

STATE OF NORTH CAROLINA

THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE

ASHEVILLE, 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

THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE

ASHEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

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STATE OF NORTH CAROLINA
Office of the State Auditor

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

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of The University of North Carolina at Asheville 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.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Responses section of this report. The University's response is included following each finding.

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.

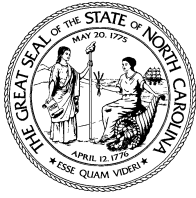
Leslie W. Merritt, Jr.

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

December 22, 2008

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of The University of North Carolina at Asheville, 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 unit, 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 The University of North Carolina at Asheville'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 University of North Carolina at Asheville Foundation, Inc., the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the entity, are based on the report 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 University of North Carolina at Asheville Foundation, 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 report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Asheville and its discretely presented component unit as of 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 16 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 December 5, 2008, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



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

December 5, 2008

THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statement Information

The University of North Carolina at Asheville (UNC Asheville) provides this overview and management discussion and analysis to assist in understanding the statements and notes to the financial statements presented herewith. These statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB) and include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, the Statement of Cash Flows, Notes to the Financial Statements, component unit Statement of Financial Position and Statement of Activities. Comparative information for the prior fiscal year is also presented in the condensed financial statements.

The Statement of Net Assets presents the assets, liabilities and net assets (the difference between the assets and liabilities) as of the date of the fiscal year end (June 30). This statement assists in the determination of the financial condition of the University.

Condensed Statement of Net Assets

	2008 Fiscal Year	2007 Fiscal Year
Current Assets	\$ 12,813,619.48	\$ 19,895,067.10
Capital Assets	131,645,404.00	127,491,814.73
Other Noncurrent Assets	18,537,995.27	14,907,584.12
Total Assets	162,997,018.75	162,294,465.95
Current Liabilities	6,152,602.06	8,540,615.17
Noncurrent Liabilities	26,008,593.09	27,405,780.50
Total Liabilities	32,161,195.15	35,946,395.67
Invested in Capital Assets, Net of Related Debt	108,172,429.09	102,419,999.03
Restricted - Nonexpendable	2,997,800.57	2,247,870.87
Restricted - Expendable	10,818,062.85	13,259,166.06
Unrestricted	8,847,531.09	8,421,034.32
Total Net Assets	\$ 130,835,823.60	\$ 126,348,070.28

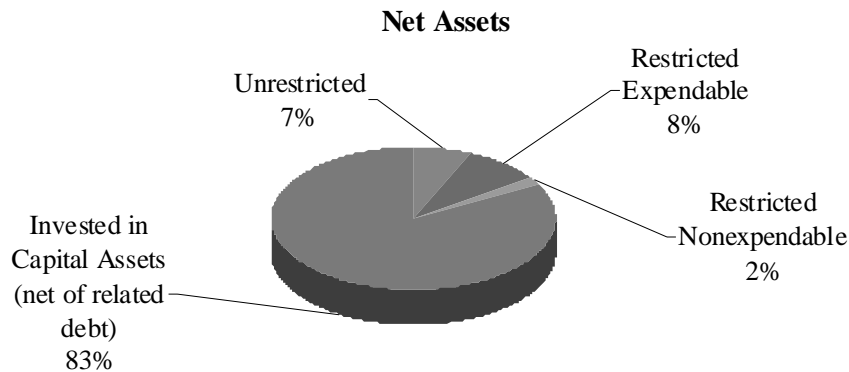
The University remains in sound financial condition. The decrease in current assets and increase in other noncurrent assets is due to the sale of endowed investments at the end of fiscal year 2007. The sale proceeds were recorded as cash at June 30, 2007. The proceeds were converted back to endowed investments with a new investment manager during the current fiscal year. The decrease in total liabilities is due to principal payments of bonds and payments of construction related payables. The increase in total net assets is primarily due to allotments made by the State for various construction projects. Several of the projects have

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

been completed and they show as an increase in capital assets in the statement above. Projects completed and capitalized in fiscal year 2008 include the Zageir Hall Renovation, Phase One of the Phillips Hall Renovations, Pavement of University Heights Lane, and the Bonsai Garden at the North Carolina Arboretum.

Restricted nonexpendable net assets are loans and principal portions of endowed gifts that cannot be spent. Restricted expendable net assets are income from endowed funds, grants from others, and gifts with specific restrictions on spending. The decrease in allotments for capital projects (as UNC Asheville completes the projects) is shown in the restricted expendable net assets.

Net assets are shown in the graph below.



