STATE OF NORTH CAROLINA

NORTH CAROLINA STATE UNIVERSITY

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

NORTH CAROLINA STATE UNIVERSITY

RALEIGH, NORTH CAROLINA

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Office of the State Auditor

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

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

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of North Carolina State University for the year ended June 30, 2008, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

December 11, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina State University
Raleigh, North Carolina

We have audited the accompanying financial statements of North Carolina State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of North Carolina State University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the NC State Investment Fund, Inc., which represent 17 percent, 24 percent, and 0.3 percent, respectively, of the assets, net assets and revenues of the University; nor the financial statements of the North Carolina State University Foundation, Inc., and the NCSU Student Aid Association, Inc., the University's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are 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. The financial statements of the North Carolina State University Foundation, Inc., and the NCSU Student Aid Association, Inc., were not audited in accordance with *Government Auditing Standards*. 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 opinions.

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 respective financial position of North Carolina State University and its discretely presented component units as of

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 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.

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

November 20, 2008

Introduction

Management's Discussion and Analysis of the financial report provides an overview of the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes from the prior year. The overview also includes information on currently known facts, decisions, or conditions affecting the financial affairs of the University.

Financial Highlights

NC State University's net assets increased by 4.9% to $1.44 billion in fiscal year 2008. Net assets represent the University's equity, the assets less the liabilities. A major part of this net assets increase was the result of increases of $108.7 million in capital assets net of related debt and $27.0 million in unrestricted net assets. However, these net asset increases were partially offset by a $52.6 million decrease in capital projects net assets.

Revenues increased by 5.5% to $1.10 billion in fiscal year 2008. Revenues represent amounts received or accrued that are either operating or nonoperating on the accompanying financial statements. A major part of the revenues increase was the result of increased tuition and fees and sales and services (operating) and state appropriations (nonoperating). Student tuition and fees increased by 10.3% to $164.5 million, and sales and services increased by 6.6% to $164.3 million. State appropriations increased by 13.2% to $487.7 million. These increases were offset by a $31.1 million drop in investment income.

Operating Expenses increased by 8.8% to $1.10 billion in fiscal year 2008. Operating expenses represent amounts paid or accrued for operating purposes. A significant part of the expense increase was the result of increases in Instruction and Institutional Support expenses. These expenses increased as a result of increases in salaries and benefits and services costs.

Using the Financial Statements

The University's financial statements are used to evaluate financial position as of June 30th and the results of operations for the fiscal year then ended. The *Statement of Net Assets* provides information relative to the evaluation of financial position. The *Statement of Revenues, Expenses, and Changes in Net Assets* provides information relative to the evaluation of the results of operations. Its ending net assets agree to the total net assets on the *Statement of Net Assets.*

The financial statements also include a *Statement of Cash Flows*. This statement is used to identify the University's sources and uses of cash. The ending cash on the *Statement of Cash Flows* agrees to the total cash reported on the *Statement of Net Assets*. Also, this statement reconciles the net operating loss reported in the *Statement of Revenues, Expenses, and Changes in Net Assets* to the net cash used by operating activities.

In using the financial statements, the *Notes to the Financial Statements* accompanying the financial statements should be read in conjunction with the financial statements. The notes provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on long-term liabilities, detailed information on accounts receivable, accounts payable, revenues and expenses, required information on pension plans and other post employment benefits, insurance against losses, commitments and contingencies, and accounting changes. If necessary, the disclosures include a discussion of adjustments to prior periods and events subsequent to the University's financial statement period. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

Comparative Condensed Financial Statement Information

Statement of Net Assets

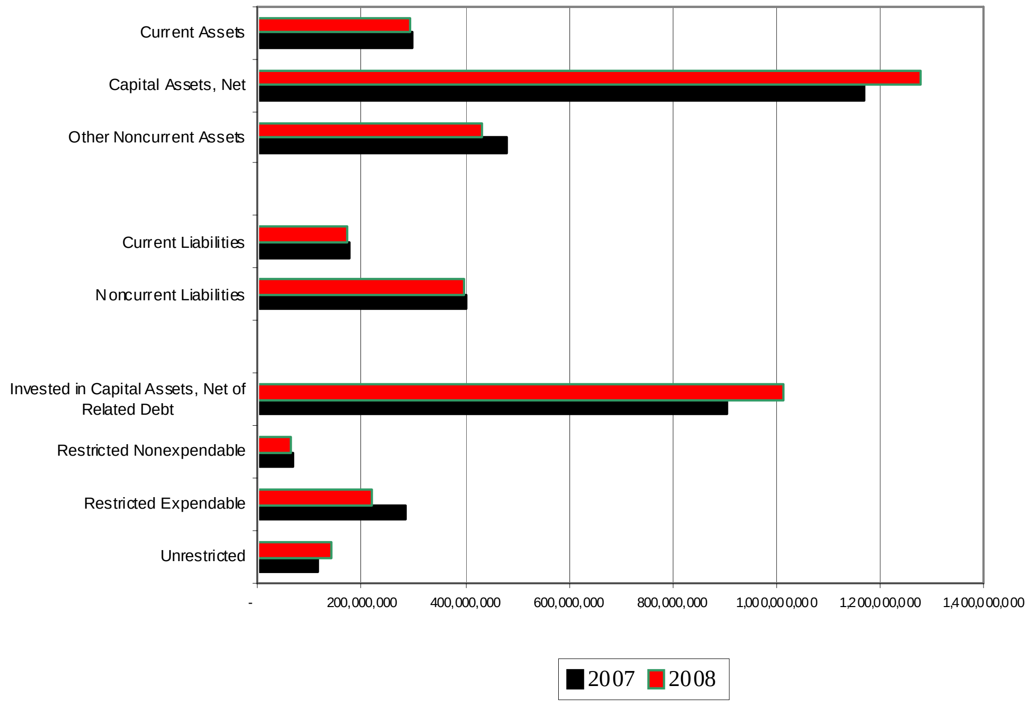
The S*tatement of Net Assets* provides information regarding the University's assets, liabilities, and net assets as of June 30, 2008. Asset and liability balances are classified as either current or noncurrent. Assets classified as current are those that are available to pay for current liabilities or current year expenditures. Liabilities classified as current are those that are due and payable in the next fiscal year. The net asset balances are classified as either invested in capital assets (net of related debt), restricted or unrestricted. In addition, net assets classified as restricted are classified as either nonexpendable or expendable. Overall, the *Statement of Net Assets* provides information to evaluate the financial strength of the University and its ability to meet current and long-term obligations.

Following is a comparative analysis on the condensed balances reported in the *Statement of Net Assets* as of June 30, 2008, and 2007.

	2008	2007	Increase/ (Decrease)
Assets			
Current Assets	$ 295,569,877	$ 296,998,930	$ (1,429,053)
Capital Assets, Net	1,279,287,078	1,170,941,973	108,345,105
Other Noncurrent Assets	432,973,969	481,157,711	(48,183,742)
Total Assets	2,007,830,924	1,949,098,614	58,732,310
Liabilities			
Current Liabilities	171,289,243	174,813,192	(3,523,949)
Noncurrent Liabilities	397,098,210	402,507,848	(5,409,638)
Total Liabilities	568,387,453	577,321,040	(8,933,587)
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,012,649,706	903,982,414	108,667,292
Restricted			
Nonexpendable	62,979,401	66,482,074	(3,502,673)
Expendable	220,658,992	285,112,254	(64,453,262)
Unrestricted	143,155,372	116,200,832	26,954,540
Total Net Assets	$ 1,439,443,471	$ 1,371,777,574	$ 67,665,897

*The 2007 balances were restated to be consistent with the current year presentation by reducing unrestricted cash by the amount of restrictive cash negative balances.

The following graph illustrates the assets, liabilities and net assets of the University as of June 30, 2008, as compared to June 30, 2007.



Assets totaled $2.01 billion, an increase of $58.7 million over the prior year. The increase in assets includes capital asset growth of $108.3 million, a decrease in other noncurrent assets of $48.2 million, and a decrease in current assets of $1.4 million.

The capital asset growth is due primarily to $38.1 million in capital appropriations. Other factors are some $8.4 million from capital grants, primarily the State's higher education bond/Certificates of Participation (COPs) program and $30.0 million in capital gifts. Capital gifts include the NC State Alumni Association's $20.1 million gift of the Alumni Center.

Other noncurrent assets decreased by $48.2 million. Decreases of $48.8 million in restricted due from primary government and $12.0 million in endowment investments are the primary factors. These decreases are partially offset by an $11.1 million increase in noncurrent restricted cash and other smaller changes. The restricted due from primary government decreased because the receivable for state-wide bonds dropped. The decline in endowment investment balances is the result of lower market values. The noncurrent restricted cash increase is related to lower current capital liabilities to be covered by restricted cash, so less cash was moved from noncurrent to current for financial statement presentation.

Several items cause the $1.4 million net decrease in current assets. Due from State of North Carolina component units (The Golden LEAF, Inc.) decreased by $7.7 million. However, other receivables increased by $6.9 million, primarily in federal receivables and general receivables. Restated restricted cash and cash equivalents decreased by $35.2 million due to smaller capital and debt current liabilities requiring coverage by current cash. Restated current cash and cash equivalents increased by $32.8 million mainly due to increases in auxiliary cash and discretionary cash.

Liabilities totaled $568.4 million, a decrease of $8.9 million over the prior year. The decrease in liabilities is attributable to a decrease in noncurrent liabilities of $5.4 million and a decrease in current liabilities of $3.5 million.

The most significant factor in the noncurrent liabilities decrease is the $6.2 million less in long-term liabilities, mainly in bonds payable. Also, funds held for others dropped by $1.0 million while funds held in trust for investment pool participants rose by $1.6 million. The current liability decline is caused by a $4.5 million decrease in commercial paper short-term debt, a $3.2 million decrease in accounts payable (general payables), and a $4.4 million increase in due to primary government, mainly employee benefit liabilities shown as accounts payable in prior years.

Net assets totaled $1.44 billion, an increase of $67.7 million over the prior year. The higher net assets are attributable to increases of $108.7 million in capital assets net of related debt and $27.0 million in unrestricted balances, a decrease of $52.6 million in capital project net assets, and smaller changes in other net asset balances.

The University's current assets are more than sufficient to cover current liabilities. The ratio of 1.7x remains unchanged from prior year. The University's total assets excluding capital assets, net of depreciation, are more than sufficient to cover total liabilities with a ratio of 1.3x.. This ratio also remains unchanged from prior year. The University's total assets are significantly more than the University's liabilities with a ratio of 3.5x, as compared to 3.4x in the prior year. These financial ratios are indicators of NC State's financial strength and its ability to meet current and long-term obligations.

Statement of Revenues, Expenses, and Changes in Net Assets

The *Statement of Revenues, Expenses, and Changes in Net Assets* provides information regarding the University's activities for the year ending June 30, 2008. The activity balances are classified as operating, nonoperating, or other. Activities classified as operating include all revenues of the University except those considered nonoperating or those associated with funds received to enhance capital assets or permanent endowments, and all expenses except those related to interest expense on financing activities, loss on disposal of capital assets, and investment expenses (shown as net against investment income). Activities classified as nonoperating include State appropriations, noncapital gifts and grants revenue, investment income (net of investment expenses), and gains or losses on disposal of capital assets. Activities classified as other include capital gifts or grants and additions to permanent endowments. Overall, the *Statement of Revenues, Expenses, and Changes in Net Assets* provides information to evaluate the University's management of operations and maintenance of financial strength.

