STATE OF
NORTH CAROLINA

NORTH CAROLINA STATE UNIVERSITY

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

North Carolina State University

Raleigh, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2009

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina State University

We have completed a financial statement audit of North Carolina State University for the year ended June 30, 2009, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina State University
Raleigh, North Carolina

We have audited the accompanying financial statements of North Carolina State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2009, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the NC State Investment Fund, Inc., which represent 13 percent, 18 percent, and 1 percent, respectively, of the assets, net assets, and revenues of the University; nor the financial statements of the North Carolina State University Foundation, Inc., and the NC State Student Aid Association, Inc., the University's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the North Carolina State University Foundation, Inc. and the NC State Student Aid Association, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Carolina State University and its discretely presented component units as of June 30, 2009, 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 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2009 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

December 8, 2009

Introduction

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

Financial Highlights

NC State University's net assets decreased by 0.7% to $1.43 billion in fiscal year 2009. Net assets represent the University's equity, the assets less the liabilities. This decrease was primarily the result of expending $84.0 million from prior year capital project reserve balances and, as a result of the market value decline in investments, a $22.0 million decrease in endowed professorship balances. These reductions were partially offset by the acquisition of capital assets net of related debt of $94.3 million.

Revenues, including the investment loss, decreased by 0.8% to $1.09 billion in fiscal year 2009. Revenues represent amounts received or accrued that are either operating or nonoperating on the accompanying financial statements. This reduction was primarily the result of the economic recession. As a result of the recession, the State reduced operating appropriations to the University by $39.0 million and required another $1.9 million of capital appropriations to be returned. In addition, investment income from market investments was significantly impacted with an increase to reductions to investment income of $17.5 million. However, these decreases were partially offset by $14.3 million in federal economic recovery funds provided by the State and, as a result of increased enrollment and billing rates, increases of $11.1 million in tuition and fees and $8.1 million in sales and services.

Operating Expenses increased by 1.8% to $1.12 billion in fiscal year 2009. Operating expenses represent amounts paid or accrued for operating purposes. By function, Instruction, Research, and Auxiliary Enterprise showed the largest increases, primarily caused by higher salaries and benefits expenses. Public Service, Academic Support, and Operations and Maintenance expenses were down, driven by reduced state operating appropriations which resulted in less spending on supplies and materials.

Using the Financial Statements

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

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

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

Comparative Condensed Financial Statement Information

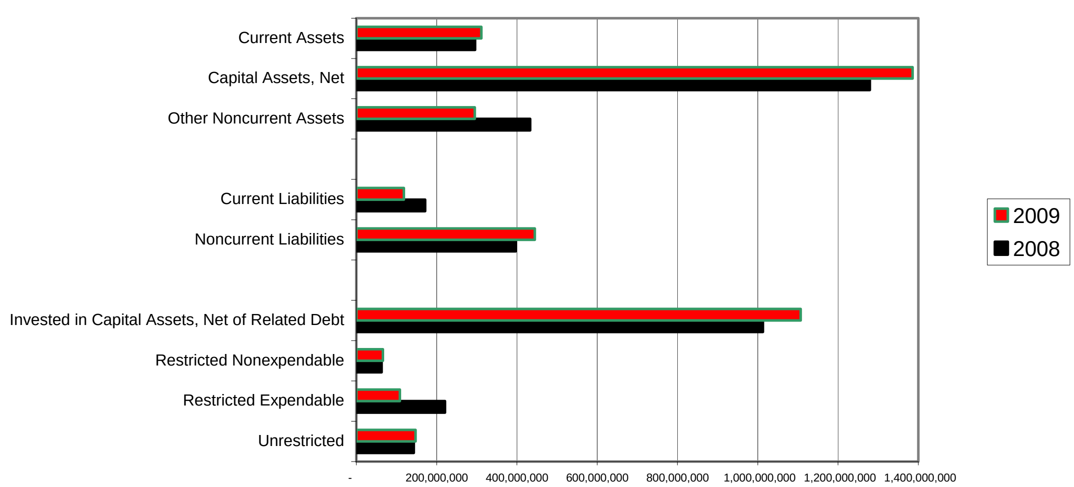
Statement of Net Assets

The S*tatement of Net Assets* provides information regarding the University's assets, liabilities, and net assets as of June 30, 2009. Asset and liability balances are classified as either current or noncurrent. Assets classified as current are those that are available to pay for current liabilities or current year expenditures. Liabilities classified as current are those that are due and payable in the next fiscal year. The net asset balances are classified as either invested in capital assets (net of related debt), restricted or unrestricted. In addition, net assets classified as restricted are classified as either nonexpendable or expendable. Overall, the *Statement of Net Assets* provides information to evaluate the financial strength of the University and its ability to meet current and long-term obligations.

Following is a comparative analysis on the condensed balances reported in the *Statement of Net Assets* as of June 30, 2009 and 2008.

	2009	2008	Increase/ (Decrease)
Assets			
Current Assets	$ 311,348,243	$ 295,569,877	$ 15,778,366
Capital Assets, Net	1,385,631,913	1,279,287,078	106,344,835
Other Noncurrent Assets	295,007,971	432,973,969	(137,965,998)
Total Assets	1,991,988,127	2,007,830,924	(15,842,797)
Liabilities			
Current Liabilities	118,501,555	171,289,243	(52,787,688)
Noncurrent Liabilities	444,524,372	397,098,210	47,426,162
Total Liabilities	563,025,927	568,387,453	(5,361,526)
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,106,986,595	1,012,649,706	94,336,889
Restricted			
Nonexpendable	66,033,683	62,979,401	3,054,282
Expendable	108,456,576	220,658,992	(112,202,416)
Unrestricted	147,485,346	143,155,372	4,329,974
Total Net Assets	$ 1,428,962,200	$ 1,439,443,471	$ (10,481,271)

The following graph illustrates the assets, liabilities and net assets of the University as of June 30, 2009, as compared to June 30, 2008.