The Statement of Revenues, Expenses, and Changes in Net Assets presents revenues, expenses and other changes in net assets resulting from the University's financial activity during the fiscal year ending on June 30. GASB Statement No. 35 requires these activities to be classified as either operating or nonoperating, and specifies state appropriations and gifts as nonoperating. With this change in reporting, most public universities will show an operating loss with the state appropriation providing the additional resources to maintain positive net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2008 Fiscal Year	2007 Fiscal Year
Tuition and Fees	\$ 16,474,469.90	\$ 16,157,239.59
Grants and Contracts	7,711,313.89	8,198,688.08
Sales and Services	10,340,621.52	10,167,645.28
Other Operating Revenues	788,266.09	628,741.02
Total Operating Revenues	35,314,671.40	35,152,313.97
Salaries and Benefits	48,773,303.48	43,497,417.31
Supplies and Materials	6,707,843.71	9,284,413.04
Services	10,538,958.52	10,007,075.75
Scholarships and Fellowships	2,793,798.40	2,808,183.10
Utilities	2,349,621.71	2,159,531.87
Depreciation	3,652,696.62	3,520,824.48
Total Operating Expenses	74,816,222.44	71,277,445.55
Operating Loss	(39,501,551.04)	(36,125,131.58)
State Appropriations	37,253,422.05	33,646,626.26
Noncapital Grants	227,527.67	285,512.83
Noncapital Gifts	1,852,427.29	1,449,192.69
Investment Income (Net of Investment Expense)	1,180,811.69	1,812,487.06
Interest and Fees on Capital Asset-Related Debt	(1,302,899.37)	(1,674,446.47)
Other Nonoperating Revenues	17,470.78	211,036.13
Total Nonoperating Revenues	39,228,760.11	35,730,408.50
Loss Before Contributions	(272,790.93)	(394,723.08)
Capital Grants & Appropriations	3,714,265.17	26,699,660.80
Capital Gifts	410,000.00	867,049.00
Additions to Permanent Endowments	500,000.00	240.00
Increase in Net Assets	4,351,474.24	27,172,226.72
Net Assets, Beginning of Year, as Restated	126,484,349.36	99,175,843.56
Net Assets, End of Year	\$ 130,835,823.60	\$ 126,348,070.28

The University continues to see growth in total net assets, due in large part to continued capital investments by the State. These capital investments represent the portion of the statewide bond proceeds and Certificate of Participation (COPs) bonds used by UNC Asheville in the 2008 fiscal year. The 1999-2000 Session of the General Assembly of North Carolina authorized these bonds and UNC Asheville will continue to receive proceeds for capital projects for several more years. Construction continued this fiscal year with additional activity projected for the 2008-2009 fiscal year.

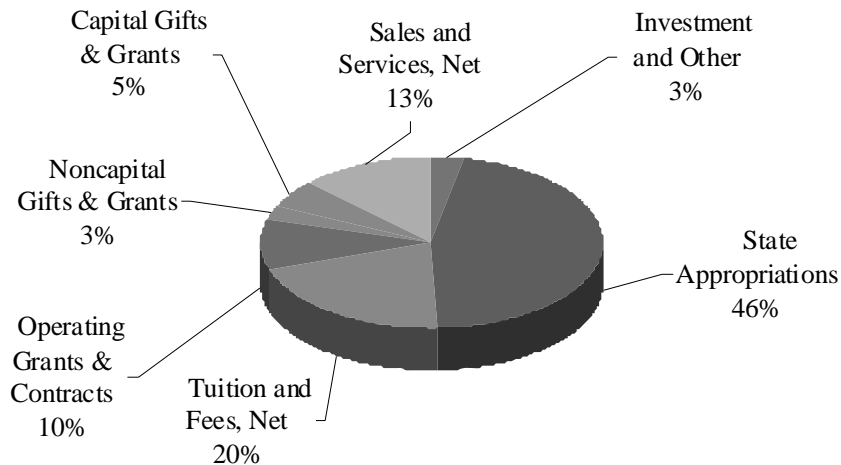
The increase in total operating expenses is primarily due to the increase in salaries and benefits. This increase is primarily from the State and University pay increases of approximately 4%, filling new and/or vacant positions, and paying out long term employee benefits. The decrease in investment income resulted from 2007 being impacted by recognition of realized gains from the sale of investments as these investments were moved to the UNC Management Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Though state appropriations are considered nonoperating, they are still a significant part of total University revenues (as shown in the graph below). State appropriations increased \$3.6 million or 10.72% this fiscal year. Capital grants and appropriations decreased significantly with a major capital project nearing completion.

Total operating expenses continue to exceed total operating revenues. Accounting standards require the University to include certain noncapitalized expenses, funded by capital grants, as operating expenses and to record state appropriations as nonoperating revenue.

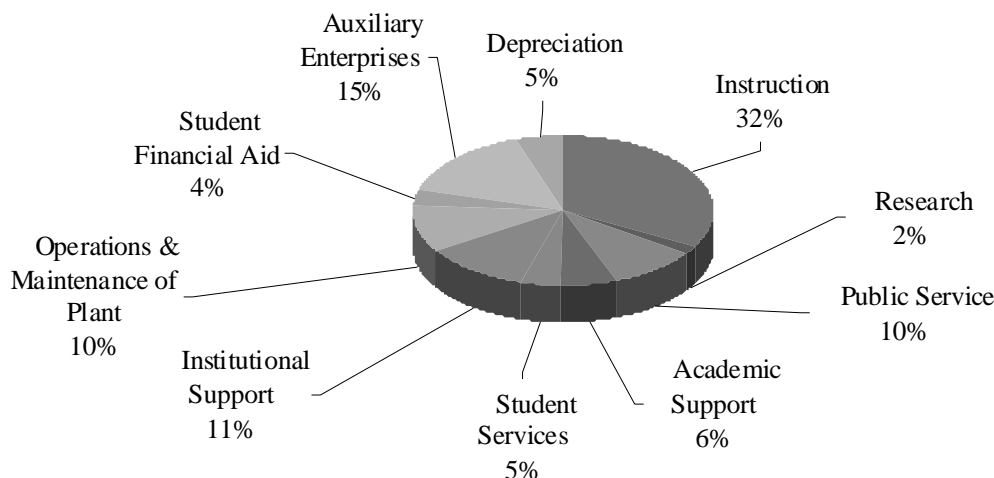
Total Revenues by Source



The expenses by function are shown in the graph below. The increase in operating expense is the result of normal operating expenses, but also includes notable expenses related to capital activities discussed above.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Expenses by Function



The University's primary areas of expense are instruction, auxiliary enterprises, and institutional support. Activities at the North Carolina Arboretum make up the majority of the public service expenditures.

