

# STATE OF NORTH CAROLINA

**THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO**

**GREENSBORO, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2007**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO**

**GREENSBORO, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2007**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

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STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Trustees, The University of North Carolina at Greensboro

We have completed a financial statement and compliance audit of The University of North Carolina at Greensboro for the year ended June 30, 2007, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements and our consideration of the University's administration of federal programs in accordance with applicable laws, regulations, contracts and grants resulted in no audit findings.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

January 28, 2008

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STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**INDEPENDENT AUDITOR'S REPORT**

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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, 2007, as listed in the table of contents. 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 26 percent, 33 percent, and 9 percent, respectively, of the assets, net assets and revenues of the University; the financial statements of the UNCG Excellence Foundation, which represent 12 percent, 15 percent and 5 percent, respectively, of the assets, net assets and revenues of the University; or the financial statements of the Capital Facilities Foundation, Inc., which represent 4 percent, .03 percent and .4 percent respectively, of the assets, net assets and revenues 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, 2007, 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)

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2008, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

January 17, 2008

# THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO MANAGEMENT'S DISCUSSION AND ANALYSIS

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## **Introduction**

The University of North Carolina at Greensboro (the "University") provides the following Management's Discussion and Analysis as an overview of the financial activities for the fiscal year ended June 30, 2007. This discussion, the following financial statements, and the related notes to the financial statements have been prepared by management and comprise the University's complete financial report. The financial statements, notes to the financial statements, and this discussion are the responsibility of management.

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

## **Using the Financial Report**

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

## **Statement of Net Assets**

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

A condensed statement of net assets is reflected below.

### Condensed Statement of Net Assets

	6/30/07	6/30/06
<b>Assets:</b>		
Current Assets	\$ 105,913,614	\$ 97,332,173
Noncurrent Capital Assets, Net of Accumulated Depreciation	373,471,898	345,638,089
Other Noncurrent Assets	240,027,929	179,569,632
<b>Total Assets</b>	<b>719,413,441</b>	<b>622,539,894</b>
<b>Liabilities:</b>		
Current Liabilities	55,222,531	22,988,853
Noncurrent Liabilities	110,668,170	136,119,988
<b>Total Liabilities</b>	<b>165,890,701</b>	<b>159,108,841</b>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	260,490,279	238,199,580
Restricted - Nonexpendable	86,235,345	78,747,416
Restricted - Expendable	138,528,375	84,499,115
Unrestricted	68,268,741	61,984,942
<b>Total Net Assets</b>	<b>\$ 553,522,740</b>	<b>\$ 463,431,053</b>

The total assets of the University increased by \$96.9 million for the year (\$8.6 million increase for current assets and an \$88.3 million increase for noncurrent assets). This overall increase was attributable to increases of \$27.8 million in capital assets, net of accumulated depreciation, \$30.4 million in restricted investments, \$24.3 million in restricted due from primary government, \$12.4 million in cash and cash equivalents, and \$1.1 million in noncurrent receivables. The increase in capital assets, net of accumulated depreciation, is the direct result of an increase in construction in progress of \$24.4 million due to increased construction activity on the Petty Building Classroom Renovation, the Brown Building Classroom Renovation, the Aycock Auditorium Renovation, the Alumni House Renovation, the Forney Building Classroom Renovation, and the McNutt Building Renovation, which are all financed by the statewide higher education bonds. Buildings were also increased by \$2.5 million for the capitalized cost of the second phase of the Gove Health Center renovation project. The increase in restricted investments is the result of increases in investment valuations and increased giving to endowed funds through the Students First Capital Campaign. The increase in restricted due from primary government is due to increased activity on construction projects financed by the statewide higher education bonds and by the statewide certificates of participation. The increases in cash and cash equivalents (\$8.5 million for restricted current and noncurrent cash and cash equivalents and \$3.9 million for unrestricted current cash and cash equivalents) is attributable to substantial increases in allotted cash with the major capital improvement projects mentioned above, the \$5.8 million in notes payable issued in March 2007 for the Energy Savings Contract financing, and



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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increases in activities from a substantial increase in the student population. All other asset categories, both current and noncurrent, increased by \$.9 million.

The total liabilities of the University increased by \$6.8 million for the year (\$32.2 million increase for current liabilities and a \$25.4 million decrease in noncurrent liabilities). This overall increase in total liabilities consists of a \$2.6 million increase in accounts payable and accrued liabilities, a \$5.8 million increase in notes payable, a \$1.0 million increase in the annuity and life income payable liability, a \$.9 million increase in compensated absences, a \$.5 million increase in funds held in trust for pool participants, a decrease of \$3.8 in bonds payable, and a decrease of \$.2 million in all other liability categories, both current and noncurrent. There was a shift from noncurrent liabilities to current liabilities of \$29.5 million for the note payable on the Spring Garden Apartments. This note payable will be retired by the issuance of bonds in 2008. The increase in accounts payable and accrued liabilities is due to increased construction activity at June 30, 2007. The increase in notes payable is from the issuance of a \$5.8 million note payable with Banc of America Public Capital Corp to provide financing for the Energy Savings Contract. The increase in compensated absences is due to higher salary rates and continued growth in the number of University employees. The increases in the annuity and life income and funds held in trust for pool participants is due to the increase in market value of the University's investments and additional gifts for these categories. The University did not issue any new bonds payable in Fiscal Year 2007, thus the decrease in bonds payable is attributable to payments of principal on and amortizations related to outstanding University debt.