Following is a comparative analysis on the condensed balances reported in the *Statement of Revenues, Expenses, and Changes in Net Assets* for the fiscal years ended June 30, 2008, and 2007.

	2008	2007	Increase/ (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	$ 164,451,205	$ 149,148,767	$ 15,302,438
Federal Appropriations	22,231,598	25,808,162	(3,576,564)
Grants and Contracts	198,268,954	195,222,282	3,046,672
Sales and Services, Net	164,334,298	154,221,030	10,113,268
Other	10,021,473	7,464,001	2,557,472
Total Operating Revenues	559,307,528	531,864,242	27,443,286
Operating Expenses			
Salaries and Benefits	684,157,288	638,273,931	45,883,357
Supplies and Materials	123,224,335	116,573,630	6,650,705
Services	175,383,819	160,439,671	14,944,148
Scholarships and Fellowships	28,574,649	24,985,144	3,589,505
Utilities	36,177,447	29,980,249	6,197,198
Depreciation	54,609,498	42,679,521	11,929,977
Total Operating Expenses	1,102,127,036	1,012,932,146	89,194,890
Net Operating Loss	(542,819,508)	(481,067,904)	(61,751,604)
Nonoperating Revenues (Expenses)			
State Appropriations	487,744,042	430,923,172	56,820,870
Noncapital Gifts and Grants	54,831,822	50,590,912	4,240,910
Investment Income (Loss)	(3,515,702)	27,568,043	(31,083,745)
Other	(10,503,522)	(12,925,998)	2,422,476
Net Nonoperating Revenues	528,556,640	496,156,129	32,400,511
Income (Loss) Before Other Revenue	(14,262,868)	15,088,225	(29,351,093)
Capital Appropriations, Gifts, and Grants	76,389,480	232,344,655	(155,955,175)
Additions to Permanent Endowments	5,539,285	4,847,809	691,476
Increase (Decrease) in Net Assets	$ 67,665,897	$ 252,280,689	$ (184,614,792)

Operating and Nonoperating Activities

The following illustrates the relationships of operating and nonoperating revenue sources and expense functions to total revenue/expenses for the fiscal year 2008 and 2007, and the consistency of relationships between the two years.

Operating and Nonoperating Revenues

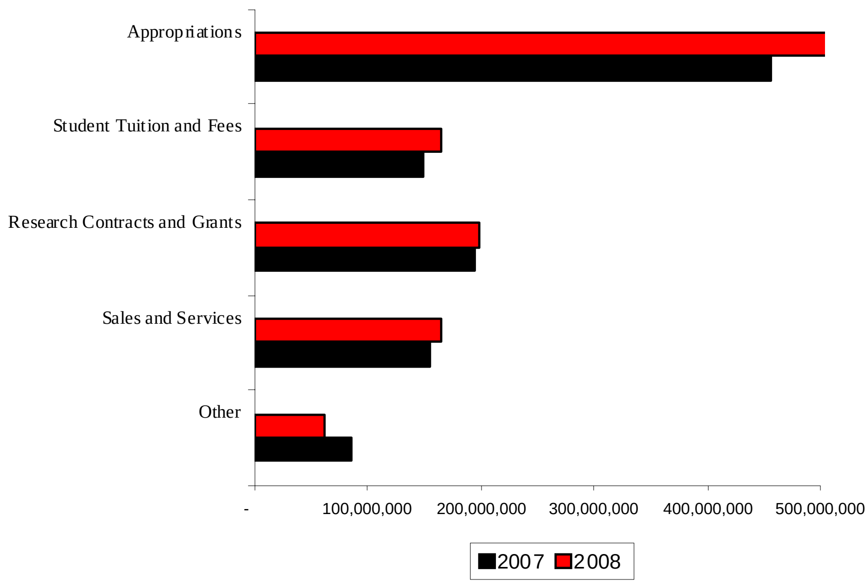
Title	% to Total 2008	% to Total 2007
State Appropriations	44%	42%
Research Contracts and Grants	18%	19%
Student Tuition and Fees	15%	14%
Sales and Services	15%	15%
Noncapital Grants and Gifts	5%	5%
Federal Appropriations	2%	2%
Other	1%	3%
Total	100%	100%

Operating and Nonoperating Expenses

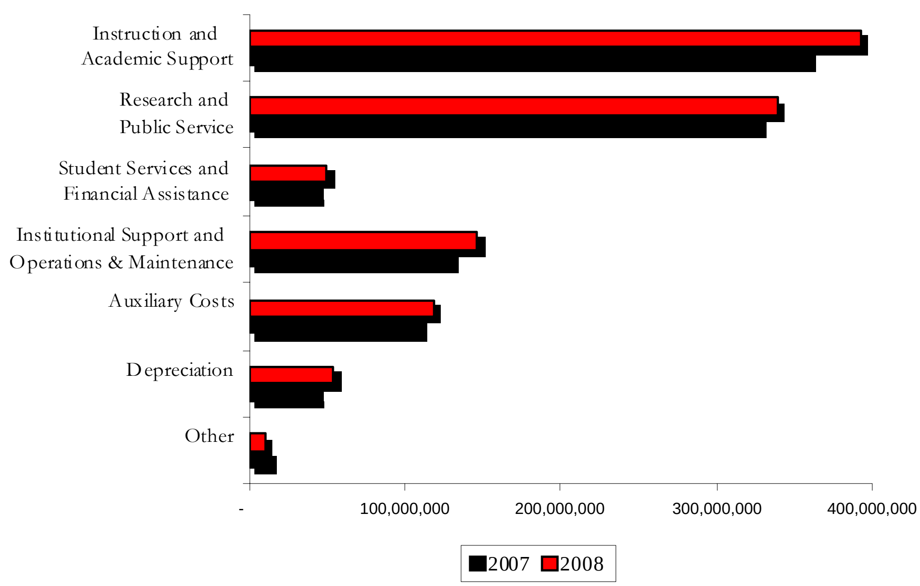
Title	% to Total 2008	% to Total 2007
Instruction	29%	28%
Research	19%	20%
Public Service	11%	12%
Auxiliary Enterprises	11%	11%
Operations & Maintenance of Plant	7%	7%
Academic Support	6%	7%
Institutional Support	6%	5%
Depreciation	5%	4%
Student Financial Aid	3%	3%
Student Services	2%	2%
Other	1%	1%
Total	100%	100%

The following graphs illustrate the University's operating and nonoperating revenues/expenses by source/function.

Operating and Nonoperating Revenues



Operating and Nonoperating Expenses



Total revenues (operating and nonoperating) increased $57.4 million or 5.5% over the prior year. Appropriations (State and Federal Land Grant Institution), increased by $53.2 million or 11.7% over the prior year as a result of increased enrollments and legislative salary increases. Student tuition and fees increased by $15.3 million or 10.3% over the prior year because of enrollment growth and approved tuition and fee rate increases. Research contracts and grants increased by $3.0 million or 1.6% over the prior year due to additional demand for services. Sales and services increased by $10.1 million or 6.6% over the prior year. This increase resulted from auxiliary growth, primarily in housing, food services, student stores, and veterinary hospital revenues. Other revenues (including operating and nonoperating sources) had a net decrease of $24.3 million or (28.4%) over the prior year, primarily as a result of decreases in investment earnings. Investment income fell $31.1 million due to lower market values. This decrease was partially offset by a $5.2 million increase in noncapital gifts.

Total expenses (operating and nonoperating) increased $86.8 million or 8.5% over the prior year, primarily as a result of increases in salaries and benefits of $45.9 million and services of $14.9 million. The salaries and benefits increase is due primarily to a salary increase of 4% for staff and 5% for faculty granted by the legislature. The services increase is the result of increased spending on contract and service agreements and repairs.

Other Activity

Other activity totaled $81.9 million, down $155.3 million from the prior year. This decrease is caused by decreases of $132.8 million in capital grants and $43.3 million in capital appropriations. The capital grants decrease is primarily a $129.5 million drop in State bond/COPs proceeds. These decreases are partially offset by a $20.1 million increase in capital gifts, caused by the gift of the Alumni Center.

Capital Assets and Long-Term Debt Activities

Capital Assets

The University capitalizes assets that have a value or cost equal to or greater than $5,000 at the date of acquisition and an expected useful life of more than one year. Repairs and renovations that do not extend the life of the building beyond the expected useful life at acquisition, nor increase the future service potential of the building are expensed and not capitalized.

Machinery and Equipment are depreciated over their estimated useful lives, generally 4 to 22 years beginning in the year of acquisition. Buildings and General Infrastructure are depreciated over their estimated useful lives, generally 10 to 50 years for buildings and 15 to 75 years for general infrastructure beginning in the year that the construction is completed or, if purchased after construction, when acquired. Land and Construction in Progress are nondepreciable capital assets. When a construction project is completed, the capital project costs are moved from the Construction in Progress account to either Buildings or General Infrastructure as appropriate.

As shown in the following table, the University increased its net capital assets by $108.3 million during fiscal year 2008.

	2008	2007	Increase/ (Decrease)
Land	$ 24,614,119	$ 23,578,371	$ 1,035,748
Construction in Progress	114,984,835	154,018,144	(39,033,309)
Buildings	1,290,979,446	1,127,685,467	163,293,979
Machinery and Equipment	242,851,018	226,625,994	16,225,024
General Infrastructure	124,560,166	116,082,143	8,478,023
Total Capital Assets	1,797,989,584	1,647,990,119	149,999,465
Accumulated Depreciation	(518,702,506)	(477,048,146)	(41,654,360)
Net Capital Assets	$ 1,279,287,078	$ 1,170,941,973	$ 108,345,105

In addition to costs incurred, the University had $80.5 million in outstanding commitments for construction projects as of June 30, 2008.

Major changes in capital assets during fiscal year 2008 came from an increase in building renovations relating to the improvements and modernization of the campus. Funding for these improvements primarily come from funds provided by the State of North Carolina Education Improvement Bond Referendum (State Bond Program), State capital appropriations, and University debt financing.

Following are some of the major construction projects that were completed or were in progress as of June 30, 2008.

The renovation of over 100,000 gross square feet of South Gardner Hall consolidates College of Agriculture and Life Science research space on the upper floors in order to provide undergraduate teaching labs on the ground floor. This renovation modernizes the building systems and creates a new entrance on the northeast corner to connect the building to the Brickyard.

A complete renovation of Riddick Laboratory will completely modernize approximately 112,000 gross square feet of facilities for new classrooms, teaching and research labs and office for the Physics Department. The Department of Animal Science will also gain new classrooms and teaching lab space due to the Engineering department completely vacating the building.

Renovation on Polk Hall was completed during the year and included removing a one story section on the south side of the building and replacing it with a new four story addition that includes research labs and office space for Molecular and Structural Biochemistry and Animal Science.

Construction on the new addition to the Carmichael Recreation Center was completed, adding three stories of fitness, cardio and leisure space to the Carmichael Complex. Amenities include a juice bar, four aerobic studios and over 10,000 square feet of new cardio and weight training equipment. Across from this facility, the University also completed $5 million worth of renovation to the Paul Derr Track Facility.

Work was completed on Jordan Hall, adding approximately 50,000 gross square feet of classroom space, lecture halls, distance learning facilities, laboratories and offices for the College of Natural Resources and the College of Physical and Mathematical Sciences.

Through funding by the Golden Leaf Foundation, the Biomanufacturing Training and Education Center (BTEC) on Centennial Campus was completed and will serve to simulate a biomanufacturing pilot plant capable of producing biopharmaceutical products and packaging them in a sterile environment. This facility will provide training for university, community college and industry members and is part of the growing academic community of Centennial Campus.