Debt Administration and Capital Assets

UNC Asheville has several capital projects in various stages of planning and construction. Current projects are funded through capital appropriations, statewide bond issues (considered capital grants for statement presentation), and private fundraising. Projects include new and renovated classroom space as well as the Zeis Science and Multimedia building, (approved by the 2000 Higher Education Bond Referendum) and the NC Health and Wellness Center (approved by the General Assembly in 2004), as well as continuing projects for the North Carolina Arboretum.

The University had \$23,472,974.91 in outstanding debt at June 30, 2008 and continues to make all of its debt payments in a timely manner. More detailed information about UNC Asheville's debt obligations is provided in Note 7 of the Notes to the Financial Statements.

The capital assets, net of accumulated depreciation, at June 30, 2008 were \$131,645,404.00. For more detailed information about asset holdings, see Note 5 of the Notes to the Financial Statements.

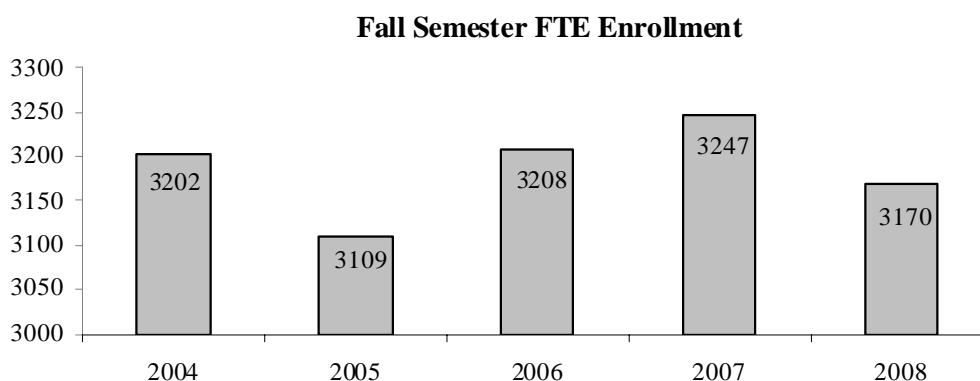
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Economic Outlook

The financial condition of the University is expected to remain stable for the foreseeable future. Management believes the University is well positioned to maintain its strong financial condition and to advance both the quality and scope of its services to students, the state, and the community. This expectation is grounded in North Carolina's history of support for higher education. The state has once again placed a high priority on funding the university system during a difficult budget year, including funding of \$750,000 for universities specializing in science and math and a pay raise for University employees ranging from 2.75% or \$1,100, whichever is greater, to 3%. Nevertheless, the University continues to strategically seek alternative funding sources through contract and grant funding as well as private fundraising. The University will also closely monitor the economic situation both on a national and state level as it seeks to control its spending to be in accordance with available revenue sources.

While enrollment decreased by a modest amount in the fall of 2008, there has been overall stability in enrollment for several years while maintaining a high level of academic achievement. This enrollment stability reflects UNC-Asheville's tradition of being a small, nationally recognized, public liberal arts University.

The following table compares fall semester enrollment of full-time equivalent (FTE) students for the previous five years.



Higher retention rates are expected as a result of the policy changes due to a more committed and motivated applicant pool. The University continues to receive high rankings in several national publications for its educational quality and value.

The University of North Carolina at Asheville
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 7,712,638.73
Restricted Cash and Cash Equivalents	2,342,521.33
Restricted Short-Term Investments	71,124.78
Receivables, Net (Note 4)	1,537,367.22
Inventories	749,348.28
Notes Receivable, Net (Note 4)	400,619.14
	<hr/>
Total Current Assets	12,813,619.48

Noncurrent Assets:

Restricted Cash and Cash Equivalents	9,521,445.62
Restricted Due from Primary Government	1,210,166.97
Endowment Investments	7,081,699.62
Notes Receivable, Net (Note 4)	724,683.06
Capital Assets - Nondepreciable (Note 5)	32,700,790.03
Capital Assets - Depreciable, Net (Note 5)	98,944,613.97
	<hr/>
Total Noncurrent Assets	150,183,399.27
	<hr/>
Total Assets	162,997,018.75

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,602,055.32
Due to Primary Government	29,642.75
Unearned Revenue	1,492,995.56
Interest Payable	147,155.43
Long-Term Liabilities - Current Portion (Note 7)	1,880,753.00
	<hr/>
Total Current Liabilities	6,152,602.06

Noncurrent Liabilities:

Deposits Payable	211,918.91
Funds Held for Others	181,353.84
U. S. Government Grants Refundable	1,123,232.43
Long-Term Liabilities (Note 7)	24,492,087.91
	<hr/>
Total Noncurrent Liabilities	26,008,593.09
	<hr/>
Total Liabilities	32,161,195.15

The University of North Carolina at Asheville
Statement of Net Assets
June 30, 2008

Exhibit A-1

Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	108,172,429.09
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	535,661.23
Endowed Professorships	2,252,500.00
Departmental Uses	25,000.00
Loans	184,639.34
Expendable:	
Scholarships and Fellowships	2,151,371.25
Research	213,179.44
Endowed Professorships	1,962,423.72
Departmental Uses	280,134.98
Capital Projects	5,104,493.07
Debt Service	833,870.08
Other	272,590.31
Unrestricted	8,847,531.09
Total Net Assets	<u><u>\$ 130,835,823.60</u></u>