The combination of the increase in total assets of \$96.9 million and the increase in total liabilities of \$6.8 million yields an overall increase in total net assets of \$90.1 million. This change consists of an increase in the category of invested in capital assets, net of related debt of \$22.3 million, an increase in the category of nonexpendable net assets of \$7.5 million, an increase in the category of restricted expendable net assets of \$54.0 million, and an increase in the category of unrestricted net assets of \$6.3 million. The increase in the invested in capital assets, net of related debt is due to increases in construction in progress related to five classroom renovation projects financed by the statewide higher education bonds. The increase in the nonexpendable net asset category is primarily due to increases in endowment gifts. The increase in restricted expendable net assets is due to increases in investment income from market value appreciation on investments, noncapital gifts, and from a large increase in the restricted due from primary government receivable associated with the increased activity in construction projects financed by the Statewide higher education bonds. The increase in the unrestricted net asset category is due to increases in tuition and fee revenue and sales and services resulting from an increase in the number students enrolled at the University.

### **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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

and nonoperating, and the expenses incurred by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses earned or incurred by the institution.

Generally speaking, operating revenues are earned for providing goods and services to the various constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues earned for which goods and services are not provided. State appropriations 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 below.

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

	6/30/07	6/30/06
Operating Revenues	\$ 137,067,467	\$ 124,680,458
Operating Expenses	295,716,223	267,223,715
Operating Loss	(158,648,756)	(142,543,257)
Net Nonoperating Revenues	184,516,999	142,650,192
Income Before Other Revenues	25,868,243	106,935
Other Revenues	64,223,444	26,821,212
Total Increase in Net Assets	90,091,687	26,928,147
Net Assets - July 1, 2006	463,431,053	436,502,906
Net Assets - June 30, 2007	\$ 553,522,740	\$ 463,431,053

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in the net assets at the end of the year and an increase of \$90.3 million (30.1%) 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 \$12.4 million (9.9%), whereas operating expenses increased by \$28.5 million (10.7%), for a combined net increase in operating loss of \$16.1 million. The largest increases within operating revenues were in net student tuition and fees and sales and services, which increased by \$5.4 million and \$4.7 million, respectively. The increase in net student tuition and fees was due to increases in student

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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enrollment and in student fee rates, but these increases were reduced by higher financial aid awards recorded as tuition discounts, which offsets student tuition and fees revenue. The increase in sales and services was due to increases in the rates charged to students and staff by the University's Auxiliary Services operations. Federal, State, and Nongovernmental Contract and Grant operating revenues increased by \$2.7 million due to increased grant activity. Other sources of operating revenues declined by \$.4 million. The increase in operating expenses is the result of a \$17.6 million (10.9%) increase in salaries and benefits, a \$6.5 million (14.9%) increase in services, a \$2.0 million (6.5%) increase in supplies and materials, a \$1.6 million (13.4%) increase in scholarships and fellowships, a \$1.4 million (14.1%) increase in depreciation, and a \$.6 million (7.1%) decrease in utilities. The increase in salaries and benefits is related to new positions and salary increases funded by increased enrollment and legislative salary increases. The increases in services and supplies and materials are related to increased costs funded by increases in State appropriations, discussed later. The increase in scholarships and fellowships is due to higher financial awards necessitated by increases in student tuition and fees. The increase in depreciation is due to a full year of depreciation being recorded on buildings capitalized in the previous year, which include the Beverly Cooper Moore and Irene Mitchell Moore Humanities and Research Administration Building, the Maud F. Gatewood Studio Arts Building, the new wing of the Gove Health Center, and the Softball Stadium. The decrease in utilities is due to the easing of energy costs when compared to the prior year.

- State appropriations increased by \$22.7 million (19.4%) which was primarily attributable to enrollment change increases and funding for salary increases. Investment income increased by \$12.6 million (64.8%) due to performance in the overall broader markets being stronger than the prior year. The total return on investment improved to 18.7% for the current fiscal year compared to 12.3% for the prior fiscal year. Noncapital gifts increased by \$4.4 million (116.8%) because of increased giving due to the Students First Capital Campaign. Noncapital grants increased slightly by \$.7 million (9.2%) due to increases in grant activity. Interest and fees on debt decreased by \$1.4 million (24.6%). This decrease is due to the capitalization of construction period interest of \$1.3 million on the \$29.5 million note payable for the new dormitory which opened in August 2007. The additional \$.1 million decrease is from the retirement of Housing and Dining System Revenue Bonds Series D and E and the Student Facilities Revenue Bonds Series B and C during Fiscal Year 2007. The caption other nonoperating revenues (expenses) consists of the net difference between surplus property sales (a revenue) and the loss on the disposal of capitalized assets. The increase in these various categories as a whole yield an overall increase of \$41.9 million (29.3%) in net nonoperating revenues.
- Other revenues increased by \$37.4 million (139.5%), primarily due to an increase of \$30.5 million (185.3%) in funding by the State for construction activities via the Statewide higher education bonds and statewide certificates of participation. The increase is due to six major building renovation projects, financed by the Statewide higher education bonds, being in a state of high construction activity during fiscal year 2007. Capital appropriations increased by \$6.5 million, due to \$3.6 million in new funding for

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

the Joint Millennial campus and \$2.3 million in funding for the advance planning of the new Academic and Classroom building and a \$.7 million increase over the prior year in funding of repair and renovations received in the 2006 Capital Improvement code. Additions to endowments increased by \$.7 million (12.2%) due to increased giving related to the Student's First Capital Campaign.