Assets totaled $1.99 billion, a decrease of $15.8 million over the prior year. This change in assets includes capital asset growth of $106.3 million, a decrease in other noncurrent assets of $138.0 million, and an increase in current assets of $15.8 million.

The capital asset growth is due to construction funding from new capital grants and gifts, new capital financing and prior year capital improvement reserves. NC State received capital grants of $28.0 million in 2009, primarily from the State's higher education bond/certifications of participation (COPs) program, $21.3 million in proceeds from capital financing, and $4.8 million in capital gifts in fiscal year 2009.

Other noncurrent assets decreased by $138.0 million. The primary factors for this decrease was the decline in market values of investments resulting in endowment investments to decline by $31.6 million and other investments to decline by $43.6 million. In addition, $49.6 million of noncurrent restricted cash was used, primarily for capital projects. Restricted due from primary government balances also decreased by $10.9 million, resulting from the end of the state's bond program and the absence of other state capital improvement funding at year end.

Current assets increased by $15.8 million in fiscal year 2009. This increase was primarily the result of an increase in restricted cash of $18.9 million. Increases in restricted cash, classified as current assets, primarily results from the movement of noncurrent cash to cover increases in current liabilities for capital and debt purposes. This increase was partially offset by a reduction to unrestricted cash of $4.5 million, the primary reason being reduced carry over cash at year end because of the state appropriation reductions.

Liabilities totaled $563.0 million, a decrease of $5.4 million over the prior year. The decrease in liabilities is attributable to a decrease in current liabilities of $52.8 million and an increase in noncurrent liabilities of $47.4 million.

Current liabilities totaled $118.5 million. These liabilities include accounts payable and accrued liabilities, due to other entities, deferred revenue, and the current portion of University debt. Current liabilities decreased $52.8 million, primarily because $85.5 million of short-term debt was changed to long-term debt financing and another $30.0 million was added to short-term for capital financing purposes.

Noncurrent liabilities totaled $444.5 million, and include deposits payable, funds held for other entities, funds held in trust in the investment pool, long-term debt, and compensated absences. Noncurrent liabilities increased $47.4 million as a result of multiple factors. New long-term bonded debt totaling $93.6 million was issued in fiscal year 2009. After considering the effect of the bond proceeds used for extinguishment of existing bonds including refunding, redemptions and calls, the net bonds payable increase was only $62.1 million. Notes payable increased by $4.1 million due to an increase in the golf course note payable. The funds held for others liability increased by $14.6 primarily due to affiliated foundation deposits in the University's cash accounts with the State Treasurer. Partially offsetting these increases was a $33.6 million decline in funds held in trust for investment pool participants caused by losses in market value of investments held.

Net assets totaled $1.43 billion, a decrease of $10.5 million over the prior year. Restricted expendable net assets fell $112.2 million with the biggest decreases in capital projects ($84.0 million) and endowed professorships ($22.0 million). Invested in plant, net of related debt increased by $94.3 million as a result of expending capital reserves and obtaining other capital resources including debt financing and capital grants and gifts. The decline in endowment professorship net assets was primarily attributable to the drop in market values of related investments.

The University's current assets are more than sufficient to cover current liabilities. In the current year, current assets are 2.6 times current liabilities compared to a ratio of 1.7 times in the prior year. The University's total assets are significantly more than the University's liabilities with a ratio of 3.5 times, which is unchanged from the prior year. These financial ratios are indicators of NC State's financial strength and its ability to meet current and long-term obligations.

Statement of Revenues, Expenses, and Changes in Net Assets

The *Statement of Revenues, Expenses, and Changes in Net Assets* provides information regarding the University's activities for the year ending June 30, 2009. The activity balances are classified as operating, nonoperating, or other. Activities classified as operating include all revenues of the University except those considered nonoperating or those associated with funds received to enhance capital assets or permanent endowments, and all expenses except those related to interest expense on financing activities, loss on disposal of capital assets, and investment expenses (shown as net against investment income). Activities classified as nonoperating include state appropriations, noncapital gifts and grants revenue, investment income (net of investment expenses), and gains or losses on disposal of capital assets. Activities classified as other include capital gifts or grants and additions to permanent endowments. Overall, the *Statement of Revenues, Expenses, and Changes in Net Assets* provides information to evaluate the University's management of operations and maintenance of financial strength.

Following is a comparative analysis on the condensed balances reported in the *Statement of Revenues, Expenses, and Changes in Net Assets* for the fiscal years ended June 30, 2009 and 2008.