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

The University of North Carolina at Asheville
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 9)	\$ 16,474,469.90
Federal Grants and Contracts	3,987,127.42
State and Local Grants and Contracts	1,726,981.07
Nongovernmental Grants and Contracts	1,997,205.40
Sales and Services, Net (Note 9)	10,340,621.52
Interest Earnings on Loans	3,742.78
Other Operating Revenues	784,523.31

Total Operating Revenues	<u>35,314,671.40</u>
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EXPENSES

Operating Expenses:

Salaries and Benefits	48,773,303.48
Supplies and Materials	6,707,843.71
Services	10,538,958.52
Scholarships and Fellowships	2,793,798.40
Utilities	2,349,621.71
Depreciation	3,652,696.62

Total Operating Expenses	<u>74,816,222.44</u>
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Operating Loss	<u>(39,501,551.04)</u>
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	37,253,422.05
Noncapital Grants	227,527.67
Noncapital Gifts, Net	1,852,427.29
Investment Income (Net of Investment Expense of \$47,579.34)	1,180,811.69
Interest and Fees on Debt	(1,302,899.37)
Other Nonoperating Revenues	17,470.78

Net Nonoperating Revenues	<u>39,228,760.11</u>
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Loss Before Other Revenues	(272,790.93)
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Capital Appropriations	2,271,000.00
Capital Grants	1,443,265.17
Capital Gifts	410,000.00
Additions to Endowments	500,000.00

Increase in Net Assets	4,351,474.24
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NET ASSETS

Net Assets - July 1, 2007, as Restated (Note 17)	<u>126,484,349.36</u>
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Net Assets - June 30, 2008	<u><u>\$ 130,835,823.60</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

The University of North Carolina at Asheville
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 35,498,939.72
Payments to Employees and Fringe Benefits	(48,413,363.04)
Payments to Vendors and Suppliers	(19,587,635.02)
Payments for Scholarships and Fellowships	(2,793,798.40)
Loans Issued	(210,783.00)
Collection of Loans	131,172.69
Interest Earned on Loans	3,168.78
Student Deposits Received	363,800.73
Student Deposits Returned	(370,891.27)
	<hr/>
Net Cash Used by Operating Activities	(35,379,388.81)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	37,253,422.05
Noncapital Grants	227,527.67
Noncapital Gifts	1,852,427.29
Additions to Endowments	500,000.00
William D. Ford Direct Lending Receipts	8,318,483.00
William D. Ford Direct Lending Disbursements	(8,258,153.00)
Related Activity Agency Disbursements	(67,718.20)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	39,825,988.81

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

State Capital Appropriations	2,271,000.00
Capital Grants	7,665,008.58
Proceeds from Sale of Capital Assets	14,410.75
Acquisition and Construction of Capital Assets	(10,295,298.79)
Principal Paid on Capital Debt and Leases	(1,570,000.00)
Interest and Fees Paid on Capital Debt and Leases	(1,339,608.22)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(3,254,487.68)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	305,000.00
Investment Income	654,779.37
Purchase of Investments and Related Fees	(6,922,416.08)
	<hr/>
Net Cash Used by Investing Activities	(5,962,636.71)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(4,770,524.39)
Cash and Cash Equivalents - July 1, 2007	24,347,130.07
	<hr/>
Cash and Cash Equivalents - June 30, 2008	\$ 19,576,605.68

The University of North Carolina at Asheville
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Exhibit A-3

Page 2

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)

TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (39,501,551.04)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,652,696.62
Allowances, Write-Offs, and Amortizations	5,548.55
Changes in Assets and Liabilities:	
Receivables (Net)	(267,384.93)
Inventories	(132,470.41)
Accounts Payable and Accrued Liabilities	239,491.16
Due to Primary Government	(958.51)
US Government Grants Refundable	26,162.57
Unearned Revenue	424,731.03
Compensated Absences	261,047.00
Deposits Payable	(7,090.54)
Note Principal Repayments	131,172.69
Notes Issued	(210,783.00)
Net Cash Provided Used by Operating Activities	<u>\$ (35,379,388.81)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 7,712,638.73
Restricted Cash and Cash Equivalents	2,342,521.33
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>9,521,445.62</u>
Total Cash and Cash Equivalents - June 30, 2008	<u>\$ 19,576,605.68</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 410,000.00
Change in Fair Value of Investments	488,887.66
Loss on Disposal of Capital Assets	4,102.97

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

The University of North Carolina at Asheville Foundation, Inc.
Statement of Financial Position
June 30, 2008

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 3,592,175.00
Certificates of Deposit	513,040.00
Sales Tax Receivable	2,114.00
Student Loans Receivable, Net	200.00
Other Receivables	8,143.00
UNCA Employee Loans Receivable, Net	6,515.00
Promises to Give, Net	3,180,678.00

Total Current Assets	<u>7,302,865.00</u>
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Property and Equipment, Net	<u>557,925.00</u>
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Other Assets:

Investments	18,593,071.00
Promises to Give, Net	755,667.00
Real Estate Held for Resale	550,000.00
Beneficial Interest in Perpetual Trust	136,035.00

Total Other Assets	<u>20,034,773.00</u>
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Total Assets	<u><u>\$ 27,895,563.00</u></u>
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 107,583.00
Annuities Payable	43,864.00

Total Current Liabilities	<u>151,447.00</u>
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Noncurrent Liabilities:

Annuities Payable	<u>386,673.00</u>
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Total Liabilities	<u>538,120.00</u>
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NET ASSETS

Unrestricted	2,439,949.00
Temporarily Restricted	15,493,465.00
Permanently Restricted	9,424,029.00