### Statement of Cash Flows

The final statement presented by The University of North Carolina at Greensboro is the Statement of Cash Flows. This statement is divided into five parts and presents detailed information about the cash activity of the University during the year. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section displays the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section displays the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and displays the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

A condensed statement of cash flows is reflected below.

### Condensed Statement of Cash Flows For the Years Ended

	<u>6/30/07</u>	<u>6/30/06</u>
Cash Provided (Used) by:		
Operating Activities	\$ (150,142,105)	\$ (133,593,918)
Noncapital Financing Activities	163,091,095	134,037,051
Capital and Related Financing Activities	(3,398,851)	(32,098,481)
Investing Activities	2,847,148	2,807,123
	<u>12,397,287</u>	<u>(28,848,225)</u>
Net Change in Cash		
Cash and Cash Equivalents - July 1, 2006	93,289,131	122,137,356
	<u>\$ 105,686,418</u>	<u>\$ 93,289,131</u>
Cash and Cash Equivalents - June 30, 2007		

Major sources of funds included in operating activities are student tuition and fees (\$68.8 million), auxiliary sales and services (\$28.2 million), and contracts and grants (\$31.5 million). Major uses of funds included in operating activities are payments to employees and related fringe benefits (\$178.3 million), payments to vendors/suppliers (\$87.1 million), and payments for scholarships and fellowships (\$13.5 million). Collectively, total sources of funds included in operating activities increased by 11.3% (\$13.3 million), whereas total uses increased by 11.9% (\$29.8 million).

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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The major source of funds included in noncapital financing activities is State appropriations (\$139.7 million) which increased by 19.4% (\$22.7 million) over the prior fiscal year. This increase is the major source of funds for financing the significant increase in operating activity uses noted in the preceding paragraph.

The major sources of funds included in capital and related financing activities are proceeds from capital grants (\$22.7 million), State capital appropriations (\$10.7 million), and proceeds from capital debt (\$5.8 million) from the issuance of a note payable for the Energy Savings Contract funding. The major uses are the acquisition and construction of capital assets (\$34.5 million), interest and fees paid on capital debt (\$4.4 million), and principal paid on capital debt (\$3.8 million). Collectively, total sources of funds included in capital and related financing activities increased by \$8.9 million, whereas total uses decreased by \$19.7 million. The increase is from additional State appropriations for the Joint Millennial campus, the new Academic and Classroom building, and repair and renovations, discussed earlier, in addition to note proceeds related to the Energy Savings Contract.

The major source of funds included in investing activities is proceeds from sales and maturities of investments (\$58.2 million), whereas the major use is purchase of investments and related fees (\$53.6 million). Collectively, total sources of funds included in investing activities decreased by \$18.4 million, whereas total uses decreased by \$18.6 million. In summary, there was less movement of invested funds than in the prior year as the Investment Fund managers shifted the focus of the portfolio from traditional equity and bond based investments and into limited partnerships.

### **Capital Asset and Debt Administration**

During fiscal year 2006-07, the Spring Garden Apartments, a 400 bed student housing facility, was completed and occupied. This facility is owned by the Capital Facilities Foundation, Inc., which is a blended component unit of the University. It is the University's intention to issue new bonds by May 1, 2008, for the purpose of acquiring the Spring Garden Apartments from the Capital Facilities Foundation, Inc., and retire the associated \$29.5 million note payable. During the next fiscal year the University will consider the possibility of refunding and advance refunding one or more outstanding bond issues.

Major projects included in construction in progress are as follows: \$9.3 million for the Aycock Auditorium Renovation, \$8.3 million for the Petty Classroom Building Renovation, \$4.8 million for the McNutt Building Renovation, \$4.6 million for the Brown Classroom Building Renovation, \$1.8 million for the Alumni House Renovation, \$.6 million for the Forney Classroom Renovation, and \$.5 million for the Oakland Parking Deck Addition.

A note payable in the amount of \$5,808,994 was issued in fiscal year 2006-07. The proceeds of the note will be used to acquire and install energy savings equipment in several campus buildings. The utility savings will be used to pay principal and interest on the note which is payable in annual installments over a twelve year period with a fixed interest rate of 3.6%.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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

### **Economic Outlook**

Management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during fiscal year 2007-08 beyond those unknown variations having a global effect on virtually all types of business operations. Student enrollment at the University continues to grow each year. While the increased enrollment has resulted in significant increases in State appropriations the increasing number of students has placed a strain on the University's non-State supported student services. Systems such as housing, food services, and parking services are operating at capacity or near capacity levels. Potential increases in energy costs, due to events in the Middle East and the constant threat of hurricanes in the Eastern and Gulf regions of the United States, could have a significant direct effect on the University's resources used for utilities and an indirect effect on the State economy through a slowdown in economic activity, which could impact the level of State support in the coming fiscal year.

The level of State support is one of the key factors influencing the University's financial condition and its ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. State appropriations constituted approximately thirty-six percent of the University's total revenues for fiscal year 2006-07, down from thirty-nine percent of the University's total revenues for fiscal year 2005-06. The University expects State support for fiscal year 2007-08 to continue to increase by approximately ten percent due to increased funding for the University's increased enrollment and for salary and benefit increases.

Since State support is only being increased due to an increase in the number of enrolled students and, in fiscal year 2006-07, salary and benefit increases, management will continue the University's ongoing efforts toward revenue diversification, cost containment, and operating efficiencies. 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 temporary market volatility.