	2009	Restated 2008	Increase/ (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	$ 175,524,899	$ 164,451,205	$ 11,073,694
Federal Appropriations	23,156,605	22,231,598	925,007
Grants and Contracts	188,199,311	183,317,773	4,881,538
Sales and Services, Net	172,474,942	164,334,298	8,140,644
Other	14,359,951	10,021,473	4,338,478
Total Operating Revenues	573,715,708	544,356,347	29,359,361
Operating Expenses			
Salaries and Benefits	720,572,163	684,157,288	36,414,875
Supplies and Materials	100,692,620	123,224,335	(22,531,715)
Services	176,252,400	175,383,819	868,581
Scholarships and Fellowships	32,366,944	28,574,649	3,792,295
Utilities	36,009,011	36,177,447	(168,436)
Depreciation	56,485,824	54,609,498	1,876,326
Total Operating Expenses	1,122,378,962	1,102,127,036	20,251,926
Net Operating Loss	(548,663,254)	(557,770,689)	9,107,435
Nonoperating Revenues (Expenses)			
State Appropriations	448,754,067	487,744,042	(38,989,975)
State Aid - Federal Recovery Funds	14,252,039		14,252,039
Noncapital Grants - Federal Student Financial Aid	16,594,802	14,951,181	1,643,621
Other Noncapital Grants and Gifts	57,662,520	54,831,822	2,830,698
Investment Income (Loss)	(21,063,730)	(3,515,702)	(17,548,028)
Other	(13,841,437)	(10,503,522)	(3,337,915)
Net Nonoperating Revenues	502,358,261	543,507,821	(41,149,560)
Loss Before Other Revenue	(46,304,993)	(14,262,868)	(32,042,125)
Capital Appropriations, Gifts, and Grants	30,907,374	76,389,480	(45,482,106)
Additions to Permanent Endowments	4,916,348	5,539,285	(622,937)
Increase (Decrease) in Net Assets	$ (10,481,271)	$ 67,665,897	$ (78,147,168)

The 2008 balances were restated to be consistent with the current year presentation by including federal student financial aid in nonoperating revenues instead of operating grants and contracts.

Operating and Nonoperating Activities

The following illustrates the relationships of operating and nonoperating revenue sources and expense functions to total revenue/expenses for the fiscal year 2009 and 2008, and the consistency of relationships between the two years.

Operating and Nonoperating Revenues

Title	% to Total 2009	% to Total 2008
State Appropriations	41 %	44%
State Aid - Federal Recovery Funds	1 %	0%
Research Contracts and Grants	18 %	17%
Student Tuition and Fees	16 %	15%
Sales and Services	16 %	15%
Noncapital Grants and Gifts	7 %	6%
Federal Appropriations	2 %	2%
Other	(1) %	1%
Total	100 %	100%

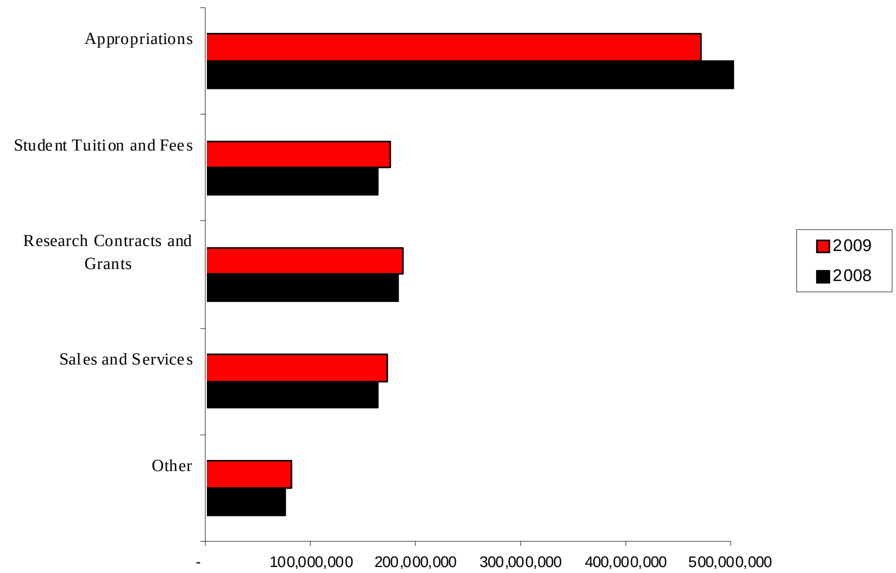
The negative percentage for other revenue is the result of investment losses for the year.

Operating and Nonoperating Expenses

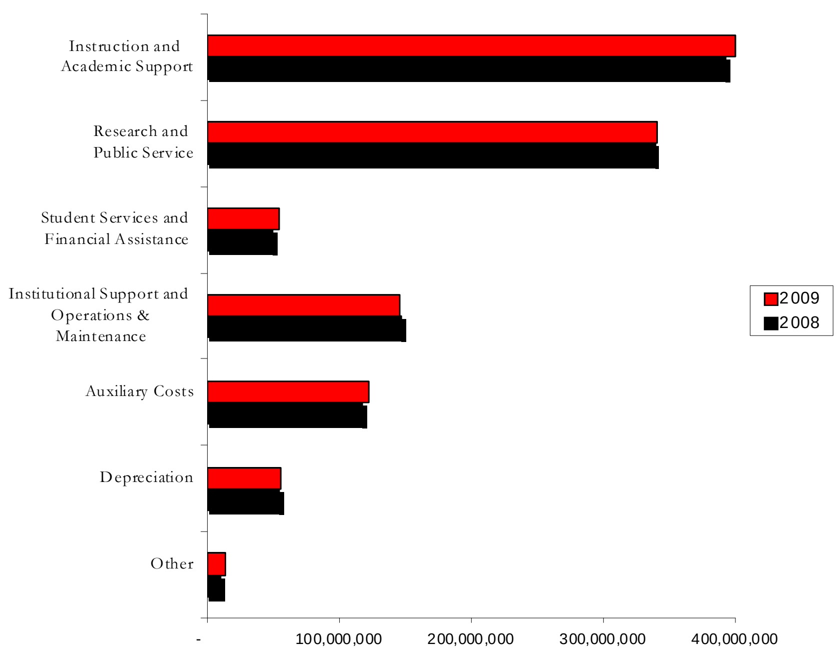
Title	% to Total 2009	% to Total 2008
Instruction	29%	29%
Research	19%	19%
Public Service	11%	11%
Auxiliary Enterprises	11%	11%
Operations & Maintenance of Plant	7%	7%
Academic Support	6%	6%
Institutional Support	6%	6%
Depreciation	5%	5%
Student Financial Aid	3%	3%
Student Services	2%	2%
Other	1%	1%
Total	100%	100%