Total Net Assets	<u>27,357,443.00</u>
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Total Net Assets and Liabilities	<u><u>\$ 27,895,563.00</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

The University of North Carolina at Asheville Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2008

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Investment Income	\$ 244,116.00	\$ 1,384,684.00	\$ 0.00	\$ 1,628,800.00
Family Business Forum		50,750.00		50,750.00
Special Events		55,901.00		55,901.00
Gain (loss) on Perpetual Trust			(15,751.00)	(15,751.00)
Other Income	12,535.00	410,715.00		423,250.00
Total Revenues	256,651.00	1,902,050.00	(15,751.00)	2,142,950.00
PUBLIC SUPPORT				
Contributions	141,048.00	4,930,281.00	237,632.00	5,308,961.00
Net Assets Released from Restriction	2,034,511.00	(2,034,511.00)		
Total Revenues, Gains, and Other Support	2,432,210.00	4,797,820.00	221,881.00	7,451,911.00
EXPENSES				
Program Services	1,675,730.00		419.00	1,676,149.00
Supporting Services:				
Management and General	465,536.00			465,536.00
Fundraising	59,608.00			59,608.00
Total Expenses	2,200,874.00		419.00	2,201,293.00
Change in Net Assets	231,336.00	4,797,820.00	221,462.00	5,250,618.00
Net Assets at Beginning of Year	2,208,613.00	10,695,645.00	9,202,567.00	22,106,825.00
Net Assets at End of Year	<u>\$ 2,439,949.00</u>	<u>\$ 15,493,465.00</u>	<u>\$ 9,424,029.00</u>	<u>\$ 27,357,443.00</u>

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

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THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Asheville 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 unit. 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 unit is discretely presented in the University's financial statements. Discretely presented component unit financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - The University of North Carolina at Asheville Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

The Foundation is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 25 to 36 elected directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2008, the Foundation distributed \$1,437,528.98 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University Controller's Office, 207 Phillips Hall, One University Heights, Asheville, North Carolina 28804 or by calling 828-232-5109.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts 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.

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, charges for auxiliary enterprises' sales and services, sales tax and interest. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued at the moving weighted average cost 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and method over the estimated useful lives of the assets, generally 10 to 30 years for general infrastructure, 20 to 50 years for buildings, and 5 to 15 years for equipment.

The University does not capitalize the general collection available for use in the Ramsey Library or in other campus locations. 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. Some special items are capitalized as shown below.

The Colonial Forge artwork, the Evans painting, and the School of Athens painting were capitalized at cost or fair value at the date of donation. These items are depreciated over their lives using the straight-line method. The estimated useful lives for the items are 10 years.

The Bonsai collection, the Speculation papers, the Laliberte tapestry, the Gifts from the Mountain collection, the Birds of America collection, and the Kelly Harrison collection were capitalized at fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of bonds payable and compensated absences that will not be paid within the next fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Bonds payable are reported net of unamortized premiums. The University amortizes bond premiums over the life of the bonds using the straight-line method. Issuance costs are expensed.

- K. 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.

- L. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- O. 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, printing services and telecommunications services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$19,561,910.68 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(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 \$14,695.00. There was no book balance for University's deposits not with the State Treasurer; however the bank balance was \$22,373.75. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2008, the University's bank balance was not exposed to custodial credit risk.

B. Investments

University - 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University 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.

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 unitized method. Under this method, each participating fund's investment balance is determined on the basis of the number of units purchased multiplied by the current unit market value. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board. At year-end, the pooled investments were all with the UNC Investment Fund, LLC.

UNC Investment Fund, LLC - At June 30, 2008, the University's investments include \$7,081,699.62 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 fair value of investments of the University's non-pooled investments subject to interest rate risk at June 30, 2008 was \$71,124.78. These investments were held in money

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

market mutual funds with maturities of less than 1 year. The credit rating of the money market mutual funds was Aaa as rated by Moody's Investor Service.

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

Investment Type	Fair Value
Debt Securities	
Money Market Mutual Funds	\$ 71,124.78
Other Securities	
UNC Investment Fund	7,081,699.62
Total Investments	<u>\$ 7,152,824.40</u>

Component Unit - Investments of the University's discretely presented component unit, The University of North Carolina at Asheville Foundation, Inc. (Foundation) is subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on it by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required.

The Foundation purchased membership interest in the UNC Investment Fund, LLC (a North Carolina limited liability company) in July 2007. The Fund is managed by the UNC Management Company, Inc. (a North Carolina non-profit corporation). Additionally, the Foundation has funds in a certificate of deposit with a private financial institution. The maturity date of the certificate is December 10, 2008.

The Foundation's investments stated at fair value at June 30 are summarized as follows:

	2008		
	Cost	Fair Value	Cumulative Unrealized Gains (Losses)
Certificate of Deposit	\$ 513,040.00	\$ 513,040.00	\$ 0.00
Membership Interest in UNC Investment Fund LLC	13,298,139.00	18,593,071.00	5,294,932.00
	<u>\$ 13,811,179.00</u>	<u>\$ 19,106,111.00</u>	<u>\$ 5,294,932.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following schedule summarizes investment return and its classification in the Statement of Activities for the year ended June 30:

	2008
Interest and Dividends	\$ 164,313.00
Realized gains (losses)	295,723.00
Unrealized gains (losses)	1,168,764.00
	<u>\$ 1,628,800.00</u>