While it is not possible to predict ultimate results, we believe that the University's overall financial condition is strong enough to weather most economic uncertainties. We believe that sufficient resources will be available to allow the University to continue its current level of excellent service to its students, the community, and governmental agencies.

***The University of North Carolina at Greensboro***  
***Statement of Net Assets***  
***June 30, 2007***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 70,165,159
Restricted Cash and Cash Equivalents	18,207,413
Short-Term Investments	743,249
Restricted Short-Term Investments	6,105,128
Receivables, Net (Note 4)	8,744,712
Inventories	529,667
Notes Receivable, Net (Note 4)	1,418,286
	<hr/>
Total Current Assets	105,913,614

Noncurrent Assets:

Restricted Cash and Cash Equivalents	17,313,846
Receivables (Note 4)	1,635,645
Restricted Due from Primary Government	25,666,837
Endowment Investments	185,436,156
Other Investments	5,318,581
Notes Receivable, Net (Note 4)	4,656,864
Capital Assets - Nondepreciable (Note 5)	71,453,457
Capital Assets - Depreciable, Net (Note 5)	302,018,441
	<hr/>
Total Noncurrent Assets	613,499,827
	<hr/>
Total Assets	719,413,441

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	15,630,145
Due to Primary Government	24,412
Deposits Payable	368,995
Funds Held for Others	37,130
Unearned Revenue	4,397,871
Interest Payable	1,059,416
Long-Term Liabilities - Current Portion (Note 7)	33,704,562
	<hr/>
Total Current Liabilities	55,222,531

Noncurrent Liabilities:

Funds Held for Others	614,365
U. S. Government Grants Refundable	4,694,630
Funds Held in Trust for Pool Participants	3,679,227
Long-Term Liabilities (Note 7)	101,679,948
	<hr/>
Total Noncurrent Liabilities	110,668,170
	<hr/>
Total Liabilities	165,890,701

***The University of North Carolina at Greensboro  
Statement of Net Assets  
June 30, 2007***

***Exhibit A-1***

***Page 2***

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	260,490,279
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	47,734,958
Endowed Professorships	11,595,571
Departmental Uses	18,127,784
Loans	973,605
Art	1,480,109
Other	6,323,318
Expendable:	
Scholarships and Fellowships	52,546,833
Research	18,857
Endowed Professorships	15,160,639
Departmental Uses	25,945,419
Loans	2,420,123
Capital Projects	35,418,254
Debt Service	405,511
Art	1,125,832
Other	5,486,907
Unrestricted	68,268,741
Total Net Assets	<u><u>\$ 553,522,740</u></u>

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



***The University of North Carolina at Greensboro  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2007***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 67,543,536
Federal Grants and Contracts	27,244,807
State and Local Grants and Contracts	2,928,735
Nongovernmental Grants and Contracts	1,964,744
Sales and Services, Net (Note 9)	37,058,811
Interest Earnings on Loans	186,765
Other Operating Revenues	140,069

Total Operating Revenues	137,067,467
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	178,827,109
Supplies and Materials	33,072,637
Services	50,276,750
Scholarships and Fellowships	13,527,436
Utilities	8,577,959
Depreciation	11,434,332

Total Operating Expenses	295,716,223
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Operating Loss	(158,648,756)
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	139,732,517
Noncapital Grants	8,962,344
Noncapital Gifts	8,291,350
Investment Income (Net of Investment Expense of \$821,931)	32,046,142
Interest and Fees on Debt	(4,390,609)
Other Nonoperating Expenses	(124,745)

Net Nonoperating Revenues	184,516,999
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Income Before Other Revenues	25,868,243
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Capital Appropriations	10,749,100
Capital Grants	47,025,933
Additions to Endowments	6,448,411

Increase in Net Assets	90,091,687
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**NET ASSETS**

Net Assets - July 1, 2006	463,431,053
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Net Assets - June 30, 2007	\$ 553,522,740
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The accompanying notes to the financial statements are an integral part of this statement.

*The University of North Carolina at Greensboro*  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2007**

**Exhibit A-3**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Student Tuition and Fees, Net	68,754,910
Auxiliary Enterprise Charges	28,185,103
Sales and Service of Educational Activities	7,745,238
Grants and Contracts	31,519,705
Payments to Employees and Fringe Benefits	(178,294,886)
Payments to Vendors and Suppliers	(94,879,766)
Payments for Scholarships and Fellowships	(13,527,436)
Loans Issued	(2,223,573)
Collection of Loans	2,283,801
Interest Earned on Loans	193,503
Other Receipts	101,296
	<hr/>
Net Cash Used by Operating Activities	(150,142,105)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	139,732,517
Noncapital Grants	9,349,798
Noncapital Gifts	5,985,397
Additions to Endowments	6,448,411
Related Activity Agency Receipts	1,574,972
	<hr/>
Cash Provided by Noncapital Financing Activities	163,091,095

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES**

Proceeds from Capital Debt	5,808,994
State Capital Appropriations	10,749,100
Capital Grants	22,748,449
Acquisition and Construction of Capital Assets	(34,521,384)
Principal Paid on Capital Debt and Leases	(3,838,521)
Interest and Fees Paid on Capital Debt and Leases	(4,375,352)
Other Receipts	29,863
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(3,398,851)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	53,620,231
Investment Income	7,435,904
Purchase of Investments and Related Fees	(58,208,987)
	<hr/>
Net Cash Provided by Investing Activities	2,847,148
	<hr/>
Net Increase in Cash and Cash Equivalents	12,397,287
Cash and Cash Equivalents - July 1, 2006	93,289,131
	<hr/>
Cash and Cash Equivalents - June 30, 2007	<u>\$ 105,686,418</u>