More information about the University's long-range capital plan is located at http://www.ncsu.edu/facilities/construction_info/index.htm.

Long-Term Debt Activities

The University incurs long-term debt to finance construction projects, to purchase equipment using lease arrangements and to provide for accumulated unused vacation benefits for employees. As shown in the following chart, the University decreased its long-term debt by $6.1 million during fiscal year 2008.

	2008	2007	Increase/ (Decrease)
Bonds Payable	$ 191,086,912	$ 200,704,206	$ (9,617,294)
Capital Leases Payable	50,461	151,382	(100,921)
Notes Payable	905,000		905,000
Compensated Absences	56,093,368	53,371,329	2,722,039
Total Long-term Liabilities	$ 248,135,741	$ 254,226,917	$ (6,091,176)

The $9.6 million decrease in bonds payable consists of the expected principal and amortization payments for 2008 plus $.9 million in early payment of the Dining Bonds. The legislative pay raise and a small increase in total employees caused the $2.7 million increase in compensated absences.

Economic Factors That Will Affect the Future

North Carolina State University, like many institutions across the nation, is feeling the pressure of the economy. The Governor has asked all state agencies for a one-time 2% budget reversion. The UNC System President has asked every institution to prepare for a reduction of up to 4% and there is a possibility that subsequent reductions might exceed 4% before the fiscal year ends June 30.

In addition to the state budget impact, the recent worldwide credit and financial crisis has impacted multiple funding facets that support the University. It will take time to repair the damage. Our endowment spending will be impacted, as will foundation operations and their support to the University.

In meeting these difficult and challenging times, the Chancellor and his executive management team have developed a collective strategy to assist program and fiscal managers in meeting the risks of reduced budgets and at the same time ensuring the achievement of core mission services.

In times of economic downturn, the University has always risen to the challenge and the opportunity for leadership, innovation and achievement.

While we face an economic downturn today, there are many factors that provide a vision for an exciting and successful tomorrow. What's in store for NC State's future are magnified by the following known factors:

Capital Investment – The improvement to capital facilities over the past three years has been unprecedented. The total additions to plant investment over this three year period has been $300.5 million. In addition, affiliated foundations have provided funding for new and expanded facilities such as the expansion of Carter-Finley Football Stadium and the new Alumni Center. Since fiscal year 2002, the capital program has modernized University facilities giving the campus a new look and footprint. Almost every part of campus life has been affected by this major capital program. Currently, capital improvements are underway for the Engineering Building III, which will house the Department of Mechanical Engineering and the Joint UNC-NCSU Department of Biomedical Engineering, Terry Companion Animal Hospital, and the Hunt Library Complex.

Enrollment Growth – Student enrollment continues to grow with the number of students attending classes for fall 2008 at 32,872. During the past five years the growth of enrollment has been 9.7%, increasing from 29,957 to 32,872 during this time. The strength in these numbers makes NC State the largest state university in the University of North Carolina System.

State Support – State appropriations makes up 44.4% of the total source of funding for the operations of NC State. While the downturn in the economy puts state funding at risk, the State continues to provide strong support for operations and for specific projects such as the Biomanufacturing Training and Education Center that was dedicated on September 19, 2007. For the fiscal year 2009, the State provided an operating appropriation increase of $22.5 million representing increases for employee salaries and increase in enrollment.

Tuition and Fees – Undergraduate tuition and fees increased $157 (3.1%) for residents and $257 (1.5%) for nonresidents for the 2009 academic year. However, the cost of education at NC State continues to be very affordable and combined with the high quality of education received, NC State continues to be reported as a best value among national universities and colleges. Annual tuition and fees for resident undergraduates have increased from $4,353 in

2006 to $5,117 in 2008. Annual tuition and fees for nonresident undergraduates have increased from $16,551 in 2006 to $17,315 in 2008.

Research and Innovation – Research and innovation continues to advance patents with the number now reaching 136 over the last three years and 552 active patents. In addition, NC State's Centennial Campus continues to be a national model for government, business and university partnerships and how a research campus should be established. NC State's research and patient efforts as well as the Centennial Campus achievement continue to receive recognition in national publications. NC State's research ranked as third among public universities without medical schools and third in patent pipeline power of all universities in life sciences. NC State's Centennial Campus includes 71 integrated corporate and government research partners including 26 incubator companies and 1,800 employees. NC State's Centennial Campus was named the top research science park by the Association of University Research Parks in October, 2007. Annual research dollars spent by the University has increased from $198.3 million in 2006 to $214.4 million in 2008.

Endowment and Foundation Support – While the current financial and credit crisis has put endowment and foundation support at risk, the long-term trend for such support has been upward. The endowment and foundation noncapital support has grown from $36.6 million in 2006 to $45.5 million in 2008. However, risks remain in the short-term as the valuations and returns on related investments are impacted due to the current financial and credit crisis.

Auxiliary Revenue Growth – Unrestricted fund balance has grown from $95.2 million in 2006 to $143.2 million in 2008. A major contributor to this increase has been the improvement to auxiliary revenue streams. In the case of athletics, new capacity was built with the expansion of Carter-Finley Football Stadium providing much needed revenues for support of the NC State's athletic programs. In other areas, revenue growth in housing, student stores, and the veterinary hospital is providing needed resources for the enhancement and expansion of auxiliary services.

Capital Financing – Capital financing has improved with the University's movement to general revenue bonds in 2002 and the commercial paper program, also in 2002. On June 9, 2008, the bond rating for NC State's series 2008 general revenue bonds was upgraded from Aa3 to Aa2 by Moody's Investor Service with a stable outlook. This upgrade is significant in that it provides NC State the ability to obtain capital financing at lower rates.

With our financial strength and stability, the quality of our administration, faculty and staff, the strong support from the State and Federal government and our affiliated organizations, our commitment of excellence and innovation, and the public recognition of our quality and affordability, NC State University stands committed as the people's university to provide leadership in meeting important challenges that face the state, nation and the world. In the "State of NC State" address of September 27, 2007, Chancellor James Oblinger highlighted this commitment and presented the following five key areas where NC State will be leaders, drivers and translators of change:

- Preparing leaders for the state, nation, and the world
- Creating educational innovation
- Improving health and well-being
- Fueling economic development
- Driving innovation in energy and the environment

In the address, the Chancellor stated, "As we look ahead today, we see a future driven by the transformative power of innovation, and a future that calls for bold leadership in challenging times. That leadership can and does come from virtually every part of our organization. There is ample evidence that we are changing the world around us for the better and true to our history we will continue to be leaders in the changing world."

More on the "State of NC State" address can be found on the University's About NC State website.

North Carolina State University
Statement of Net Assets
June 30, 2008 *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	170,402,056
Restricted Cash and Cash Equivalents		66,063,062
Restricted Short-Term Investments		278,379
Receivables, Net (Note 4)		36,637,610
Due from Primary Government		10,077,724
Due from State of North Carolina Component Units		4,475,388
Due from University Component Units		542,500
Inventories		4,853,592
Notes Receivable, Net (Note 4)		2,239,566
Total Current Assets		295,569,877
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		95,662,603
Restricted Due from Primary Government		12,245,209
Endowment Investments		161,207,601
Other Investments		150,922,628
Notes Receivable, Net (Note 4)		12,935,928
Capital Assets - Nondepreciable (Note 5)		139,598,954
Capital Assets - Depreciable, Net (Note 5)		1,139,688,124
Total Noncurrent Assets		1,712,261,047
Total Assets		2,007,830,924
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		43,771,340
Due to Primary Government		4,748,065
Unearned Revenue		34,248,773
Interest Payable		2,064,883
Short-Term Debt (Note 7)		75,500,000
Long-Term Liabilities - Current Portion (Note 8)		10,956,182
Total Current Liabilities		171,289,243
Noncurrent Liabilities:		
Deposits Payable		413,464
Funds Held for Others		2,516,805
U. S. Government Grants Refundable		6,027,058
Funds Held in Trust for Pool Participants		150,961,324
Long-Term Liabilities (Note 8)		237,179,559
Total Noncurrent Liabilities		397,098,210
Total Liabilities		568,387,453

NET ASSETS		
Invested in Capital Assets, Net of Related Debt		1,012,649,706
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		9,674,522
Endowed Professorships		39,826,787
Departmental Uses		6,128,692
Loans		6,402,415
Other		946,985
Expendable:		
Scholarships and Fellowships		22,185,919
Research		17,258,938
Endowed Professorships		49,286,725
Departmental Uses		26,308,915
Loans		1,232,390
Capital Projects		94,515,932
Debt Service		2,577,116
Other		7,293,057
Unrestricted		143,155,372
Total Net Assets	$	1,439,443,471

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

North Carolina State University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2008 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 10)	$	164,451,205
Federal Appropriations		22,231,598
Federal Grants and Contracts		113,091,707
State and Local Grants and Contracts		36,607,543
Nongovernmental Grants and Contracts		48,569,704
Sales and Services, Net (Note 10)		164,334,298
Interest Earnings on Loans		357,203
Other Operating Revenues, Net (Note 10)		9,664,270
Total Operating Revenues		559,307,528
EXPENSES		
Operating Expenses:		
Salaries and Benefits		684,157,288
Supplies and Materials		123,224,335
Services		175,383,819
Scholarships and Fellowships		28,574,649
Utilities		36,177,447
Depreciation		54,609,498
Total Operating Expenses		1,102,127,036
Operating Loss		(542,819,508)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		487,744,042
Noncapital Grants		2,845,994
Noncapital Gifts		51,985,828
Investment Loss (Including Investment Expenses of $426,335)		(3,515,702)
Interest and Fees on Debt		(9,280,120)
Other Nonoperating Expenses		(1,223,402)
Net Nonoperating Revenues		528,556,640
Loss Before Other Revenues and Expenses		(14,262,868)
Capital Appropriations		38,064,500
Capital Grants		8,359,876
Capital Gifts		29,965,104
Additions to Endowments		5,539,285
Increase in Net Assets		67,665,897
NET ASSETS		
Net Assets - July 1, 2007		1,371,777,574
Net Assets - June 30, 2008	$	1,439,443,471

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

North Carolina State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008 **Exhibit A-3**

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 544,212,056
Payments to Employees and Fringe Benefits	(681,339,920)
Payments to Vendors and Suppliers	(331,029,691)
Payments for Scholarships and Fellowships	(28,574,649)
Loans Issued	(2,521,349)
Collection of Loans	1,760,771
Interest Earned on Loans	176,652
Other Receipts	9,664,270
Net Cash Used by Operating Activities	(487,651,860)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	487,744,042
Noncapital Grants	3,110,147
Noncapital Gifts	51,443,328
Additions to Endowments	5,539,285
Federal Family Education Loan Receipts	83,626,644
Federal Family Education Loan Disbursements	(84,925,801)
External Participation in Investment Fund Receipts	18,267,447
External Participation in Investment Fund Disbursements	(6,091,581)
Related Activity Agency Receipts	39,490,673
Related Activity Agency Disbursements	(40,623,105)
Other Receipts	1,030,428
Net Cash Provided by Noncapital Financing Activities	558,611,507
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	905,000
State Capital Appropriations	38,064,500
Capital Grants	64,946,772
Capital Gifts	5,003,744
Proceeds from Sale of Capital Assets	324,653
Acquisition and Construction of Capital Assets	(144,279,055)
Principal Paid on Capital Debt and Leases	(13,740,921)
Interest and Fees Paid on Capital Debt and Leases	(11,019,264)
Other Receipts	900,769
Net Cash Used by Capital Financing and Related Financing Activities	(58,893,802)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	217,789,734
Investment Income	18,626,709
Purchase of Investments and Related Fees	(239,765,436)
Net Cash Used by Investing Activities	(3,348,993)
Net Increase in Cash and Cash Equivalents	8,716,852
Cash and Cash Equivalents - July 1, 2007	323,410,869
Cash and Cash Equivalents - June 30, 2008	$ 332,127,721