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

Operating and Nonoperating Revenues



Operating and Nonoperating Expenses



Total revenues (operating and nonoperating) decreased $8.5 million or .8% compared to the prior year. The economic recession was the primary factor for this decrease. State appropriations were cut by $39.0 million or 8.0% from the prior year and investment income had net losses of $21.1 million as a result of market values dropping. However, the University received $14.3 million in federal economic recovery funds from the State to offset the reduced appropriations. Also, other factors helped to soften the effects of the economic recession on University revenues. Student tuition and fees increased by $11.1 million or 6.7% over the prior year because of enrollment growth and tuition and fee rate increases. Sales and services also grew as a result of higher demand and rate increases, up $8.1 million or 5%, primarily in housing, food services, and veterinary hospital revenues.

Total expenses (operating and nonoperating) increased $23.6 million or 2.1% over the prior year, primarily as a result of increases in salaries and benefits of $36.4 million and scholarships and fellowships of $3.8 million. These and other smaller increases are offset by a $22.5 million reduction in spending for supplies. The salaries and benefits increase is due primarily to a salary increase (the greater of 2.75% or $1,100) granted by the legislature at the beginning of the year. Spending for supplies dropped in response to state appropriation reductions.

Other Activity

Other activity totaled $35.8 million, down $46.1 million from the prior year. Because of budget limitations, the University had no new capital appropriations for 2009, a reduction of $38.1 million from the prior year, and had to refund to the State $1.9 million in prior years capital appropriations. Capital gifts were down $25.1 million because the prior year balance included the $20.1 million gift of the Alumni Center. Additions to permanent endowments also declined by $.6 million. These decreases were partially offset by a $19.6 million increase in capital grants, primarily state bond/COPs proceeds.

Capital Assets and Long-Term Debt Activities

Capital Assets

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

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

As shown in the following table, the University increased its net capital assets by $106.3 million during fiscal year 2009.

	2009	2008	Increase/ (Decrease)
Land	$ 26,914,428	$ 24,614,119	$ 2,300,309
Construction in Progress	145,513,373	114,984,835	30,528,538
Buildings	1,385,945,616	1,290,979,446	94,966,170
Machinery and Equipment	249,036,940	242,851,018	6,185,922
General Infrastructure	140,311,584	124,560,166	15,751,418
Total Capital Assets	1,947,721,941	1,797,989,584	149,732,357
Accumulated Depreciation	(562,090,028)	(518,702,506)	43,387,522
Net Capital Assets	$ 1,385,631,913	$ 1,279,287,078	$ 106,344,835

In addition to costs incurred, the University had $58.5 million in outstanding commitments for construction projects as of June 30, 2009.

During fiscal year 2009, NC State continued to build new facilities and work on renovations to modernize campus. Funding for these improvements came from funds provided by North Carolina bonds and certificates of participation, prior years state capital appropriations, and University debt financing.

Following are some of the major construction projects that were completed or were in progress as of June 30, 2009.

The completed renovation of Park Shops has brought the building, originally constructed in 1914, up to modern day regulations, improved the foundation and leveled the previously uneven floors and enables the building to be used for the College of Humanities and Social Sciences labs, Distance Education Learning Technology Applications and other undergraduate academic programs instead of as a storage facility for other buildings on campus. Key additions include an elevator, energy efficient thermal windows and a new roof.

The new 119,000 square foot SAS Hall located on the main campus houses state-of-the-art classrooms, computer labs, tutorial centers and meeting and study space for students and faculty from NC State's mathematics and statistics departments. A partnership with Cisco Systems, Inc. will improve digital communications for students by providing access to live and on-demand video content from anywhere on campus.

Renovations of the Frank Thompson Theater include the addition of gallery exhibition space to the main theatre lobby, enhanced soundproofing and structural improvements that will allow multiple performances and activities to occur simultaneously, state of the art equipment that has long been absent, and improved access for people with disabilities. As well as housing the University Theater it will be home to the Crafts Center and will provide newly configured and outfitted studio space in the Crafts Center with safe, efficient and state-of-the-art working areas for students.

Major safety code upgrades were provided in the nine apartment buildings of Western Manor Apartments located off Avent Ferry Road. These upgrades include new sprinkler systems, new fire alarm systems, accessibility to meet ADA requirements for facilities such as laundry and other common areas, and the removal of any asbestos materials identified from prior construction.

The Lonnie Poole Golf Course also opened for business this year. The Arnold Palmer signature course is a challenging par 71, 18 hole course on Centennial Campus that overlooks the downtown Raleigh Skyline with picturesque views from the tee boxes. Not only does it bring world class golf to the University's campus, but state of the art research facilities for the turf and golf course management departments.