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which currently limits spending to 5% of the endowment principal's three-year trailing market value. Under this policy, the spending level is agreed upon prior to the beginning of the University's fiscal year and is maintained at that level unless altered by Board action. To the extent that the total return for the current year exceeds the payout, the excess is added to appreciation of principal. If current year earnings do not meet the payout requirements, the University uses accumulated appreciation in expendable net asset endowment balances to make up the difference. At June 30, 2008, net appreciation of \$3,080,534.46 was available to be spent, of which \$2,585,190.57 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 508,070.63	\$ 10,161.44	\$ 497,909.19
Accounts	594,164.15		594,164.15
Intergovernmental	342,564.70		342,564.70
Interest on Loans	50,988.77		50,988.77
Other	51,740.41		51,740.41
Total Current Receivables	<u>\$ 1,547,528.66</u>	<u>\$ 10,161.44</u>	<u>\$ 1,537,367.22</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 480,285.93</u>	<u>\$ 79,666.79</u>	<u>\$ 400,619.14</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 868,799.40</u>	<u>\$ 144,116.34</u>	<u>\$ 724,683.06</u>

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 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	\$ 3,414,752.97	\$ 410,000.00	\$ 0.00	\$ 3,824,752.97
Art, Literature, and Artifacts	501,702.70			501,702.70
Construction in Progress	25,749,955.13	6,660,140.59	4,035,761.36	28,374,334.36
Total Capital Assets, Nondepreciable	<u>29,666,410.80</u>	<u>7,070,140.59</u>	<u>4,035,761.36</u>	<u>32,700,790.03</u>
Capital Assets, Depreciable:				
Buildings	128,391,275.45	1,315,669.98		129,706,945.43
Machinery and Equipment	5,415,939.13	603,969.19	305,543.01	5,714,365.31
Art, Literature, and Artifacts	191,500.00			191,500.00
General Infrastructure	23,849,412.35	2,720,091.38		26,569,503.73
Total Capital Assets, Depreciable	<u>157,848,126.93</u>	<u>4,639,730.55</u>	<u>305,543.01</u>	<u>162,182,314.47</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	43,276,965.02	2,106,501.64		45,383,466.66
Machinery and Equipment	4,084,921.41	485,773.34	301,440.04	4,269,254.71
Art, Literature, and Artifacts	51,300.00	15,650.00		66,950.00
General Infrastructure	12,473,257.49	1,044,771.64		13,518,029.13
Total Accumulated Depreciation	<u>59,886,443.92</u>	<u>3,652,696.62</u>	<u>301,440.04</u>	<u>63,237,700.50</u>
Total Capital Assets, Depreciable, Net	<u>97,961,683.01</u>	<u>987,033.93</u>	<u>4,102.97</u>	<u>98,944,613.97</u>
Capital Assets, Net	<u>\$ 127,628,093.81</u>	<u>\$ 8,057,174.52</u>	<u>\$ 4,039,864.33</u>	<u>\$ 131,645,404.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 1,148,819.95
Accrued Payroll	893,508.01
Contract Retainage	548,528.18
Intergovernmental Payables	11,199.18
Total Accounts Payable and Accrued Liabilities	\$ 2,602,055.32

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Revenue Bonds Payable	\$ 24,495,000.00	\$ 0.00	\$ 1,570,000.00	\$ 22,925,000.00	\$ 1,645,000.00
Add Premium	576,815.70		28,840.79	547,974.91	
Total Bonds Payable	25,071,815.70	0.00	1,598,840.79	23,472,974.91	1,645,000.00
Compensated Absences	2,638,819.00	1,729,562.00	1,468,515.00	2,899,866.00	235,753.00
Total Long-Term Liabilities	\$ 27,710,634.70	\$ 1,729,562.00	\$ 3,067,355.79	\$ 26,372,840.91	\$ 1,880,753.00

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
Revenue Bonds Payable							
Dormitory and Dining System							
UNC System Pool Revenue Bonds (A)	1998A	8.5*	10/01/2008	\$ 2,580,000.00	\$ 2,280,000.00	\$ 300,000.00	(1)
UNCA Issued Revenue Bonds	2002A	2.5-5.0	06/01/2027	18,900,000.00	3,490,000.00	15,410,000.00	(1)
UNC System Pool Revenue Bonds (B)	2005A	3.0-5.25	04/01/2023	7,575,000.00	610,000.00	6,965,000.00	(1)
Total Dormitory and Dining System				29,055,000.00	6,380,000.00	22,675,000.00	
Parking System							
UNC System Pool Revenue Bonds (C)	2000	5.0-5.5	10/01/2010	705,000.00	455,000.00	250,000.00	
Total Bonds Payable (principal only)				\$ 29,760,000.00	\$ 6,835,000.00	22,925,000.00	
Plus: Unamortized Premium						547,974.91	
Total Bonds Payable						\$ 23,472,974.91	

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

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

(C) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and Dining Revenues	\$ 32,422,274.35	\$ 2,980,685.52	\$ 2,617,668.55	43%

- C. Demand Bonds** - Included in bonds payable is one variable rate demand bond issue. 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 regards to the following demand bonds, the University has not entered into legal agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

The University of North Carolina System Variable Rate Demand Pool Revenue Bonds, Series 1998A: In 1998, the Board of Governors of the University of North Carolina issued variable rate demand bonds in a system-wide financing arrangement for the benefit of its constituent universities. Through this system-wide financing, the University issued debt in the amount of \$2,580,000.00 with a final maturity date of October 1, 2008. These bonds are subject to mandatory sinking fund redemption that began on October 1, 1999. The University’s proceeds from this issuance were used to construct a 200 car parking structure adjacent to the housing structures as part of the housing system. While bearing interest at a weekly rate, these bonds are subject to purchase on demand with seven days’ notice and delivery to the bond paying agent, The Bank of New York. Upon notice from the bond paying agent, the remarketing agent, Salomon Smith Barney, 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 NationsBank, N.A. (now part of Bank of America, 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 standby fee equal to .13% of the available commitment, payable semiannually in advance, beginning on November 3, 1998, and on each May 1 and November 1 thereafter until the expiration date or the termination date of the Agreement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 (LIBOR plus one percent (1%).) LIBOR is the average of rates per annum for deposits to major money center banks in the London interbank market. 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.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in 60 equal monthly 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.