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

Operating Loss	$ (542,819,508)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	54,609,498
Allowances, Write-Offs, and Amortizations	(211,682)
Changes in Assets and Liabilities:	
Receivables (Net)	(6,241,179)
Due from Primary Government	157,013
Inventories	(852,268)
Accounts Payable and Accrued Liabilities	39,948
Due to Primary Government	4,444,840
Unearned Revenue	170,561
Compensated Absences	2,722,039
Deposits Payable	328,878
Net Cash Used by Operating Activities	$ (487,651,860)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 170,402,056
Restricted Cash and Cash Equivalents	66,063,062
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	95,662,603
Total Cash and Cash Equivalents - June 30, 2008	$ 332,127,721

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired Through a Gift	$ 24,961,360
Change in Fair Value of Investments	(47,121,493)
Loss on Disposal of Capital Assets	(3,708,131)

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

North Carolina State University Foundations
Statement of Financial Position
June 30, 2008 — *Exhibit B-1*

	North Carolina State University Foundation, Inc.	NCSU Student Aid Association, Inc.
ASSETS		
Cash and Cash Equivalents	$ 1,800,024	$ 17,228,816
Investments	10,929,279	25,602,402
Investments with University Investment Pool	64,919,115	
Cash Surrender Value of Life Insurance	178,539	208,737
Real Estate Held for Resale	2,792,636	8,080,679
Receivables, Net	34,706	265,274
Pledges Receivable/Promises	21,598,389	38,683,923
Prepaid Expenses		30,851
Notes/Loans Receivable, Net		46,350
Property and Equipment, Net	212,322	56,241,201
Total Assets	102,465,010	146,388,233
LIABILITIES		
Accounts Payable and Accrued Expenses	6,000	448,879
Due to University and Other Foundations	1,706,720	542,500
Deferred Revenue		2,363,115
Interest Payable		156,042
Deposits Payable		17,208
Interest Rate Swap Fair Value Liability		1,383,078
Split Interest Agreement Obligations	5,144,809	
Notes Payable		2,034,929
Bonds Payable		62,295,000
Total Liabilities	6,857,529	69,240,751
NET ASSETS		
Unrestricted	4,493,931	21,026,199
Temporarily Restricted	49,712,012	29,927,789
Permanently Restricted	41,401,538	26,193,494
Total Net Assets	$ 95,607,481	$ 77,147,482

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

North Carolina State University Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2008

Exhibit B-2

	North Carolina State University Foundation, Inc.	NCSU Student Aid Association, Inc.
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$ 50,020	$ 8,641,680
Donated Services and Noncash Contributions	387,500	1,904,225
Student Housing Rents		2,343,101
Investment Income	197,107	1,306,821
Net Unrealized and Realized Losses on Long-Term Investments	(55,796)	(319,420)
Unrealized Loss on Swap Contracts		(1,590,674)
Other	1,778,011	1,862,021
Total Unrestricted Revenues and Gains	2,356,842	14,147,754
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions	9,109,013	283,398
Satisfaction of Equipment Acquisition Restrictions		7,985,714
Total Net Assets Released from Restrictions	9,109,013	8,269,112
Total Unrestricted Revenues, Gains, and Other Support	11,465,855	22,416,866
Expenses:		
University Support	6,500,581	6,789,814
University Facilities Support	4,553,745	7,985,714
Student Housing		3,192,715
Management and General	212,789	647,248
Fund Raising	770,491	2,809,436
Total Expenses	12,037,606	21,424,927
Increase (Decrease) in Unrestricted Net Assets	(571,751)	991,939
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	18,144,940	5,489,421
Donated Services and Noncash Contributions	838,661	502,500
Investment Income	1,234,590	363,635
Net Unrealized and Realized Losses on Long-Term Investments	(6,457,945)	(77,030)
Unrealized Loss on Swap Contracts		(1,167,425)
Vaughn Towers Revenue		4,474,256
Other	219	
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions	(9,109,013)	
Satisfaction of Equipment Acquisition Restrictions		(7,985,714)
Increase in Temporarily Restricted Net Assets	4,651,452	1,599,643
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	3,189,041	1,663,931
Donated Services and Noncash Contributions	218,667	38,250
Investment Income	182,282	
Net Unrealized and Realized Gains (Losses) on Long-Term Investments	129,474	(2,591,833)
Change in Value of Split Interest Agreements	(233,321)	
Other		(1,512)
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(283,398)
Increase (Decrease) in Permanently Restricted Net Assets	3,486,143	(1,174,562)
Increase in Net Assets	7,565,844	1,417,020
Net Assets at Beginning of Year	88,041,637	75,730,462
Net Assets at End of Year	$ 95,607,481	$ 77,147,482

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

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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. North Carolina State University is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are either blended or discretely presented in the University's financial statements. The blended component units, although legally separate, are, in substance, part of the University's operations and therefore, are reported as if they were part of the University. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Blended Component Units - Although legally separate, the NC State Investment Fund, Inc. (Investment Fund) and the NC State University Partnership Corporation (Corporation), component units of the University, are reported as if they were part of the University.

The Investment Fund is governed by a Members Board consisting of six ex officio directors and five elected directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. Because the majority of the Members Board of the Investment Fund consists of University administrators and Board Members and the

Investment Fund's primary purpose is to benefit North Carolina State University, its financial statements have been blended with those of the University.

The Corporation is governed by a Board of Directors appointed by the Chancellor of the University. The Corporation's purpose is to support and benefit the University with the aims of creating new knowledge and improving the lives of the people of North Carolina. The Corporation formed NC State University Centennial Development, LLC on January 25, 2002, to develop, construct, own, finance, manage and otherwise deal with a nonprofit hotel, golf course, conference center and related meeting facilities on Centennial Campus as outlined in the Campus Master Plan. In addition, the Corporation formed NC State Upfit, LLC on October 27, 2006, to develop, construct, own, finance, manage and otherwise upfit facilities and other infrastructure on Centennial Campus and it formed NC State Residence, LLC on October 27, 2006, to develop, construct, own, finance, manage and otherwise deal with a nonprofit chancellor's residence on Centennial Campus. Also, the Corporation formed NC State CBC Land I, LLC on June 1, 2007, to acquire, develop, own, lease, hold, manage, sell, and otherwise exercise all right of ownership of land and flex lab facilities on Centennial Biomedical Campus. Additionally, the Corporation formed NC State American Home, LLC on August 8, 2007, to conduct research, and facilitate learning through displays of cutting-edge technology and research, in construction, landscape design, environmental management and community planning, including instruction regarding site development and home construction. On March 31, 2008, the Corporation formed NC State CC Holdings I, LLC to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all right of ownership of land and facilities on Centennial Campus. Because the Corporation's Board is appointed by the Chancellor and its sole purpose is to support and benefit the University, the Corporation and the LLCs are considered part of the University for financial reporting purposes.

Separate financial statements for the Investment Fund may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149. Financial information relative to the Corporation and the LLCs may be obtained from the President of the Board of Directors, Campus Box 7201, Raleigh, NC 27695, or by calling (919) 515-2155. Other related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Discretely Presented Component Units – North Carolina State University Foundation, Inc. (Foundation) and NCSU Student Aid

Association, Inc. (Athletic Club) are legally separate not-for-profit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Foundation and Athletic Club are legally separate, tax-exempt component units of the University. These entities act primarily as fund-raising organizations to supplement the resources that are available to the University in support of its programs. Separate boards of directors govern these entities independent of the University's Board of Trustees. Although the University does not control the timing or amount of receipts from these entities, the majority of resources, or income thereon, that these entities hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by these entities can only be used by, or for the benefit of the University, these entities are considered component units of the University and are reported in separate financial statements because of the difference in their reporting model, as described below.

The Foundation and Athletic Club are private not-for-profit organizations that report their financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to their financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2008, the Foundation distributed $11,552,551 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

During the year ended June 30, 2008, the Athletic Club distributed $6,231,419 to the University for both restricted and unrestricted purposes. Complete financial statements for the Athletic Club can be obtained from the NCSU Student Aid Association, PO Box 37100, Raleigh, NC 27627, or by calling (919) 865-1500.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and*

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

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

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

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

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

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

Money market funds, certificates of deposit, 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. Private equity funds consist primarily of investments that are not readily marketable. Investments in these categories, which are managed externally, are valued utilizing the most current information provided by the general partner.

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

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. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at the lower of cost or market value using the first-in, first-out method. Exceptions are the bookstore, which uses the retail inventory method, and physical plant, which uses the moving weighted average method.

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 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 4 to 22 years for equipment.

The University does not capitalize its collections. These collections adhere to the University's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for and preserve; and requires proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

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

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

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

Bonds payable are reported net of unamortized premiums or discount. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Losses on refundings and issuance costs on bonds payable are not material to the accompanying financial statements and are expensed in the year incurred.

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $330,849,877 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 2.9 years as of June 30, 2008. 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, 2008, was $162,699. The carrying amount of the University's deposits not with the State Treasurer, including $523,821 in certificates of deposit, was $1,638,966 and the bank balance was $1,821,462. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University follows the Cash Management Plan (Plan) approved by the North Carolina Office of State Controller. As provided by the Plan, all funds belonging to the University are deposited with the State Treasurer pursuant to G.S. 147-77 and G.S. 147-69.1. As provided by the Plan, imprest checking accounts are established with outside banks when considered effective in meeting management objectives. All imprest checking accounts are authorized by the University Treasurer and are limited to the minimum amount needed for sanctioned purposes. In addition, pursuant to G.S. 116-36(e), the University invests certain endowment funds with outside bank accounts. As of June 30, 2008, $935,863 of the bank balance was exposed to custodial credit risk.

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 Investment Fund, a University component unit, 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 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 does not have a formal policy that addresses interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy that addresses credit risk.

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.

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.

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit value method. Under this method, each participating fund's investment balance is determined on a market value basis. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board. This pool also participates in the Investment Fund.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the Long-Term Investment Pool.