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

Long-Term Debt Activities

The University incurs long-term debt to finance construction projects, to purchase equipment using lease arrangements and to provide for accumulated unused vacation benefits for employees. As shown in the following chart, the University increased its long-term debt by $67.0 million during fiscal year 2009.

	2009	2008	Increase/ (Decrease)
Bonds Payable	$ 253,137,535	$ 191,086,912	$ 62,050,623
Capital Leases Payable	513,688	50,461	463,227
Notes Payable	4,994,095	905,000	4,089,095
Compensated Absences	56,515,793	56,093,368	422,425
Total Long-Term Liabilities	$ 315,161,111	$ 248,135,741	$ 67,025,370

NC State issued $93.6 million in new bonds in fiscal year 2009. However, some $24.0 million in bonds were refunded, redeemed, or called and regular principal payments were made bringing the year end increase in bonds to $62.1 million. There was also a $4.1 million increase in the golf course note payable and compensated absences showed a small increase.

Economic Factors That Will Affect the Future

North Carolina State University, like many institutions across the nation, continues to feel the effects of the economic recession. The economic recession has significantly impacted multiple funding facets that support the University and it will take time to repair the damage. State funding as well as our endowment spending has and will continue to be impacted, as will foundation operations and their support to the University.

In meeting these difficult and challenging times, the Chancellor and his executive management team continue to use a collective strategy to assist program and fiscal managers with directing budget reduction and at the same time ensuring the achievement of core mission services. Positions have been eliminated, with significant reductions to administrative positions. While to a much lesser degree, teaching positions have been affected, especially in program areas not considered core to the University's mission and in areas where improved efficiencies are obtainable with limited impact on the students.

While operating resources have been impacted by the economic recession, there are many factors that provide a vision for an exciting and successful tomorrow. What is in store for NC State's future is magnified by the following known factors:

Capital Investment - Total additions to plant investment since fiscal year 2002 has been $898.8 million. In addition, during this time, affiliated foundations have provided funding for new and expanded facilities such as the expansion of Carter-Finley Football Stadium, the Alumni Center and the new Lonnie Poole Golf Course.

Enrollment Growth - Student enrollment continues to grow with the number of students attending classes for fall 2009 at 33,879. During the past five years the growth of enrollment has been 12.4%. The strength in these numbers makes NC State the largest state University in the 16 constituent University of North Carolina System.

State Support - State appropriations continues to provide strong support and makes up 41% of the total source of funding for the University's fiscal year 2009 operations. With the economic recession, unprecedented reductions to appropriations were made necessary to balance the state's budget. However, to minimize the effect of budget cuts on education, the State did increase various revenue streams and approved increased student enrollment funding in the fiscal year 2010 budget.

Tuition and Fees - Undergraduate tuition and fees increased $253 (4.8%) for residents and $440 (2.5%) for nonresidents for the 2010 academic year. However, the cost of education at NC State continues to be very affordable and combined with the high quality of education received, NC State continues to be reported as a best value among national universities and colleges. Annual tuition and fees for resident undergraduates have increased from $5,274 in 2008 to $5,527 in 2010. Annual tuition and fees for nonresident undergraduates have increased from $17,572 in 2008 to $18,012 in 2010.

Research and Innovation - Research and innovation continues to advance patents with the number now reaching 271 over the last four years and over 650 active patents. In addition, NC State's Centennial Campus continues to be a national model for government, business and University partnerships and how a research campus should be established. NC State's research and patent efforts as well as the Centennial Campus achievement continue to receive recognition in national publications. NC State's research is ranked fourth among universities without medical schools in industry-funded research and third in patent pipeline power of all universities in life sciences. NC State's Centennial Campus includes 100 integrated corporate and government research partners, including 25 incubator companies and 2,200 employees. NC State's Centennial Campus was named the top research science park by the Association of University Research Parks in October 2007.

Gift and Foundation Noncapital Support - While the economic recession has put gifts, endowment and foundation support at risk, the long-term trend for such support has been upward. The gifts, endowment and foundation noncapital support has grown from $51.6 million in 2007 to $59.8 million in 2009.

With our financial strength and stability, the quality of our administration, faculty and staff, the long-term support from the state and federal government and affiliated organizations, our commitment of excellence and innovation, and the public recognition of our quality and affordability, NC State University stands committed as the people's University to provide leadership in meeting important challenges that face the state, nation and the world.

North Carolina State University
Statement of Net Assets
June 30, 2009 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	165,881,831
Restricted Cash and Cash Equivalents		85,002,728
Restricted Short-Term Investments		1,239
Receivables, Net (Note 4)		37,483,904
Due from Primary Government		10,362,452
Due from State of North Carolina Component Units		3,917,735
Inventories		4,730,988
Notes Receivable, Net (Note 4)		3,967,366
Total Current Assets		311,348,243
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		46,062,984
Restricted Due from Primary Government		1,322,526
Endowment Investments		129,619,454
Other Investments		107,333,772
Notes Receivable, Net (Note 4)		10,669,235
Capital Assets - Nondepreciable (Note 5)		172,427,801
Capital Assets - Depreciable, Net (Note 5)		1,213,204,112
Total Noncurrent Assets		1,680,639,884
Total Assets		1,991,988,127
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		41,444,703
Due to Primary Government		7,193,910
Due to State of North Carolina Component Units		214,738
Unearned Revenue		35,790,649
Interest Payable		1,818,436
Short-Term Debt (Note 7)		20,000,000
Long-Term Liabilities - Current Portion (Note 8)		12,039,119
Total Current Liabilities		118,501,555
Noncurrent Liabilities:		
Deposits Payable		966,150
Funds Held for Others		17,087,473
U. S. Government Grants Refundable		5,996,775
Funds Held in Trust for Pool Participants		117,351,982
Long-Term Liabilities (Note 8)		303,121,992
Total Noncurrent Liabilities		444,524,372
Total Liabilities		563,025,927