***The University of North Carolina at Greensboro  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2007***

***Exhibit A-3***

***Page 2***

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

Operating Loss	\$ (158,648,756)
Adjustments to Reconcile Operating(Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	11,434,332
Allowances, Write-Offs, and Amortizations	79,713
Changes in Assets and Liabilities:	
Receivables (Net)	(1,038,273)
Inventories	(30,753)
Accounts Payable and Accrued Liabilities	(2,730,556)
Unearned Revenue	2,963
Arbitrage Rebate Payable	49,209
Compensated Absences	943,612
Note Principal Repayments	2,019,014
Notes Issued	(2,222,610)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (150,142,105)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 70,165,159
Restricted Cash and Cash Equivalents	18,207,413
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	17,313,846
	<hr/>
Total Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 105,686,418</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through the Assumption of a Liability	\$ 1,437,997
Change in Fair Value of Investments	(25,659,587)

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

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**THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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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, 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. Although legally separate, The Human Environmental Sciences Foundation, Incorporated, The Weatherspoon Arts Foundation, The UNCG Excellence Foundation, The University of North Carolina at Greensboro Investment Fund, Incorporated, and The Capital Facilities Foundation, Inc., component units of the University, are reported as if they were part of the University.

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

The Weatherspoon Arts Foundation is governed by a thirty member board consisting of four ex officio directors and twenty-six 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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arts collection teaching, research, and public services purposes exclusively for the use and benefit 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 is governed by a thirty-five member board consisting of four ex officio directors and thirty-one 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 fifteen member board consisting of nine ex officio directors and six appointed directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is an external governmental investment pool. Because the directors of the Investment Fund are appointed by members of The University of North Carolina Board of Trustees and the Investment Fund's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The Capital Facilities Foundation, Inc., is governed by an eight member board consisting of five ex officio directors and three appointed directors. The Foundation's purpose is to aid the construction 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.

Separate financial statements for the Foundations and the Investment Fund may be obtained from the Business Affairs Office, 254 Mossman Building, Greensboro, NC 27402, or by calling (336) 334-5200. Other

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**E. Investments** - This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, limited partnerships, hedge funds, real estate, and other asset holdings by the University. Except for money market funds, real estate not held by a governmental external investment pool, and other asset holdings, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase in the fair value of investments is recognized as a component of investment income.

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

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

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

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 for general infrastructure, 50 years for buildings, and 4 to 10 years for equipment.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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** – Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Funds Held in Trust for Pool Participants** – Funds held in trust for pool participants represent the external portion of the University’s governmental external investment pool more fully described in Note 2.
- K. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable, annuity and life income payable, and compensated absences that will not be paid within the next fiscal year.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**M. Net Assets** – The University’s net assets are classified as follows:

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

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

**Restricted Net Assets – Expendable** – Expendable restricted net assets include resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$100,933,472 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 1.6 years as of June 30, 2007. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2007, was \$16,811. The carrying amount of the University's deposits not with the State Treasurer, was \$4,736,135 and the bank balance was \$6,899,613. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2007, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u><u>\$ 6,240,579</u></u>
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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, and The University of North Carolina at Greensboro Investment Fund, Incorporated are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Investments are subject to the following risks.

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

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's formal policy is the majority of the fixed income holdings will be in a diversified, high quality (AA or better average credit rating). Specific allocations to other strategies such as non-U.S. fixed income 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 the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.

*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.

**External Investment Pool** – The University of North Carolina at Greensboro Investment Fund, Incorporated, is an external investment pool established on July 1, 1992, and sponsored by the University. 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 Human Environmental Sciences Foundation, Incorporated, and The UNCG Excellence Foundation, 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 unit 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."

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Building, 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, 2007, for the External Investment Pool.

<b>Investment Type</b>	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Mutual Bond Funds	\$ 26,742,970	\$ 0	\$ 19,358,021	\$ 7,384,949
Money Market Mutual Funds	9,392,995	9,392,995		
		\$ 9,392,995	\$ 19,358,021	\$ 7,384,949
Other Securities				
International Mutual Funds	20,130,929			
Other Mutual Funds	16,863,004			
Hedge Funds	5,059,727			
Limited Partnerships	92,543,767			
Domestic Stocks	11,942,101			
Foreign Stocks	996,524			
	\$ 183,672,017			
Total External Investment Pool				

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2007, investments in the External Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa
Mutual Bond Funds	\$ 26,742,970	\$ 7,384,949	\$ 19,358,021
Money Market Mutual Funds	9,392,995	9,392,995	

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

*Concentration of Credit Risk:* The External Investment Pool Board places no limit on the amount the Board may invest in any one issuer. More than 5% of the long-term investment pool investments are in International Value EAFE Capital Unhedged Delaware Business Trust, Forester L.P., Iridian Private Business Value Equity Fund Limited Partnership, and Wellington Collective Trust Fund Real Estate Portfolio. These investments are 9.92%, 7.39%, 6.99%, and 5.44%, 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, 2007, for the University's non-pooled investments.