Long-Term Investment Pool
(Excludes Amounts Reported in the Investment Fund)

	Fair Value	Investment Maturities (in Years): Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 355,581	$ 0	$ 0	$ 157,793	$ 197,788
U.S. Agencies	265,626		25,988	46,808	192,830
Mortgage Pass Throughs	1,167,726		28,006	87,004	1,052,716
Collateralized Mortgage Obligations	1,004,730			150,746	853,984
State and Local Government	271,075		90,230	88,960	91,885
Asset-Backed Securities	174,010				174,010
Mutual Bond Funds	9,766,076			9,766,076	
Money Market Mutual Funds	304,325	304,325			
Domestic Corporate Bonds	1,090,726	48,863	284,519	411,675	345,669
Foreign Corporate Bonds	129,782		71,229	44,519	14,034
	14,529,657	$ 353,188	$ 499,972	$ 10,753,581	$ 2,922,916
Other Securities					
Pooled Investments	346,996				
Venture Capital	421,991				
Total Long-Term Investment Pool	$ 15,298,644				

At June 30, 2008, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure (based on Moody's and/or S&P ratings):

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	and below	Unrated
Investment Type							
Debt Securities:							
U.S. Agencies	$ 72,796	$ 72,796	$ 0	$ 0	$ 0	$ 0	$ 0
Mortgage Pass Throughs	1,134,863	1,134,863					
Collateralized Mortgage Obligations	1,004,730	526,282	97,627	31,929	18,186	6,819	323,887
State and Local Government	271,075		39,222	122,796	35,692		73,365
Asset-backed Securities	174,010		31,595	64,164	78,251		
Mutual Bond Funds	9,766,076						9,766,076
Money Market Mutual Funds	304,325						304,325
Domestic Corporate Bonds	1,090,726	26,931	77,047	278,250	455,362	253,136	
Foreign Corporate Bonds	129,782		26,449	35,151	42,199	25,983	
	13,948,383	$ 1,760,872	$ 271,940	$ 532,290	$ 629,690	$ 285,938	$ 10,467,653
Debt Securities Exempt From Credit Disclosure:							
U.S. Treasuries	355,581						
U.S. Agencies	192,830						
Mortgage Pass Throughs	32,863						
Total Long-Term Investment Pool	$ 14,529,657						

Investment Fund - The Investment Fund began operations in April 1999 and is classified as a non-rated 2a7-like governmental external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Investment Fund is utilized as one of the investment managers for the Long-Term Investment Pool and the North Carolina State University Foundation, Inc., a discretely presented component unit in the accompanying financial statements (the Investment Fund's internal participants). Other affiliated organizations not included in the University's reporting entity represent the pool's external participants. The participants purchase equity in the Fund on an average cost basis. Under this method, each participant has its own distinct asset pool (investments) on the custodian's trust system. Sales and purchases are processed separately in each distinct account. The accounting reflects each participant account's own realized gains or losses based on its distinct transactions. The external portion of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The Investment Fund is not subject to any formal oversight other than that provided by the Investment Fund Members' Board or its Board of Directors. The Members Board is responsible for adopting investment objectives and policies and for monitoring policy implementation and investment performance. The Members Board has chosen not to make individual security selection decisions. The Board of Directors has the responsibility to oversee the allocation of the Investment Fund's portfolio among the asset classes and investment vehicles.

SEI, Inc. is the institutional manager and custodian of the Investment Fund and provides the University with quarterly statements defining income and fair value information, which is then allocated among the pool'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 Investment Fund may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the Investment Fund.

Investment Fund

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
Mutual Bond Funds	$ 69,131,474	$ 20,382,284	$ 6,561,756	$ 31,643,456	$ 10,543,978
Other Securities					
UNC Investment Fund	34,692,464				
International Mutual Funds	54,740,323				
Other Mutual Funds	81,434,523				
Real Estate Investment Trust	6,630,639				
Hedge Funds	61,635,862				
Limited Partnerships	31,543,720				
Total External Investment Pool	$ 339,809,005				

At June 30, 2008, investments in the Investment Fund had the following credit quality distribution for securities with credit exposure (based on Moody's and/or S&P ratings):

	Fair Value	Unrated
Investment Type		
Debt Securities:		
Mutual Bond Funds	$ 69,131,474	$ 69,131,474

UNC Investment Fund, LLC - At June 30, 2008, the University's investments in the Investment Fund include $34,692,464 which represents the University's equity position in the UNC Investment Fund, LLC (System Fund). The System Fund, 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 12.96 years as of June 30, 2008. Asset and ownership interests of the System Fund are determined on a market unit valuation basis each month. Investment risks associated with the System Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from the UNC CH Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the University's non-pooled investments.

Non-Pooled Investments

	Fair Value	Investment Maturities (in Years): Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
Money Market Mutual Funds	$ 278,379	$ 278,379	$ 0	$ 0	$ 0
Other Securities					
Certificates of Deposit	523,821				
Investments in Real Estate	20,450,518				
Domestic Stocks	863,923				
Venture Capital	33,554				
Collections and Mineral Rights	69,879				
Total Non-Pooled Investments	$ 22,220,074				

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

At June 30, 2008, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure (based on Moody's and/or S&P ratings):

	Fair Value	AAA Aaa
Investment Type		
Debt Securities:		
Money Market Mutual Funds	$ 278,379	$ 278,379

Total Investments – The following table presents the fair value of the total investments at June 30, 2008:

	Fair Value
Investment Type	
Debt Securities	
U.S. Treasuries	$ 355,581
U.S. Agencies	265,626
Mortgage Pass Throughs	1,167,726
Collateralized Mortgage Obligations	1,004,730
State and Local Government	271,075
Asset-Backed Securities	174,010
Mutual Bond Funds	78,897,550
Money Market Mutual Funds	582,704
Domestic Corporate Bonds	1,090,726
Foreign Corporate Bonds	129,782
Other Securities	
Certificates of Deposit	523,821
UNC Investment Fund	34,692,464
International Mutual Funds	54,740,323
Other Mutual Funds	81,434,523
Investments in Real Estate	20,450,518
Real Estate Investment Trust	6,630,639
Hedge Funds	61,635,862
Limited Partnerships	31,543,720
Pooled Investments	346,996
Domestic Stocks	863,923
Venture Capital	455,545
Collections and Mineral Rights	69,879
Total Investments	$ 377,327,723

Total investments include $64,919,115 held in the "Investment Fund" for the North Carolina State University Foundation, Inc. This amount is excluded from the University proper financial statements and included in the accompanying component unit financial statements.

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 is predicated on the total return concept (yield plus appreciation). Annual payouts from the University pooled endowment funds are determined by applying 4% (the Board approved spending rate) to the average market value of the Long-Term Investment Pool (for a 20 quarter period), divided by the number of investment units in the pool to determine the "average spending amount" per unit of investment. The individual endowment fund payout or spending budget is then determined by applying the “average spending amount” to the number of investment units held by the individual endowment fund. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2008, endowment net assets of $113,990,045 were available to be spent, of which $96,280,804 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 5,809,097	$ 2,854,058	$ 2,955,039
Accounts	17,831,343	2,040,732	15,790,611
Intergovernmental	16,889,736		16,889,736
Interest on Loans	538,955	279,231	259,724
Other	742,500		742,500
Total Current Receivables	$ 41,811,631	$ 5,174,021	$ 36,637,610
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 1,496,298	$ 16,687	$ 1,479,611
Institutional Student Loan Programs	276,982	6,157	270,825
Other	489,130		489,130
Total Notes Receivable - Current	$ 2,262,410	$ 22,844	$ 2,239,566
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 11,597,952	$ 666,283	$ 10,931,669
Institutional Student Loan Programs	396,816	153,427	243,389
Other	1,760,870		1,760,870
Total Notes Receivable - Noncurrent	$ 13,755,638	$ 819,710	$ 12,935,928

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	$ 23,578,371	$ 1,035,748	$ 0	$ 24,614,119
Construction in Progress	154,018,144	76,371,754	115,405,063	114,984,835
Total Capital Assets, Nondepreciable	177,596,515	77,407,502	115,405,063	139,598,954
Capital Assets, Depreciable:				
Buildings	1,127,685,467	167,101,885	3,807,906	1,290,979,446
Machinery and Equipment	226,625,994	29,080,388	12,855,364	242,851,018
General Infrastructure	116,082,143	8,478,023		124,560,166
Total Capital Assets, Depreciable	1,470,393,604	204,660,296	16,663,270	1,658,390,630
Less Accumulated Depreciation/Amortization for:				
Buildings	297,419,957	26,703,233	868,614	323,254,576
Machinery and Equipment	154,575,431	25,078,263	12,086,524	167,567,170
General Infrastructure	25,052,758	2,828,002		27,880,760
Total Accumulated Depreciation	477,048,146	54,609,498	12,955,138	518,702,506
Total Capital Assets, Depreciable, Net	993,345,458	150,050,798	3,708,132	1,139,688,124
Capital Assets, Net	$ 1,170,941,973	$ 227,458,300	$ 119,113,195	$ 1,279,287,078

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	$ 28,242,112
Accrued Payroll	8,058,685
Contract Retainage	6,702,546
Other	767,997
Total Accounts Payable and Accrued Liabilities	$ 43,771,340

NOTE 7 - SHORT-TERM DEBT - COMMERCIAL PAPER PROGRAM

The University has available Commercial Paper Program financing for short-term credit up to $100,000,000 to finance capital construction projects. The University's available funds are pledged to the Commercial Paper Program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2008, $75,500,000 in Tax-Exempt Commercial Paper was outstanding.

Short-term debt activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Draws	Repayments	Balance June 30, 2008
Commercial Paper Program	$ 80,000,000	$ 0	$ 4,500,000	$ 75,500,000

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Revenue Bonds Payable	$ 193,365,000	$ 0	$ 9,140,000	$ 184,225,000	$ 8,445,000
Add/Deduct Premium/Discount	7,339,206		477,294	6,861,912	
Total Bonds and Certificates of Participation Payable	200,704,206		9,617,294	191,086,912	8,445,000
Capital Leases Payable	151,382		100,921	50,461	50,461
Notes Payable		905,000		905,000	
Compensated Absences	53,371,329	32,250,698	29,528,659	56,093,368	2,460,721
Total Long-Term Liabilities	$ 254,226,917	$ 33,155,698	$ 39,246,874	$ 248,135,741	$ 10,956,182

Additional information regarding capital lease obligations is included in Note 9.

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, 2008	Principal Outstanding June 30, 2008	See Table Below
STUDENT HOUSING SYSTEM							
Residence Hall Improvement Project	(A)	3.25%-5%	10/01/2010	$ 15,770,000	$ 11,030,000	$ 4,740,000	1
Housing System Project	(B)	5-5.5%	10/01/2010	3,020,000	1,945,000	1,075,000	1
Total Student Housing System				18,790,000	12,975,000	5,815,000	
STUDENT HEALTH SYSTEM							
Student Health Facility Project	(A)	3.25%-5.25%	10/01/2013	5,615,000	2,920,000	2,695,000	2
ATHLETIC SYSTEM							
Entertainment and Sports Arena Project	(A)	3.25%-5.25%	10/01/2018	6,325,000	2,165,000	4,160,000	3
CENTENNIAL CAMPUS SYSTEM							
Centennial Campus Projects	1997A	6.55%-7.04%	12/15/2010	7,765,000	5,835,000	1,930,000	4
Centennial Campus Projects	1999A	4.574%*swap	12/15/2019	13,500,000	2,300,000	11,200,000	4
Total Centennial Campus System				21,265,000	8,135,000	13,130,000	
CENTRAL STORES							
Central Stores Expansion Project	(B)	5-5.75%	10/01/2020	3,370,000	810,000	2,560,000	5
GENERAL REVENUE							
Refund Housing System Series L&M	2002B	2-5%	10/01/2014	8,800,000	3,260,000	5,540,000	
Centennial Campus Projects	2002C	2.75-6.45%	10/01/2013	7,160,000	3,010,000	4,150,000	
Housing System Projects/ Doak Field Project	2003A	2-5%	10/01/2018	26,735,000	415,000	26,320,000	
Housing System Projects/ Doak Field Project	2003B	3.54%*swap	10/01/2027	45,660,000	1,235,000	44,425,000	
Various Construction Projects	2005A	3-5%	10/01/2025	81,615,000	6,185,000	75,430,000	
Total General Revenue				169,970,000	14,105,000	155,865,000	
Total Bonds Payable (principal only)				$ 225,335,000	$ 41,110,000	184,225,000	
Less: Unamortized Discount						41,282	
Plus: Unamortized Premium						6,903,194	
Total Bonds Payable						$ 191,086,912	

(A) The University of North Carolina System Pool Revenue Bonds, Series 1998B
(B) The University of North Carolina System Pool Revenue Bonds, Series 2000

* For variable rate debt, interest rates in effect at June 30, 2008 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal & Interest	Estimate of % of Revenues Pledged
(1)	Housing Revenues	6,226,269	16,847,556	2,083,325	4%
(2)	Student Health Revenues	3,125,075	1,042,234	524,300	4%
(3)	Athletic Revenues	5,313,847	6,521,296	485,594	1%
(4)	Centennial Campus Revenues	14,466,174	5,833,957	1,819,001	26%
(5)	Central Stores Revenues	3,553,525	297,569	275,338	59%

C. Demand Bonds - Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a "put" feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the University's remarketing or paying agents.