NET ASSETS		
Invested in Capital Assets, Net of Related Debt		1,106,986,595
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		8,249,315
Endowed Professorships		43,377,687
Departmental Uses		6,495,334
Loans		6,643,149
Other		1,268,198
Expendable:		
Scholarships and Fellowships		17,457,809
Research		15,816,555
Endowed Professorships		27,250,821
Departmental Uses		25,521,359
Loans		1,361,170
Capital Projects		10,527,568
Debt Service		2,766,592
Other		7,754,702
Unrestricted		147,485,346
Total Net Assets	$	1,428,962,200

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

North Carolina State University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2009

Exhibit A-2

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	$ 175,524,899
Federal Appropriations	23,156,605
Federal Grants and Contracts	103,501,180
State and Local Grants and Contracts	35,982,356
Nongovernmental Grants and Contracts	48,715,775
Sales and Services, Net (Note 10)	172,474,942
Interest Earnings on Loans	385,555
Other Operating Revenues, Net (Note 10)	13,974,396
Total Operating Revenues	573,715,708
EXPENSES	
Operating Expenses:	
Salaries and Benefits	720,572,163
Supplies and Materials	100,692,620
Services	176,252,400
Scholarships and Fellowships	32,366,944
Utilities	36,009,011
Depreciation	56,485,824
Total Operating Expenses	1,122,378,962
Operating Loss	(548,663,254)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	448,754,067
State Aid - Federal Recovery Funds	14,252,039
Noncapital Grants - Federal Student Financial Aid	16,594,802
Other Noncapital Grants	2,807,274
Noncapital Gifts	54,855,246
Investment Loss (Net of Investment Expense of $585,432)	(21,063,730)
Interest and Fees on Debt	(11,511,215)
Other Nonoperating Expenses	(2,330,222)
Net Nonoperating Revenues	502,358,261
Loss Before Other Revenues and Expenses	(46,304,993)
Refund of Prior Years Capital Appropriations	(1,888,708)
Capital Grants	27,976,162
Capital Gifts	4,819,920
Additions to Endowments	4,916,348
Decrease in Net Assets	(10,481,271)
NET ASSETS	
Net Assets - July 1, 2008	1,439,443,471
Net Assets - June 30, 2009	$ 1,428,962,200

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

North Carolina State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009 *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	559,139,690
Payments to Employees and Fringe Benefits		(719,571,969)
Payments to Vendors and Suppliers		(313,659,388)
Payments for Scholarships and Fellowships		(32,366,944)
Loans Issued		(814,664)
Collection of Loans		1,403,425
Interest Earned on Loans		185,541
Other Receipts		13,974,396
Net Cash Used by Operating Activities		(491,709,913)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		448,754,067
State Aid - Federal Recovery Funds		14,252,039
Noncapital Grants - Federal Student Financial Aid		16,594,802
Other Noncapital Grants		522,418
Noncapital Gifts		55,142,536
Additions to Endowments		4,916,348
Federal Family Education Loan Receipts		101,755,293
Federal Family Education Loan Disbursements		(100,058,148)
William D. Ford Direct Lending Receipts		223,963
William D. Ford Direct Lending Disbursements		(267,900)
Related Activity Agency Receipts		63,406,445
Related Activity Agency Disbursements		(49,240,051)
External Participation in Investment Fund Receipts		11,685,228
External Participation in Investment Fund Disbursements		(8,080,788)
Other Receipts		184,886
Net Cash Provided by Noncapital Financing Activities		559,791,138
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Debt		127,837,858
Refund of Prior Years Capital Appropriations		(1,888,708)
Capital Grants		39,410,128
Capital Gifts		4,155,930
Proceeds from Sale of Capital Assets		402,098
Acquisition and Construction of Capital Assets		(161,439,537)
Principal Paid on Capital Debt and Leases		(108,343,640)
Interest and Fees Paid on Capital Debt and Leases		(10,706,321)
Payment to Bond Escrow Agent		(9,058,936)
Other Payments		(568,514)
Net Cash Used by Capital Financing and Related Financing Activities		(120,199,642)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		389,849,269
Investment Income		8,443,569
Purchase of Investments and Related Fees		(381,354,599)
Net Cash Provided by Investing Activities		16,938,239
Net Decrease in Cash and Cash Equivalents		(35,180,178)
Cash and Cash Equivalents - July 1, 2008		332,127,721
Cash and Cash Equivalents - June 30, 2009	$	296,947,543

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(548,663,254)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		56,485,824
Allowances, Write-Offs, and Amortizations		1,492,523
Changes in Assets and Liabilities:		
Receivables (Net)		(3,392,669)
Due from Primary Government		(42,864)
Inventories		122,604
Accounts Payable and Accrued Liabilities		(2,674,907)
Due to Primary Government		2,445,845
Unearned Revenue		1,541,876
Compensated Absences		422,423
Deposits Payable		552,686
Net Cash Used by Operating Activities	$	(491,709,913)
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	165,881,831
Restricted Cash and Cash Equivalents		85,002,728
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		46,062,984
Total Cash and Cash Equivalents - June 30, 2009	$	296,947,543
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through the Assumption of a Liability	$	496,868
Assets Acquired through a Gift		919,200
Change in Fair Value of Investments		(44,138,419)
Loss on Disposal of Capital Assets		(213,426)
Amortization of Bond Premiums/Discounts		(596,464)
Bond Issuance Cost Withheld		(383,323)