Amounts due under this Standby Bond Purchase Agreement are allocated by the Trustee directly to and paid by the constituent universities participating in the system-wide bond issuance.

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

Fiscal Year	Annual Requirements Revenue Bonds Payable	
	Principal	Interest
2009	\$ 1,645,000.00	\$ 1,077,013.55
2010	1,485,000.00	1,016,364.05
2011	1,555,000.00	952,774.45
2012	1,540,000.00	882,672.90
2013	1,245,000.00	812,624.70
2014-2018	7,250,000.00	3,131,780.70
2019-2023	5,315,000.00	1,523,044.00
2024-2028	2,890,000.00	370,000.00
Total Requirements	<u>\$ 22,925,000.00</u>	<u>\$ 9,766,274.35</u>

Interest on the variable rate 1998A revenue bonds is calculated at 8.5% at June 30, 2008

NOTE 8 - LEASE OBLIGATIONS

The University entered into operating leases for digital equipment, mailroom equipment, wireless equipment and software, servers and NC Arboretum land leases. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 228,102.00
2010	185,438.48
2011	142,214.52
2012	100,091.18
2013	23,321.50
2014-2018	<u>12,000.00</u>
Total Minimum Lease Payments	<u><u>\$ 691,167.68</u></u>

Rental expense for all operating leases during the year was \$262,248.13.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	<u>\$ 18,333,823.32</u>	<u>\$ 0.00</u>	<u>\$ 1,856,649.57</u>	<u>\$ 2,703.85</u>	<u>\$ 16,474,469.90</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 4,142,659.91	\$ 0.00	\$ 436,118.07	\$ 0.00	\$ 3,706,541.84
Dining	3,013,298.69		323,904.49		2,689,394.20
Student Union Services	72,653.48	760.00			71,893.48
Health, Physical Education, and Recreation Services	139,697.94				139,697.94
Bookstore	2,181,945.25				2,181,945.25
Parking	462,969.58		33,043.65		429,925.93
Athletic	589,591.53				589,591.53
Other	554,379.39	465,176.27			89,203.12
Sales and Services of Education and Related Activities	<u>729,785.33</u>	<u>287,357.10</u>			<u>442,428.23</u>
Total Sales and Services	<u><u>\$ 11,886,981.10</u></u>	<u><u>\$ 753,293.37</u></u>	<u><u>\$ 793,066.21</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 10,340,621.52</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 21,502,175.08	\$ 1,940,443.59	\$ 1,250,629.07	\$ 15,131.24	\$ 0.00	\$ 0.00	\$ 24,708,378.98
Research	616,229.82	205,932.60	346,960.55	7,459.75			1,176,582.72
Public Service	4,884,305.83	755,389.43	1,398,816.98	24,984.22	120,142.65		7,183,639.11
Academic Support	3,274,297.00	952,118.82	279,906.80				4,506,322.62
Student Services	2,430,876.38	110,345.57	833,015.73	483.48			3,374,721.16
Institutional Support	6,581,055.23	227,361.79	1,613,985.93	1,008.68			8,423,411.63
Operations and Maintenance of Plant	5,312,804.95		536,021.56		1,550,020.77		7,398,847.28
Student Financial Aid	25,882.03			2,701,624.74			2,727,506.77
Auxiliary Enterprises	4,145,677.16	2,516,251.91	4,279,621.90	43,106.29	679,458.29		11,664,115.55
Depreciation						3,652,696.62	3,652,696.62
Total Operating Expenses	<u>\$ 48,773,303.48</u>	<u>\$ 6,707,843.71</u>	<u>\$ 10,538,958.52</u>	<u>\$ 2,793,798.40</u>	<u>\$ 2,349,621.71</u>	<u>\$ 3,652,696.62</u>	<u>\$ 74,816,222.44</u>

NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 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 \$39,020,329.71, of which \$18,447,098.98 was covered under the Teachers' and State Employees' Retirement System. Total employer and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employee contributions for pension benefits for the year were \$562,636.52 and \$1,106,825.94, 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 \$562,636.52, \$448,637.89, and \$366,983.16, 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 \$39,020,329.71, of which \$15,844,587.17 was covered under the Optional Retirement Program. Total employer and employee contributions for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

pension benefits for the year were \$1,083,769.76 and \$950,675.23, 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 \$186,060.02 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 \$66,313.47. The voluntary contributions by employees amounted to \$365,383.00 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 \$471,073.96 for the year ended June 30, 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by 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 \$1,405,959.13, \$1,185,080.80, and \$1,071,477.48, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$178,316.76, \$162,168.95, and \$146,623.23, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 are 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 are subject to a \$1,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The University also purchased through the Fund, extended coverage for boiler and machinery components, and fine arts coverage for artwork.