With regard to the following demand bonds, the issuer has entered into take-out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

The North Carolina State University at Raleigh Variable Rate Revenue Bonds (Centennial Campus Projects), Series 1999A: On September 22, 1999, the University issued tax-exempt variable rate revenue demand bonds in the amount of $13.5 million that have a final maturity date of December 15, 2019. The bonds are subject to mandatory sinking fund redemption that began on December 1, 2000. The University's proceeds of this issuance were used to (i) discharge a portion of a loan from Wachovia Bank, N.A., the proceeds from which were used for the construction and equipping of a building known as the Partners II Building located on the Centennial Campus of NC State, (ii) paying the cost of relocating utility easements on the Centennial Campus of NC State, and (iii) pay the costs incurred in connection with the issuance of the 1999A bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days notice and delivery to the paying agent, The Bank of New York. Upon notice from the paying agent, the remarketing agent, Lehman Brothers, Inc., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Wachovia Bank, N.A., a Liquidity Facility has been established for the Trustee (The Bank of New York) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.11% of the available commitment, payable quarterly in arrears, beginning on October 1, 1999, and on each January 1, April 1, July 1 and October 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider Rate (the greater of the bank prime commercial lending rate and Federal Funds Rate plus 0.5%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity

Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2008, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire on September 15, 2009, unless otherwise extended based on the terms of the Agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in 20 quarterly installments, beginning the first business day that is at least 180 days following such expiration date or termination date along with accrued interest at the Liquidity Provider Rate. In the event the entire issue of $11,200,000 of demand bonds was “put” and not resold, the University would be required to pay $2,545,553 a year for five years under this agreement assuming a 5% interest rate.

The North Carolina State University at Raleigh General Revenue Bonds, Series 2003B: On June 20, 2003, the University issued tax-exempt variable rate revenue demand bonds in the amount of $45.66 million that have a final maturity date of October 1, 2027. The bonds are subject to mandatory sinking fund redemption that began on October 1, 2004. The University’s proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2003B bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days notice and delivery to the paying agent, The Bank of New York. Upon notice from the paying agent, the remarketing agent, Wachovia Bank, N.A., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Bayerische Landesbank, a Liquidity Facility has been established for the Trustee (The Bank of New York) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.13% of the available commitment, payable quarterly in arrears, beginning on July 1, 2003, and on each October 1, January 1, April 1, and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider Rate (the greater of the bank prime commercial lending rate and Federal Funds Rate plus 0.5%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2008, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire on November 30, 2015, unless otherwise extended based on the terms of the Agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in 12 quarterly installments, beginning the first business day of January, April, July, or October, whichever first occurs on or following the Purchase Date along with accrued interest at the Liquidity Provider Rate. In the event the entire issue of $44,425,000 of demand bonds was “put” and not resold, the University would be required to pay $16,038,902 a year for three years under this agreement assuming a 5% interest rate.

Interest Rate Swaps:

Objective: In order to protect against the potential of rising interest rates, the University entered into two separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what the University would have paid to issue fixed-rate debt.

Terms, fair values, and credit risk: The University’s swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable category. The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2008, were as follows (dollars in thousands):

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating Moody's/S&P/Fitch
Centennial Campus 1999A	$ 7,800	10/1/1999	4.57%	67% of LIBOR	$ (727)	12/1/2019	A1/A+/A+
General Revenue 2003B	24,655	6/20/2003	3.54%	75% of LIBOR	67	10/1/2027	Aaa/AA+/AA
Total	$ 32,455				$ (660)		

Because rates have changed since the effective dates of the swaps, the 1999A swap has a negative fair value as of June 30, 2008. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values are the market values as of June 30, 2008.

As of June 30, 2008, the University was exposed to credit risk on the swap with a positive fair value. The University's maximum possible loss is equivalent to the positive fair value of the swap. The swap agreements require termination should the University's or the counterparty's credit rating fall below either Baa2 as issued by Moody's or BBB as issued by S&P or Fitch. Also, under the terms of the swap agreements, should one party become insolvent or otherwise default on its obligations, provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A3 as determined by Moody's or A- as determined by S&P, the swap will be collateralized by the counterparty with cash, U.S. government or agency securities. If the counterparty is required to collateralize, then the collateral will be posted with a third party custodian or secured party. The swap agreements entered into by the University are held with separate counterparties. All the counterparties are rated A1 or better.

Basis risk: The University is exposed to basis risk on the swaps when the variable payment received is based on an index other than the Securities Industry and Financial Markets Swap Index (SIFMA). Should the relationship between LIBOR and SIFMA move to convergence, the expected cost savings may not be realized. As of June 30, 2008, the SIFMA rate was 1.55%, whereas 67% of LIBOR was 1.65% and 75% of LIBOR was 1.85%.

Termination risk: The University or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for that amount.

Future swaps: The University has also entered into two future dated interest rate swap agreements; one for $50,000,000 and one for $22,382,500 to be effective September 1, 2008, and March 1, 2017, respectively, on a General Revenue Bond Issue planned for 2008.

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2008, are as follows:

	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2009	$ 8,445,000	$ 6,830,108	$ 631,486	$ 0	$ 26,782
2010	8,835,000	6,458,938	616,857		26,782
2011	8,695,000	6,084,712	602,228		26,782
2012	9,615,000	5,674,577	584,673	905,000	13,391
2013	10,230,000	5,239,061	567,118		
2014-2018	51,195,000	19,299,426	2,551,788		
2019-2023	46,710,000	9,242,534	2,129,010		
2024-2028	40,500,000	2,067,515	884,027		
Total Requirements	$ 184,225,000	$ 60,896,871	$ 8,567,187	$ 905,000	$ 93,737

Interest on the variable rate 1999A bonds is calculated at 1.57% and the 2003B bonds is calculated at 1.45%, the rates in effect at June 30, 2008 for each series.

The variable rate is changed weekly every Wednesday by the Remarketing agent with a maximum rate of 12%. In addition, the University has entered into interest rate swaps to synthetically fix a portion of the 1999A and 2003B bonds. Net amounts reported are based on rates as of June 30, 2008. As rates vary, the net swap payments will vary. See note 8C for more information on the demand bonds and the interest rate swaps.

Interest on the variable rate note is calculated at 2.96%, the rate in effect at June 30, 2008. The variable rate is changed monthly by the lending bank.

E. Notes Payable - The University's Partnership Corporation has available a revolving commercial note up to $5,000,000 to finance construction of the Lonnie Poole Golf Course on Centennial Campus. This is an unsecured line of credit and it is expected that pledges received and course revenues will be used to retire the note by the December 31, 2011, due date.

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2008	Principal Outstanding June 30, 2008
Lonnie Poole Golf Course	SunTrust	Variable	12/31/2011	$ 905,000	$ 0	$ 905,000

NOTE 9 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 53,464
Total Minimum Lease Payments	53,464
Amount Representing Interest (3.74% Rate of Interest)	3,003
Present Value of Future Lease Payments	$ 50,461

Machinery and equipment acquired under capital lease amounted to $365,000 at June 30, 2008.

B. Operating Lease Obligations – The University entered into operating leases for equipment and property rental. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 2,707,422
2010	1,259,995
2011	283,241
2012	13,553
Total Minimum Lease Payments	$ 4,264,211

Rental expense for all operating leases during the year was $2,757,523.

NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 197,126,993	$ 382,333	$ 32,159,088	$ 134,367	$ 164,451,205
Other Revenues	$ 14,468,343	$ 4,999,982	$ 0	$ (195,909)	$ 9,664,270
Sales and Services	$ 223,058,210	$ 50,348,240	$ 8,525,812	$ (150,140)	$ 164,334,298

NOTE 11 - 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	$ 269,328,389	$ 21,855,351	$ 30,397,592	$ 0	$ 0	$ 0	$ 321,581,332
Research	147,125,513	23,486,839	43,087,819		667,781		214,367,952
Public Service	86,719,897	11,113,031	26,827,948		300,717		124,961,593
Academic Support	39,324,125	16,184,415	15,816,981		22,601		71,348,122
Student Services	12,670,674	1,468,869	5,227,025		48,782		19,415,350
Institutional Support	49,336,953	3,417,857	10,666,557		94,791		63,516,158
Operations and Maintenance of Plant	32,865,060	13,295,704	7,180,110		30,072,089		83,412,963
Student Financial Aid	1,348,008	373,030	493,837	28,574,649			30,789,524
Auxiliary Enterprises	45,438,669	32,029,239	35,685,950		4,970,686		118,124,544
Depreciation						54,609,498	54,609,498
Total Operating Expenses	$ 684,157,288	$ 123,224,335	$ 175,383,819	$ 28,574,649	$ 36,177,447	$ 54,609,498	$ 1,102,127,036

NOTE 12 - 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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of $597,888,741, of which $296,388,035 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $9,039,835 and $17,783,282, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were $9,039,835, $7,478,544, and $6,088,263, 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 or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2008, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of $597,888,741, of which $199,243,004 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $13,628,221 and $11,954,580, 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 $2,770,038 for the year ended June 30, 2008.

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, 2008, were $127,679. The voluntary contributions by employees amounted to $4,376,288 for the year ended June 30, 2008.

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 $10,911,507 for the year ended June 30, 2008.

C. **Federal Employment Retirement** - The Federal Retirement System is a multiple-employer retirement system and is composed of three retirement programs: the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1987, the Federal Employees Retirement System for Participants (FERS) employed after January 1, 1987, and the Civil Service Retirement Offset System for reemployed CSRS employees.

North Carolina Cooperative Extension employees with federal appointments prior to January 1, 1987, participate in the Civil Service Retirement System. Currently, 148 employees participate in CSRS. Participating employees are required by federal statute to contribute 7% of salary and the University 7% of salary to CSRS. In addition, the CSRS employees may contribute to the Thrift Savings Plan (a defined contribution plan managed by the Federal Retirement Thrift Investment Board) up to the annual IRS annual elective limits with no agency matching contributions. Total employee and employer contributions for CSRS for the year ended June 30, 2008, were $881,747 and $914,826 respectively. Employees covered under CSRS contributed $71,283 to the Thrift Savings Plan.