### *Non-Pooled Investments*

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
<b>Debt Securities</b>				
Mutual Bond Funds	\$ 3,921,764	\$ 0	\$ 39,109	\$ 3,882,655
Money Market Mutual Funds	357,857	357,857		
Domestic Corporate Bonds	52,078		52,078	
		\$ 357,857	\$ 91,187	\$ 3,882,655
<b>Other Securities</b>				
International Mutual Funds	1,376,018			
Other Mutual Funds	5,234,643			
Domestic Stocks	1,231,024			
Foreign Stocks	116,783			
Other: Real Estate	1,640,928			
<b>Total Non-Pooled Investments</b>	\$ 13,931,095			



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2007, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A
Mutual Bond Funds	\$ 3,921,764	\$ 0	\$ 3,921,764	\$ 0
Money Market Mutual Funds	357,857	357,857		
Domestic Corporate Bonds	52,078		25,804	26,274

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

**Total Investments** - The following table presents the fair value of the total investments at June 30, 2007:

	Fair Value
<b>Investment Type</b>	
Debt Securities	
Mutual Bond Funds	\$ 30,664,734
Money Market Funds	9,750,852
Domestic Corporate Bonds	52,078
Other Securities	
International Mutual Funds	21,506,947
Other Mutual Funds	22,097,647
Hedge Funds	5,059,728
Limited Partnerships	92,543,767
Domestic Stocks	13,173,125
Foreign Stocks	1,113,308
Other: Real Estate	1,640,928
<b>Total Investments</b>	<b>\$ 197,603,114</b>

### 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.

Investment return of the University's endowment funds and the endowment funds of the affiliated entities is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's pooled endowment funds are equal to 4.25 percent of the average market value of the Investment Pool at December 31 for the past three years. To the extent that the current year earnings do not meet the payout requirements, the University uses accumulated realized appreciation to fund the difference. At June 30, 2007, net appreciation of \$38,686,137 was available to be spent, of which \$35,423,048 was restricted to specific purposes.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 505,842	\$ 232,163	\$ 273,679
Accounts	2,391,579		2,391,579
Intergovernmental	3,061,977		3,061,977
Pledges	1,624,621		1,624,621
Investment Earnings	394,812		394,812
Interest on Loans	241,170		241,170
Other	756,874		756,874
<b>Total Current Receivables</b>	<b><u>\$ 8,976,875</u></b>	<b><u>\$ 232,163</u></b>	<b><u>\$ 8,744,712</u></b>
<b>Noncurrent Receivables:</b>			
Pledges	<u>\$ 1,635,645</u>	<u>\$ 0</u>	<u>\$ 1,635,645</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 1,186,353	\$ 74,021	\$ 1,112,332
Institutional Student Loan Programs	365,093	59,139	305,954
<b>Total Notes Receivable - Current</b>	<b><u>\$ 1,551,446</u></b>	<b><u>\$ 133,160</u></b>	<b><u>\$ 1,418,286</u></b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	<u>\$ 5,001,803</u>	<u>\$ 344,939</u>	<u>\$ 4,656,864</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 20,661,861	\$ 14,490	\$ 0	\$ 20,676,351
Art, Literature, and Artifacts	20,530,601	400,799	30,445	20,900,955
Construction in Progress	28,689,233	26,496,209	25,309,291	29,876,151
<b>Total Capital Assets, Nondepreciable</b>	<b>69,881,695</b>	<b>26,911,498</b>	<b>25,339,736</b>	<b>71,453,457</b>
Capital Assets, Depreciable:				
Buildings	284,069,471	31,603,471	281,000	315,391,942
Machinery and Equipment	28,528,707	5,846,628	1,106,530	33,268,805
General Infrastructure	69,080,761	384,665		69,465,426
<b>Total Capital Assets, Depreciable</b>	<b>381,678,939</b>	<b>37,834,764</b>	<b>1,387,530</b>	<b>418,126,173</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	71,259,375	5,862,952	224,800	76,897,527
Machinery and Equipment	19,434,277	2,951,245	1,024,345	21,361,177
General Infrastructure	15,228,893	2,620,135		17,849,028
<b>Total Accumulated Depreciation</b>	<b>105,922,545</b>	<b>11,434,332</b>	<b>1,249,145</b>	<b>116,107,732</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>275,756,394</b>	<b>26,400,432</b>	<b>138,385</b>	<b>302,018,441</b>
<b>Capital Assets, Net</b>	<b>\$ 345,638,089</b>	<b>\$ 53,311,930</b>	<b>\$ 25,478,121</b>	<b>\$ 373,471,898</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 7,819,811
Accrued Payroll	4,904,977
Contract Retainage	1,437,997
Other	1,467,360
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 15,630,145</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**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, 2007, is presented as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Revenue Bonds Payable	\$ 86,980,000	\$ 0	\$ 4,120,000	\$ 82,860,000	\$ 3,515,000
Add/Deduct Premium/Discount	1,546,723		124,798	1,421,925	
Deduct Deferred Charge on Refunding	(758,400)		(406,277)	(352,123)	
<b>Total Bonds</b>	<b>87,768,323</b>		<b>3,838,521</b>	<b>83,929,802</b>	<b>3,515,000</b>
Notes Payable	29,500,000	5,808,994		35,308,994	29,823,508
Compensated Absences	9,806,943	6,666,550	5,722,938	10,750,555	366,054
Annuity and Life Income Payable	4,400,442	994,717		5,395,159	
<b>Total Long-Term Liabilities</b>	<b>\$ 131,475,708</b>	<b>\$ 13,470,261</b>	<b>\$ 9,561,459</b>	<b>\$ 135,384,510</b>	<b>\$ 33,704,562</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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, 2007	Principal Outstanding June 30, 2007
<b>Housing and Dining System</b>						
Housing and Dining System Revenue Bonds (1997)	D	5.10%	04/01/2007	\$ 6,000,000	\$ 6,000,000	\$ 0
Housing and Dining System Revenue Bonds (1997)	E	4.00%-4.60%	04/02/2007	7,290,000	7,290,000	
Housing and Dining System Revenue Bonds (1997)	F	4.60%-5.10%	04/03/2016	8,750,000	3,610,000	5,140,000
Housing and Dining System Revenue Bonds (2000)	G	5.75%	04/04/2010	6,425,000	5,870,000	555,000
Total Housing and Dining				<u>28,465,000</u>	<u>22,770,000</u>	<u>5,695,000</u>
<b>Student Facilities</b>						
Stuent Revenue Bonds (1997)	B	5.00%	04/01/2007	3,755,000	3,755,000	
Stuent Revenue Bonds (1997)	C	4.80%	04/02/2007	12,200,000	12,200,000	
				<u>15,955,000</u>	<u>15,955,000</u>	
<b>General Revenue Bonds</b>						
General Revenue Bonds (2001)	A	4.35%-5.00%	04/01/2026	19,870,000	2,945,000	16,925,000
General Revenue Bonds (2001)	B	3.50%-5.38%	04/02/2026	16,445,000	3,315,000	13,130,000
				<u>36,315,000</u>	<u>6,260,000</u>	<u>30,055,000</u>
<b>The University of North Carolina System Pool Revenue Bonds</b>						
General Revenue Bonds (2002A)	(A)	4.00%-5.38%	04/01/2027	8,835,000	1,210,000	7,625,000
General Revenue Bonds (2004C)	(B)	3.00%-5.00%	04/01/2029	18,350,000	945,000	17,405,000
General Revenue Bonds (2005A)	(C)	3.00%-5.25%	04/01/2026	22,235,000	155,000	22,080,000
Total The University of North Carolina System Pool Revenue Bonds				<u>49,420,000</u>	<u>2,310,000</u>	<u>47,110,000</u>
Total Bonds Payable (principal only)				<u>\$ 130,155,000</u>	<u>\$ 47,295,000</u>	82,860,000
Less: Unamortized Loss on Refunding						(352,123)
Less: Unamortized Discount						(167,770)
Plus: Unamortized Premium						<u>1,589,695</u>
Total Bonds Payable						<u>\$ 83,929,802</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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2007, are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements</u>			
	<u>Revenue Bonds Payable</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 3,515,000	\$ 3,996,363	\$ 29,823,508	\$ 1,411,235
2009	3,660,000	3,856,184	341,801	197,904
2010	3,815,000	3,704,337	368,704	185,572
2011	3,985,000	3,545,247	396,971	172,270
2012	4,170,000	3,364,684	426,663	157,949
2013-2017	23,495,000	13,618,647	2,633,027	535,497
2018-2022	20,785,000	8,040,187	1,318,320	72,093
2023-2027	17,005,000	2,831,550		
2028-2032	2,430,000	183,750		
<b>Total Requirements</b>	<b>\$ 82,860,000</b>	<b>\$ 43,140,949</b>	<b>\$ 35,308,994</b>	<b>\$ 2,732,520</b>