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. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence with a \$75,000 deductible and a 10% participation in each loss above the deductible.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$2,423,234.77 and on other purchases were \$1,040,795.57 at June 30, 2008.
- B. Pending Litigation and Claims** - 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 Civil Penalty and Forfeiture Fund (Fund) for distribution to the public schools pursuant to G.S. 115C-457.1. In part, this civil action included a determination of whether monetary payments collected pursuant to statutory authority by the University for violations of parking traffic regulations and library fines were "civil penalties" requiring remittance to the Fund. On July 1, 2005, the NC Supreme Court held in favor of the school boards with regard to parking fines and held in favor of the University with regards to library fines. The matter was remanded back to the trial court for disposition in accordance with the Supreme Court's decision. On August 8, 2008, the trial court entered a judgment against the defendants. The manner and means by which the judgment is satisfied will be determined by the General Assembly. Transportation fines in the amount of \$833,400.00 may be payable by the University for the period January 1, 1996 to June 30, 2005.

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 15 - RELATED PARTIES

There are three separately incorporated nonprofit entities associated with the University. These entities are the North Carolina Arboretum Society, Inc., The Center for Craft, Creativity and Design and the University Botanical Gardens at Asheville, Inc.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

These entities are in existence to support the individual programs of the University. The University's financial statements do not include the assets, liabilities, net assets or operational transactions of the entities, except for support from each organization to the University. The support was considered immaterial for the year ended June 30, 2008. Further information, including audit reports, may be obtained directly from these entities.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 17 - NET ASSET RESTATEMENTS

As of July 1, 2007, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2007 Net Assets as Previously Reported	\$ 126,348,070.28
Adjustment for Unrecorded Machinery and Equipment	168,886.36
Adjustment for Unrecorded Depreciation	<u>(32,607.28)</u>
July 1, 2007 Net Assets as Restated	<u><u>\$ 126,484,349.36</u></u>

NOTE 18 - SUBSEQUENT EVENTS

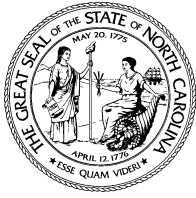
Fair Value of Endowment Investments

University - The fair market value of the University's endowment investments with the UNC Investment Fund, LLC decreased 13.5% for the period June 30, 2008 through October 31, 2008.

Component Unit - The fair market value of the Foundation's endowment investments with the UNC Investment Fund, LLC decreased 13.5% for the period June 30, 2008 through October 31, 2008.

The change is primarily due to the unrealized loss on these investments as a result of the volatile and unstable world-wide financial market. It is expected that this downward trend will continue into the foreseeable future. University and Foundation management, along with their investment management advisors, plan to continue their efforts of monitoring these investments to minimize any significant losses.

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

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

We have audited the financial statements of The University of North Carolina at Asheville, 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 unit, 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 December 5, 2008. Our report was modified to include a reference to other auditors.

As discussed in Note 16 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 discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

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.

**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)**

Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies described in findings 1, 2 and 3 in the Audit Findings and Responses section of this report to be significant deficiencies internal control over financial reporting.

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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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)**

We noted certain matters that we reported to management of the University in a separate letter dated December 1, 2008.

The University's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the University's response and, accordingly, we express no opinion on it.

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

December 5, 2008

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

1. INAPPROPRIATE INFORMATION SYSTEM ACCESS

The University does not have adequate procedures in place to ensure computer access rights for separated employees are cancelled timely. As a result, unauthorized access to the accounting system and changes to financial data could occur.

From a sample of 18 separated employees, we identified 16 whose access to the accounting system was not cancelled timely. Access should be cancelled as soon as individuals leave employment.

Recommendation: Management should establish policies and procedures to ensure adequate internal controls exist for adding, changing, and removing access to the accounting system.

University's Response: Management agrees with this finding and is implementing procedures to ensure computer access rights for separated employees are cancelled timely.

2. NONCOMPLIANCE WITH STATE TRAVEL POLICIES

The University did not consistently comply with state travel policies. As a result, there was an opportunity for wasteful or abusive expenditures.

We examined a sample of 40 travel reimbursements and found 12 instances where there was no documentation that lodging reimbursement in excess of the standard allowance was approved in advance. The *North Carolina Budget Manual* allows for excess lodging reimbursement whenever employees travel to a high cost area or when safe lodging cannot be obtained within the standard lodging allowance. However, the manual requires advance approval by the department head or his or her designee.

Lastly, all outstanding travel advances were not paid back by fiscal year-end as required. There were 14 outstanding advances totaling \$56,907 that had not been collected by June 30, 2008.

Recommendation: The University should reevaluate the institutional travel policy and establish controls to ensure compliance with travel policies contained in the *North Carolina Budget Manual*.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

University's Response: The University is in the process of reevaluating and updating the institutional travel policy and will establish controls to ensure compliance with travel policies contained in the *North Carolina Budget Manual*.

3. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the University contained misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to users. Misstatements noted in our audit included:

- a. Purchase commitments disclosed in the commitments and contingencies note were overstated by \$2.4 million as a result of including commitments of The University of North Carolina at Asheville Foundation, Inc. in the note.
- b. Certificates of deposit totaling \$513,040 were misclassified as cash rather than investments and were omitted from the component unit investment disclosure.
- c. The net appreciation of endowment investments in the endowment investments note was understated by \$495,343. The University overstated amounts restricted to specific purposes by the same amount.
- d. The pledged future revenues disclosure in the long-term liabilities note did not include all debt issues that contained pledged revenue requirements. As a result, total future revenues pledged was understated by \$305,100; current year principal and interest was understated by \$305,130; and the estimate of percentage of revenues was understated by 3 percentage points.

Recommendation: The University should implement effective internal controls to ensure the accuracy of the financial statements and related notes.

University's Response: Management agrees with this recommendation and will implement additional internal controls to ensure that financial statements and the accompanying footnotes are accurate.

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