2012A with an average interest rate of 4.7323%. The bonds were issued for a current refunding of \$1,580,000 of outstanding 2002A University of North Carolina System Pool Revenue Bonds with an average interest rate of 5.345%. The refunding was undertaken to reduce total debt service payments by \$199,929 over the next six years and resulted in an economic gain of \$181,901.

Advance Refunding

On July 12, 2012, the University issued \$13,350,000 in General Revenue and Refunding Revenue Bonds, Series 2012A with an average interest rate of 4.3813%. The bonds were issued to advance refund \$13,585,000 of outstanding 2004C University of North Carolina System Pool Revenue Bonds with an average interest rate of 4.9604%. The net proceeds of the refunding bonds (along with other resources) were used to purchase securities from a federally sponsored pool. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$1,510,081 over the next 17 years and resulted in an economic gain of \$1,177,492. At June 30, 2013, the outstanding balance will be \$13,585,000 for the defeased 2004C University of North Carolina System Pool Revenue Bonds.

On July 12, 2012, the University issued \$7,830,000 in Taxable Refunding Revenue Bonds, Series 2012B with an average interest rate of 2.7326%. The bonds were issued to advance refund \$6,820,000 of outstanding 2005A University of North Carolina System Pool Revenue Bonds with an average interest rate of 4.9655%. The net proceeds of the refunding bonds (along with other sources) were used to purchase securities from a federally sponsored pool. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$318,086 over the next 11 years and resulted in an economic gain of \$281,772. At June 30, 2013, the outstanding balance will be \$6,820,000 for the defeased 2005A University of North Carolina System Pool Revenue Bonds.

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