Interest on the variable rate Notes Payable is calculated at 4.66% at June 30, 2007. The interest rate on the Notes Payable for the Capital Facilities Foundation is set on the first day of the month and can be reset on the first day of the following month. The interest rate is calculated at 81% of the sum of (1) LIBOR Base Rate and (2) 35 basis points (.35%), 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 9.454%.

**D. Prior Year Defeasances** – During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University’s financial statements. At June 30, 2007, the outstanding balance of prior year defeased bonds was \$26,940,000.

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

<u>Purpose</u>	<u>Financial Institution</u>	<u>Interest Rate/ Ranges</u>	<u>Final Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Principal Outstanding June 30, 2007</u>
Construction of New Dormitory	RBC Centura	4.66%-9.45%	05/01/2008	\$ 29,500,000	\$ 29,500,000
Energy Savings Performance Contract	Banc of America	3.61%	03/01/2019	5,808,994	5,808,994
<b>Total Notes Payable</b>				<b>\$ 35,308,994</b>	<b>\$ 35,308,994</b>

The University plans to refinance the note to RBC Centura maturing on May 1, 2008, with General Revenue Bonds to be issued prior to that date.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 610,325
2009	227,319
2010	128,881
2011	110,404
2012	56,069
<b>Total Minimum Lease Payments</b>	<b>\$ 1,132,998</b>

Rental expense for all operating leases during the year was \$793,087.