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

North Carolina State University Foundations
Statement of Financial Position
June 30, 2009 — *Exhibit B-1*

	North Carolina State University Foundation, Inc.	NC State Student Aid Association, Inc.
ASSETS		
Cash and Cash Equivalents	$ 4,258,843	$ 24,393,155
Investments	7,403,181	22,804,943
Investments with University Investment Pool	48,061,096	
Cash Surrender Value of Life Insurance	184,271	180,558
Real Estate Held for Resale	2,792,636	7,796,429
Receivables, Net	738,055	152,577
Pledges Receivable/Promises	16,944,028	33,403,403
Prepaid Expenses		30,976
Notes/Loans Receivable, Net		46,350
Property and Equipment, Net	678,409	54,313,885
Total Assets	81,060,519	143,122,276
LIABILITIES		
Accounts Payable and Accrued Expenses	1,204,724	636,971
Deferred Revenue		3,786,585
Interest Payable		153,471
Deposits Payable		7,755
Funds Held for Others	58,600	
Interest Rate Swap Fair Value Liability		3,659,388
Split Interest Agreement Obligations	3,650,426	
Notes Payable		1,783,182
Bonds Payable		58,580,000
Total Liabilities	4,913,750	68,607,352
NET ASSETS		
Unrestricted	(2,158,139)	21,829,835
Temporarily Restricted	37,874,920	29,498,790
Permanently Restricted	40,429,988	23,186,299
Total Net Assets	$ 76,146,769	$ 74,514,924

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

North Carolina State University Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Exhibit B-2

	North Carolina State University Foundation, Inc.	NC State Student Aid Association, Inc.
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues, Gains and Losses:		
Contributions	$ 15,287	$ 9,005,716
Donated Services and Noncash Contributions	451,900	2,147,075
Student Housing Rents		2,445,176
Investment Income	41,920	955,459
Net Unrealized and Realized Losses on Long-Term Investments	(3,327,926)	(725,640)
Unrealized Loss on Swap Contracts		(1,553,853)
Net Asset Reclassification - Underwater Endowments	(4,620,949)	
Other	3,651,239	1,580,491
Total Unrestricted Revenues, Gains and Losses	(3,788,529)	13,854,424
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions	6,311,602	203,005
Facility Improvements		7,211,005
Total Net Assets Released from Restrictions	6,311,602	7,414,010
Total Unrestricted Revenues, Gains, Losses and Other Support	2,523,073	21,268,434
Expenses:		
University Support	7,068,336	6,848,350
University Facilities Support	1,670,472	7,211,005
Student Housing		3,121,443
Management and General	307,406	487,219
Fund Raising	581,926	2,796,781
Total Expenses	9,628,140	20,464,798
Increase (Decrease) in Unrestricted Net Assets	(7,105,067)	803,636
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,887,911	2,648,491
Donated Services and Noncash Contributions		564,600
Investment Income		213,429
Net Unrealized and Realized Losses on Long-Term Investments	(13,617,645)	(234,907)
Unrealized Loss on Swap Contracts		(722,457)
Net Asset Reclassification - Underwater Endowments	4,620,949	
Vaughn Towers Revenue		4,312,850
Other	(1,455,053)	
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions	(6,311,602)	
Facility Improvements		(7,211,005)
Decrease in Temporarily Restricted Net Assets	(14,875,440)	(428,999)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	1,141,141	798,626
Investment Income	155,145	
Net Unrealized and Realized Losses on Long-Term Investments	(598,615)	(3,565,290)
Change in Value of Split Interest Agreements	1,015,810	
Other	806,314	(37,526)
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(203,005)
Increase (Decrease) in Permanently Restricted Net Assets	2,519,795	(3,007,195)
Decrease in Net Assets	(19,460,712)	(2,632,558)
Net Assets at Beginning of Year	95,607,481	77,147,482
Net Assets at End of Year	$ 76,146,769	$ 74,514,924

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Investment Fund is governed by a Members Board consisting of six ex officio directors and five elected representatives. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. Because the majority of the Members Board of the Investment Fund consists of University administrators and board members and the Investment Fund's primary purpose is to benefit North Carolina State University, its financial statements have been blended with those of the University.

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

Separate financial statements for the Investment Fund and for the Corporation and the LLCs may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Discretely Presented Component Units - The North Carolina State University Foundation, Inc. (Foundation) and NC State Student Aid Association, Inc. (Athletic Club) are legally separate not-for-profit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

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

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

During the year ended June 30, 2009, the Foundation distributed $7,897,207 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

During the year ended June 30, 2009, the Athletic Club distributed $5,419,927 to the University for both restricted and unrestricted purposes. Complete financial statements for the Athletic Club can be obtained from the NC State Student Aid Association, PO Box 37100, Raleigh, NC 27627, or by calling (919) 865-1500.

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

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

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

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

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

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

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

Money market funds, real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated. Private equity funds consist primarily of investments that are not readily marketable. Investments in these categories, which are managed externally, are valued utilizing the most current information provided by the general partner.