Under the Federal Employees Retirement System (FERS), employees are required to contribute 0.8% of salary and the University 11.2%. Currently, nine employees participate in FERS. In addition, the FERS employees may contribute to the Thrift Savings Plan up to the annual IRS annual elective limits with an agency matching contribution of up to 5% depending on the employee's contribution. Total employee and employer contributions for the year ended June 30, 2008, were $6,360 and $89,042 respectively. For employees covered under FERS the total employee and employer contributions to the Thrift Savings Plan for the year ended June 30, 2008, were $69,980 and $37,989 respectively.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the University contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were $20,320,873, $17,446,423, and $15,985,260, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North

Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were $2,577,281, $2,387,405, and $2,187,457, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 14 - RISK MANAGEMENT

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

Tort claims of up to $1,000,000 are 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, except theft losses which are subject to a $1,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. University departments, as an individual business decision, may also purchase through the Fund primary extended coverage for buildings and contents. Coverage may also be purchased through the Fund for theft, vandalism, sprinkler leakage, or all-risk perils. University departments also have the option to purchase all-risk coverage for computers and "miscellaneous equipment" on a scheduled basis.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $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. The University is charged a premium by the private insurance company. Coverage limit is $1,000,000 per occurrence with a $25,000 deductible.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance and the State's Agent of Record. The types of insurance policies purchased include: Medical Professional Liability, Veterinary Professional Liability, Fine Arts Property, Master Crime, Inland Marine Property for Musical Instruments, Campers Accident and Sickness, Athletic Accident, Boiler and Machinery, Watercraft, Oceanographic Equipment, and Nuclear Energy Liability.

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 15 - 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 $80,548,795 at June 30, 2008.

The University has amended the Use Agreement for the RBC Center with the Centennial Authority (a related party) and therein agreed to make scheduled capital contributions totaling $6,000,000 to the Authority's Building Enhancement Fund over a 15 year period. The total outstanding commitment on this agreement was $5,850,000 as of June 30, 2008.

B. Pending Litigation and Claims – As previously reported, the Environmental Protection Agency (EPA) filed a civil action against the University pursuant to the Comprehensive Environmental Response, Compensation and Liability Act. The complaint sought relief that would cause the University to enter into remediation of a hazardous waste site known is "Lot 86." The University is involved in ongoing discussions and negotiations with the EPA concerning the appropriate means for addressing the remediation. A Consent Decree executed by North Carolina State University and the EPA has been approved by the Court. Remedial clean-up pursuant to the Consent Decree continues. The remediation costs paid by the University for the year ended June 30, 2008, totaled $70,783.

As previously reported, the NC School Boards Association, et. al. filed a civil action against various state officials in their official capacity seeking a judicial determination as to whether the state constitution requires certain monetary payments collected by state agencies to be paid to the local county school funds. On July 1, 2005, the NC Supreme Court held in favor of the school boards with regard to parking fines. The matter was remanded back to the trial court for disposition in accordance with the Superior Court's decision. On August 8, 2008, the Wake County Superior Court issued judgment that the estimated amounts collected from January 1, 1996, to June 30, 2005, by UNC Campuses belong and should have been paid to the public schools of the State by payment to the State's Civil Penalty and Forfeiture Fund. The manner in which the judgment will be settled is uncertain and is to be determined by the North Carolina General Assembly. At issue for NC State University is approximately $6,047,286 in transportation fines collected since January 1, 1996, to June 30, 2005. Since July 2005, the University has been forwarding collections, less collection costs, to the Office of State Budget and Management on a monthly basis.

On September 16, 2005, Ward Transformer Company, Inc. and related entities (collectively the "Ward Performing Parties") entered into a Settlement Agreement with the United States Environmental Protection Agency ("EPA"). In the Agreement, the Ward Performing Parties agreed to fund and carryout a removal action to address PCB contamination at and in the vicinity of the 11 acre Ward Transformer facility on Mount Herman Road near the Raleigh-Durham International Airport. It is currently estimated that the removal action will involve the excavation and onsite treatment or offsite disposal of approximately 60,000 cubic yards, or about 220,000 tons, of PCB contaminated soils. The removal action will also address the PCB contaminated transformer repair building, oil storage tank farm, and water treatment building. The removal action work is expected to start sometime this winter. Current estimates indicate that the costs may be in the range upwards of $20 million. The Ward Performing Parties have notified NC State that they believe that the University is responsible for some of the PCB contamination because NC State allegedly had Ward repair and refurbish transformers during the 1960's through the 1990's. Our personnel in facilities and in environmental health are of the opinion that NC State's responsibility in the clean-up, for Phase I at $133,000. We have no information what the liability may be for Phase II and for Phase OUI and OUII.

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

NOTE 16 - RELATED PARTIES

Foundations - There are 11 separately incorporated nonprofit foundations associated with the University. These foundations are the North Carolina Agricultural Foundation, Inc., North Carolina State University Foundation, Inc., North Carolina Tobacco Foundation, Inc., Pulp and Paper Foundation, Inc., North Carolina State University Physical and Mathematical Sciences Foundation, Inc., North Carolina Engineering Foundation, Inc., North Carolina Veterinary Medical Foundation, Inc., The North Carolina Forestry Foundation, Inc., North Carolina Textile Foundation, Inc., NCSU Student Aid Association, Inc., and the North Carolina State Alumni Association, Inc.

These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. As described in Note 1 to the financial statements, the North Carolina State University Foundation, Inc. and the NCSU Student Aid Association, Inc. are considered component units of the University for reporting purposes and their financial statements are presented separately as part of the University's financial statements. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. This support, excluding amounts from the North Carolina State University Foundation, Inc. and the NCSU Student Aid Association, Inc., approximated $48,391,158 for the year ended June 30, 2008.

Non-Profit Corporation - The Centennial Authority (Authority) was created by the 1995 General Assembly (Senate Bill 606) for the purpose of studying, designing, planning, constructing, owning, promoting, financing and operating a regional facility on land owned by the State. Prior to this act, the General Assembly authorized the construction by the University of a facility to be known as the "Entertainment and Sports Arena" (ESA). This facility serves as a regional sports entertainment center and is available for cultural performances, sporting events and other activities of the University or of other entities (the Centennial Center project). With the 1995 legislation, the Centennial Center project was transferred to the Authority.

The Authority entered into a Ground Lease with the State of North Carolina to lease land for the ESA for a period of 99 years at an annual rent of $1. The University entered into a Use Agreement with the Authority. Both parties agreed that the University shall be the primary and preferred user of all areas of the ESA. The University is required to pay the greater of 10% of gross ticket revenues or $45,696 for each men's and $19,985 for each women's basketball game to compensate the Authority for facility rental and operating expenses. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the ESA and the anticipated attendance.

In fiscal year 2003 a naming rights agreement was executed to change the name of the ESA to the "RBC Center." As a result of this agreement, the University will receive $13,184,000 over a ten-year period beginning in fiscal year 2003.

In fiscal year 2008, the University entered a Capital Improvement Plan Agreement with the Authority to pay $6,000,000 in quarterly installments over the next 15 years.

NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the University implemented the following pronouncements issued by GASB:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 45 requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No, 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB*.

GASB Statement No. 48 requires disclosures pertaining to future revenues that have been pledged in order to disclose information about which revenues will be unavailable for other purposes and how long they will continue to do so.

GASB Statement No. 50 aligns the financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 18 - SUBSEQUENT EVENTS

Debt:

On July 10, 2008, the University issued two tax exempt bond series, the North Carolina State University at Raleigh Variable Rate General Revenue Bonds, Series 2008A for $66,605,000, and the North Carolina State University at Raleigh General Revenue Bonds, Series 2008B for $26,955,000. The proceeds of the bond issuances were to (1) refund the Series 2002A bonds and related commercial paper debt of $75,500,000, (2) refund the Refunded 1998B bonds and the Refunded 2000 bonds for $9,058,936, (3) provide for capital financing resources for specified construction projects, and (4) pay for the cost of issuance. The aggregate amount of principal refunded was $8,675,000. In addition, an interest rate swap agreement was entered into for $50,000,000 as a hedge against interest rates on the Series 2008A bonds rising above 3.862%.

On October 15, 2008, the University borrowed $20,000,000 through the commercial paper financing program. These funds were used to (1) redeem the 1999A demand bonds for $11,200,000 and (2) to provide financing for current construction projects for the remaining $8,800,000.

On November 12, 2008, the University borrowed an additional $10,000,000 through the commercial paper financing program. These funds will provide financing for current construction projects.

Due to the recent world-wide financial and credit crisis, risk has increased as to the level of bonds held by liquidity facilities for remarketing. As a result of this increased risk and the subsequent difficulties with remarketing the 1999A bonds, these bonds were redeemed early. The 1999A bonds held by the liquidity facility of $5,800,000 were redeemed on October 22, 2008, with the remaining outstanding bonds of $5,400,000 being redeemed on November 3, 2008. In addition, the University terminated the interest rate swap agreement related to those bonds. Cost of terminating this agreement was $668,751 and was paid from the University's available unrestricted funds.

Non-Current Investments:

During fiscal year 2008, the NC State Investment Fund, Inc. Board of Directors approved to transfer all non-committed assets, approximately $300,000,000 of the Fund to the UNC Management Company (UNCMC) over a period of 12-24 months. As of October 22, 2008, approximately $232,000,000 of the approved amount has been transferred to UNCMC for investment management purposes.

Again, due to the recent world-wide financial and credit crisis, risk has increased as to the valuation of long term investments and related investment earnings. University management believes the losses resulting from this increased risk to be minimized due to the diversification of its investments and that the general expectation for market values is for them to rebound over the long term. However, the resulting decreases in investment earnings during the downturn will affect the level of endowment support as well as affiliated foundation support to University programs. Endowment funds that are or becoming below the original endowed value will be significantly impacted. To reduce this impact, the University plans to make available other revenue streams where possible and to reduce spending as necessary.

NOTE 19 - DISCRETELY PRESENTED COMPONENT UNITS

The University's discretely presented component units use the accounting and reporting standards promulgated by FASB. Selected disclosures from the discretely presented component units audited financial statements follow:

NORTH CAROLINA STATE UNIVERSITY FOUNDATION, INC.

MARKETABLE SECURITIES

Marketable securities at June 30, 2008, consisted of:

	Cost	Fair Value
NC State Investment Fund, Inc.	$ 67,887,504	$ 64,919,115
BNY Mellon	6,481,849	7,046,178
Academy Centennial Fund, LLC	1,037,900	65,278
Citicorp Trust Bank	570,243	572,031
Total	$ 75,977,496	$ 72,602,602

Marketable securities held by NC State Investment Fund, Inc. at June 30, 2008, consisted of the following:

	Cost	Fair Value
Domestic Equity Mutual Funds	$ 18,151,094	$ 15,543,204
Foreign Equity Mutual Funds	11,019,919	10,406,471
Real Estate Investment Trust Mutual Funds	1,658,491	1,260,562
Fixed Income Mutual Funds	13,370,097	13,165,570
Limited Partnerships	23,687,903	24,543,308
Total	$ 67,887,504	$ 64,919,115

The Foundation's investment in the NC State Investment Fund, Inc. ("Fund") represents approximately 19.07% of the member equity of the Fund at June 30, 2008. The Fund's net assets were approximately $340,344,000 at June 30, 2008.

The Foundation's investment in the Academy Centennial Fund, LLC, represents approximately 11.0% of the member capital of the Academy Centennial Fund, LLC at June 30, 2008. The Academy Centennial Fund, LLC's net assets were approximately $616,000 at December 31, 2007, (latest date available), and consisted primarily of common and preferred stock and convertible debt.

The Foundation's investments held by BNY Mellon primarily consist of bond mutual funds and equity mutual funds.

The Foundation's investments held by Citicorp Trust Bank primarily consist of common equity securities.