### NOTE 9 - REVENUES

A summary of eliminations and allowances by revenue classification and revenues pledged as security for revenue bonds is presented as follows:

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>	<u>Revenues Pledged as Security for Debt</u>
<b>Operating Revenues:</b>						
<b>Student Tuition and Fees</b>	<u>\$ 75,979,151</u>	<u>\$ 0</u>	<u>\$ 8,340,627</u>	<u>\$ 94,988</u>	<u>\$ 67,543,536</u>	<u>\$ 0</u>
<b>Sales and Services:</b>						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 15,232,857	\$ 124,600	\$ 1,936,826	\$ 20,926	\$ 13,150,505	\$ 13,150,505 (A)
Dining	10,798,923		1,474,514	12,858	9,311,551	9,311,551 (A)
Student Union Services	129,043				129,043	
Health, Physical Education, and Recreation Services	737,175	292			736,883	
Parking	3,968,859	95,829		25,000	3,848,030	
Athletic	817,733				817,733	
Other	6,122,101	4,802,273			1,319,828	
Sales and Services of Education and Related Activities	<u>7,856,102</u>	<u>110,864</u>			<u>7,745,238</u>	
<b>Total Sales and Services</b>	<u>\$ 45,662,793</u>	<u>\$ 5,133,858</u>	<u>\$ 3,411,340</u>	<u>\$ 58,784</u>	<u>\$ 37,058,811</u>	<u>\$ 22,462,056</u>

Revenue Bonds Secured by Pledged Revenues:  
(A) Housing and Dining System

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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	\$ 92,246,252	\$ 5,827,032	\$ 6,954,016	\$ 15,850	\$ 23	\$ 0	\$ 105,043,173
Research	6,057,831	755,561	4,657,408	215	65		11,471,080
Public Service	8,830,782	740,928	6,031,524	232,519	3,343		15,839,096
Academic Support	17,636,538	8,493,249	6,015,455	476,805	5,571		32,627,618
Student Services	9,082,204	1,329,623	3,382,668	22,165			13,816,660
Institutional Support	19,552,612	1,630,411	8,111,976	700	1,531		29,297,230
Operations and Maintenance of Plant	12,805,687	12,007,017	1,762,796		6,114,315		32,689,815
Student Financial Aid				12,779,182			12,779,182
Auxiliary Enterprises	12,615,203	2,288,816	13,360,907		2,453,111		30,718,037
Depreciation						11,434,332	11,434,332
Total Operating Expenses	<u>\$ 178,827,109</u>	<u>\$ 33,072,637</u>	<u>\$ 50,276,750</u>	<u>\$ 13,527,436</u>	<u>\$ 8,577,959</u>	<u>\$ 11,434,332</u>	<u>\$ 295,716,223</u>

### NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the University had a total payroll of \$148,173,606, of which \$67,480,821 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$4,048,849 and



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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\$1,794,990, respectively. The University made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$1,794,990, \$1,434,699, and \$1,294,023, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products. The Board has authorized the following carriers: Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the University contributions to the carrier of their choice. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

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, 2007, 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 year ended June 30, 2007, the University had a total payroll of \$148,173,606, of which \$59,514,041 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$3,570,841 and \$4,070,761, respectively.

**B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$269,213 for the year ended June 30, 2007.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2007, were \$86,231. The voluntary contributions by employees amounted to \$922,364 for the year ended June 30, 2007.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$2,525,106 for the year ended June 30, 2007.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State-administered programs that provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2007, the University's total contribution to the Plan was \$4,825,805. 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*.
- B. Disability Income -** The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the year ended June 30, 2007, the University's total contribution to the DIPNC was \$660,373. The University assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 13 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 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 \$500 per occurrence deductible. Extended coverage has been purchased for all residence halls (buildings only) and the West Entranceway. Extended coverage for buildings and contents has been purchased for the following buildings: Chemical Storage Facility, the Baseball Complex, the Science Building, the Graphics and Printing Services Building, and the Elliott University Center. Vandalism and malicious mischief insurance (VMM) has been purchased for the Elliott University Center and the West Entranceway. The University must fund the cost of this insurance. Both the Extended coverage and VMM are subject to a \$500 per event deductible and the cost is based on the declared value of each structure.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses occurring in-State are \$500,000 per claim and \$5,000,000 per occurrence and out-of-State are \$1,000,000 per claim and \$5,000,000 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 with a \$75,000 deductible and a 10% participation in each loss above the deductible.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These purchased coverages are: postal surety bond (coverage limit of \$30,000); athletic staff travel (coverage limit \$10,000, \$5.0 million aggregate, \$3,000

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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deductible); selective travel and club sports (\$10,000 accidental death and dismemberment, \$500,000 aggregate); physicians professional medical liability (\$1.0 million per person, \$3.0 million total); non-professional medical liability (\$1.0 million per person, \$3.0 million total); fine art (up to \$13.1 million per event, \$1,000 deductible for the permanent collection, no deductible for loaned items); musical instruments (\$2.85 million cash replacement value with no deductible); robbery and safe burglary (\$500,000 per event, \$1,000 deductible); boiler and machinery (\$5,000 occurrence aggregate, \$500 deductible); “all-risk” for equipment covering all perils except fire (replacement cost, \$1,000 deductible per event).

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

The North Carolina Workers’ Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University’s primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers’ Compensation Act. The University is self-insured 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 \$29,961,306 at June 30, 2007.
- 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

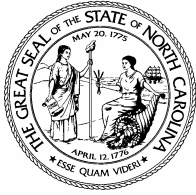
## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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	\$ 3,790,517
Pledges to The Human Environmental Sciences Foundation Endowment Fund	45,111
Pledges to The UNCG Endowment Fund	2,606,762



STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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State Auditor

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**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

We have audited the 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, 2007, and have issued our report thereon dated January 17, 2008. Our report was modified to include a reference to 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. Other auditors audited the financial statements of The University of North Carolina at Greensboro Investment Fund, Incorporated, The UNCG Excellence Foundation, and Capital Facilities Foundation, Inc., as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control

**INDEPENDENT AUDITOR'S REPORT  
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deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

January 17, 2008



## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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