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

PLEDGES RECEIVABLE

Pledges receivable are stated at their present value, estimated by discounting the future cash flows using Federal Reserve rates of return, and are as follows:

	Amount
Receivable in Less Than One Year	$ 6,134,699
Receivable in One to Five years	16,388,981
Receivable in More Than Five Years	1,298,290
	23,821,970
Less: Allowance for Uncollectible Pledges	(270,000)
Less: Unamortized Discount	(1,953,581)
Net Pledges Receivable	$ 21,598,389

SUBSEQUENT EVENTS

In June 2008, the Board of the Foundation approved a resolution to authorize the Foundation to serve as the guarantor for $3 million of a $4 million loan from First Citizens Bank & Trust Company to the North Carolina State University Club, Inc. (the "Club") to be obtained in conjunction with the renovation of the Club's facilities. The term of the loan and guarantee is ten years. The Board authorized the Executive Committee of the Foundation to establish a Memorandum of Understanding between the Foundation and the Club, which will impose certain requirements on the Club as a condition to the Foundation serving as guarantor for the loan.

In April 2008, the Foundation Executive Committee approved the establishment of the NC State Executive Education, LLC (the "Company"), effective July 1, 2008. The Company is a limited liability company organized pursuant to the North Carolina Limited Liability Company Act whose purpose is to support the educational mission of the University by operating an executive education program in conjunction with the University's College of Management and other University programs. The Company will be operated as a single-member, manager-managed limited liability company, with the Foundation as the sole member.

NCSU STUDENT AID ASSOCIATION, INC.

CONCENTRATIONS OF CREDIT RISK

The Association maintains cash balances at several financial institutions located in Raleigh, North Carolina, and in several brokerage accounts located in North Carolina. The balances in the financial institution are insured by the Federal Deposit Insurance Corporation up to $100,000. The balances in the brokerage accounts are insured at varying amounts. The Association's uninsured cash balances totaled $15,744,991 at June 30, 2008.

PLEDGES RECEIVABLE

The Association carries its pledges receivable at cost less a discount for pledges receivable due in more than a year and less an allowance for doubtful accounts. On a periodic basis, the Association evaluates its receivables and establishes an allowance for doubtful accounts, based on history of past write-offs and current credit conditions.

Pledges receivable at June 30, 2008, are as follows:

		Amount
Pledges Receivable	$	52,513,802
Less: Allowance for Uncollectible Pledges		(2,625,690)
Less: Discount on Pledges		(11,204,189)
		38,683,923
Less: Current Portion		(7,811,756)
Pledges Due After One Year	$	30,872,167

Pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 6%.

		Amount
Receivable in Less Than One Year	$	8,102,064
Receivable in One to Five Years		23,491,201
Receivable in More Than Five Years		20,920,537
		52,513,802
Less: Allowance for Uncollectible Pledges		(2,625,690)
Less: Discount on Pledges		(11,204,189)
Net Pledges Receivable	$	38,683,923

At June 30, 2008, Goal Line Drive pledges totaling $16,087,048 and Wolfpack Pride pledges totaling $2,243,733 were pledged as collateral for the Goal Line Drive bond payable and the Vaughn Towers bond payable. These pledge totals are reflected at the present value of estimated future cash flows less an allowance for uncollectible pledges.

INVESTMENTS

The Association held the following investments at June 30, 2008:

		Historical Cost		Market Value
U.S. Government Obligations	$	5,178,061	$	5,288,880
Marketable Equity Securities		14,599,227		13,627,407
Other Marketable Debt Securities		2,202,263		2,207,208
Partnership Interests		3,165,529		3,365,512
Mutual Funds		1,292,641		1,113,395
Total	$	26,437,721	$	25,602,402

Investment income consists of the following:

		Amount
Interest	$	800,275
Dividends		499,374
Realized Gain on Sale of Investments		1,392,408
Unrealized Loss on Investments		(3,787,435)
Investment Expenses		(222,449)
Total	$	(1,317,827)

LONG-TERM DEBT

BOND INDENTURE—GOAL LINE DRIVE

The Association, through First Citizens Bank, trustee, and Bank of America, administrative agent, issued $40,000,000 of bonds during 2002. The bonds are secured by the Goal Line Drive pledges, Wolfpack Pride Campaign pledges, and the Medlin property. The bonds are also secured by approximately $2,000,000 in scoreboard revenues to be received from NCSU through 2012. The proceeds from these bonds were used for the Carter-Finley Stadium expansion and improvements. The bonds pay interest monthly at a variable rate equal to .35% plus the higher of the federal funds rate plus ½% or Bank of America's publicly announced prime rate. The Association also must pay the administrative agent a letter of credit fee. This fee, paid quarterly, is 1.5% of the outstanding debt balance. The Association must also pay annually $17,000 of agency and $5,000 of trustee fees. The Association pays a remarketing fee annually to the administrative agent. This fee is .1% of the outstanding debt balance. The bond matures in 2012.

The Association entered into a swap contract for a majority of this debt to hedge against interest rate fluctuations. The swap expired in April 2007.

BOND INDENTURES - WOLFPACK CLUB STUDENT HOUSING FOUNDATION

The Housing Foundation, through Wachovia Bank, administrative agent and trustee, issued a $23,710,000 Series 2003A bond and a $1,235,000 Series 2003B bond in June 2003. The proceeds from these bonds were used to construct a residence hall for NCSU students and student athletes. The bonds pay interest monthly at variable rates. The Series 2003A bonds pay interest based on a variable rate established weekly by Wachovia, remarketing agent. The Series 2003B bonds pay interest based on a variable rate established monthly by the remarketing agent. The Housing Foundation must pay a letter of credit fee quarterly to the administrative agent. This fee, paid quarterly, is 1.25% of the outstanding balance. The Housing Foundation pays a remarketing fee semi-annually to the administrative agent. This fee is .125% of the outstanding balance. The Series 2003A bonds mature in July 2035. The Series 2003B bonds mature in July 2009.

The Housing Foundation has entered into a swap contract for a majority of this debt to hedge against interest rate fluctuations. The swap was issued at market terms so that it had no value at its inception. The carrying amount of the swap has been adjusted to its fair value at June 30, 2008, which, because of changes in forecasted levels of interest rates, resulted in reporting a liability at June 30, 2008, for the fair value of the net payments forecasted under the swap. The swap asset/liability is classified as noncurrent since the Association does not intend to settle it within the next 12 months.

BOND INDENTURES - VAUGHN TOWERS

The Association, through First Citizens Bank, trustee, issued a $15,855,000 Series 2004A bond and a $17,685,000 Series 2004B bond in November 2004. The proceeds from these bonds were used to construct Vaughn Towers at Carter-Finley Stadium. The bonds pay interest monthly at variable rates. The Series 2004A bond pays interest based on a variable rate established weekly by Wachovia, remarketing agent. The Series 2004B bond pays interest based on a variable rate established weekly by Banc of America Securities, LLC, remarketing agent. The Association must pay a 2% quarterly letter of credit fee. The Association pays an annual remarketing fee of .10% of the outstanding bonds to the remarketing agents. The Series 2004A bond matures in September 2024. The Series 2004B bond matures in September 2018.

The Association has entered into swap contracts for a majority of this debt to hedge against interest rate fluctuations. The swaps were issued at market terms so that they had no value at their inception. The carrying amount of the swaps have been adjusted to their fair value at June 30, 2008, which, because of changes in forecasted levels of interest rates, resulted in reporting a liability at June 30, 2008, for the fair value of the net payments forecasted under the swap. The swap asset/liability is classified as noncurrent since the Association does not intend to settle it within the next 12 months.

NOTE PAYABLE - NORTH END ZONE

During the year ended June 30, 2008, the Association converted the bank lines of credit with Wachovia Bank and Bank of America into notes payable. Certain endowment investment accounts serve as collateral on these notes.

The Association has entered into swap contracts for a majority of this debt to hedge against interest rate fluctuations. The swaps were issued at market terms so that they had no value at their inception. The carrying amount of the swaps have been adjusted to their fair market value at June 30, 2008, which because of changes in forecasted levels of interest rates, resulted in reporting a liability at June 30, 2008, for the fair value of the net payments forecasted under the swap. The swap asset/liability is classified as noncurrent since the Association does not intend to settle it within the next 12 months.

Note payable to Wachovia Bank, annual payment of $54,482 plus interest at LIBOR plus 1.5% through November 2012, at which time the remaining principal is due	$1,089,647
Note payable to Bank of America, annual payment of 47,264 plus interest at LIBOR plus 1.5% through November 2012, at which time the remaining principal is due	$945,282

	Amount
Goal Line Drive Bond Indenture	$ 12,220,000
Wolfpack Club Student Housing Foundation - Series 2003A	22,780,000
Wolfpack Club Student Housing Foundation - Series 2003B	850,000
Vaughn Towers Project - Series 2004A	15,855,000
Vaughn Towers Project - Series 2004B	10,590,000
Note Payable - Wachovia Bank	1,089,647
Note Payable - Bank of America	945,282
	64,329,929
Less: Amount Classified as Current Liability	(1,501,746)
Amount Due After One Year	$ 62,828,183

Maturities of long-term debt are as follows:

	Amount
2009	$ 1,501,746
2010	5,801,746
2011	5,746,746
2012	5,826,746
2013	3,392,945
Thereafter	42,060,000
Total	$ 64,329,929

LETTERS OF CREDIT

Pursuant to the issuance of the Goal Line Drive bonds payable, the Association obtained an irrevocable letter of credit. The letter of credit will remain in effect until March 15, 2010.

Pursuant to the issuance of the Wolfpack Club Student Housing Foundation bonds payable, the Association obtained an irrevocable letter of credit. The original letter of credit expired June 9, 2006, and has been extended.

Pursuant to the issuance of the Wolfpack Towers bonds payable, the Association obtained two irrevocable letters of credit. The letters of credit will remain in effect until March 15, 2010.

BANK LINES OF CREDIT

Since NCSU purchased the North End Zone project from the Association at the agreed price of $15,400,000, the Association will be responsible for repaying all debt in excess of $15,400,000.

During the year ended June 30, 2007, the Association pursued additional financing for costs above the purchase price received from NCSU. The Association obtained two lines of credit, $3,500,000 each, with Bank of America and Wachovia Bank. The Association had the right to request advances on these lines up until November 30, 2007, at which time the lines of credit were converted into notes payable.

CASH REQUIRED FOR GOAL LINE DRIVE BOND MATURITIES AND FEES

The administrative agent requires that contributions and revenues received after March 2002 for the Goal Line Drive Campaign and the Pride Campaign be placed in separate bank accounts. These monies can only be used for principal payments, interest payments, and loan fees. At June 30, 2008, cash held for bond obligations totaled $5,148,624. The administrative expenses for the Goal Line Drive Campaign are being paid for by the Pride Campaign and the Association's operating fund. These expenses will be reimbursed once the debt has been retired. At June 30, 2008, the amount due Wolfpack Pride from Goal Line Drive was $8,560,317 and the amount due to the Association's operating fund from Goal Line Drive was $9,739,336.

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

INDEPENDENT AUDITOR'S REPORT 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*

Board of Trustees
North Carolina State University
Raleigh, North Carolina

We have audited the financial statements of North Carolina State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 20, 2008. Our report was modified to include a reference to other auditors.

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

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 NC State Investment Fund, Inc., which represent 17 percent, 24 percent, and 0.3 percent, respectively, of the assets, net assets and revenues of the University and the discretely presented component units, 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. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

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 (CONTINUED)

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 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*.

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* (CONCLUDED)

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, others within the entity, 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

November 20, 2008

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ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at 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:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647