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

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, 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 and merchandise for resale, are valued at cost using the first-in, first-out, method. Exceptions are the bookstore, which uses the retail inventory method, and physical plant, which uses the moving weighted average method.

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 4 to 22 years for equipment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $295,238,799 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.8 years as of June 30, 2009. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2009 was $187,782. The carrying amount of the University's deposits not with the State Treasurer was $1,520,962 and the bank balance was $1,579,176. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University follows the Cash Management Plan (Plan) approved by the North Carolina Office of the State Controller. As provided by the Plan, all funds belonging to the University are deposited with the State Treasurer pursuant to G.S. 147-77 and G.S. 147-69.1. As provided by the Plan, imprest checking accounts are established with outside banks when considered effective in meeting management objectives. All imprest checking accounts are authorized by the University Treasurer and are limited to the minimum amount needed for sanctioned purposes. In addition, pursuant to G.S. 116-36(e), the University invests certain endowment funds with outside bank accounts. As of June 30, 2009, $691,543 of the bank balance was exposed to custodial credit risk.

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

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

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

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

Investments of endowment funds including those invested in the Investment Fund, a University component unit, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University does not have a formal policy that addresses interest rate risk.

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

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.

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

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

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

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Scurities:					
U.S. Treasuries	$ 453,764	$ 0	$ 0	$ 249,534	$ 204,230
U.S. Agencies	132,918		78,047	54,871	
Mortgage Pass Throughs	1,226,401		19,118	71,504	1,135,779
Collateralized Mortgage Obligations	620,290			76,476	543,814
State and Local Government	118,132			38,063	80,069
Asset-Backed Securities	366,640				366,640
Mutual Bond Funds	8,733,156			8,733,156	
Money Market Mutual Funds	545,826	545,826			
Domestic Corporate Bonds	1,094,078		338,962	440,079	315,037
Foreign Corporate Bonds	175,782	1,309	16,829	47,157	110,487
	13,466,987	$ 547,135	$ 452,956	$ 9,710,840	$ 2,756,056
Other Securities:					
Pooled Investments	272,097				
Venture Capital	197,867				
Total Long-Term Investment Pool	$ 13,936,951				

At June 30, 2009, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure (based on Moody's and/or S&P ratings):

Investment Type	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Scurities:							
U.S. Agencies	$ 132,918	$ 132,918	$ 0	$ 0	$ 0	$ 0	$ 0
Mortgage Pass Throughs	1,226,401	1,226,401					
Collateralized Mortgage Obligations	620,290	306,586	104,272	70,057	86,082	51,762	1,531
State and Local Government	118,132			22,681	85,153		10,298
Asset-backed Securities	366,640	147,206	41,937	44,187	19,031	114,279	
Mutual Bond Funds	8,733,156						8,733,156
Money Market Mutual Funds	545,826			287,712			258,114
Domestic Corporate Bonds	1,094,078		43,399	351,456	492,311	206,912	
Foreign Corporate Bonds	175,782		105,895	15,357	32,658	21,872	
	13,013,223	$ 1,813,111	$ 295,503	$ 791,450	$ 715,235	$ 394,825	$ 9,003,099
Debt Securities Exempt From Credit Disclosures:							
U.S. Treasuries	453,764						
Total Debt Securities	$ 13,466,987						

Investment Fund - The Investment Fund began operations in April 1999 and is classified as a non-rated 2a7-like governmental external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Investment Fund is utilized as one of the investment managers for the Long-Term Investment Pool and the North Carolina State University Foundation, Inc., a discretely presented component unit in the accompanying financial statements (the Investment Fund's internal participants). Other affiliated organizations not included in the University's reporting entity represent the pool's external participants. The external portion of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

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

BNY Mellon is the custodian for the pool and provides the University with quarterly statements defining income and fair value information, which is then allocated among the fund's participants. Each participant holds Master Trust Units of the Fund. The unit price fluctuates based on the investment experience of the investment pool. There are no involuntary participants in the pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the pool's investments. The annual financial report for the external investment pool may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

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

Investment Fund

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
Money Market Mutual Funds	$ 96	$ 96	$ 0	$ 0	$ 0
Other Securities					
UNC Investment Fund	225,594,520				
Investments in Real Estate	1,796,460				
Limited Partnerships	21,571,728				
Total External Investment Pool	$ 248,962,804				

At June 30, 2009, investments in the Investment Fund had the following credit quality distribution for securities with credit exposure (based on Moody's and/or S&P ratings):

	Fair Value	AAA Aaa
Investment Type		
Debt Securities:		
Money Market Mutual Funds	$ 96	$ 96

UNC Investment Fund, LLC - At June 30, 2009, the University's investments in the Investment Fund include $225,594,520 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 12.70 years as of June 30, 2009. Asset and ownership interests of the System Fund are determined on a market unit valuation basis each month. Investment risks associated with the System Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from the UNC CH Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270.

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

Non-Pooled Investments

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
Money Market Mutual Funds	$ 1,239	$ 1,239	$ 0	$ 0	$ 0
Other Securities					
Investments in Real Estate	20,932,938				
Domestic Stocks	1,096,017				
Venture Capital	15,733				
Collections and Mineral Rights	69,879				
Total Non-Pooled Investments	$ 22,115,806				

At June 30, 2009, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure (based on Moody's and/or S&P ratings):

	Fair Value	AAA Aaa
Investment Type		
Debt Securities:		
Money Market Mutual Funds	$ 1,239	$ 1,239

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

	Fair Value
Investment Type	
Debt Securities	
U.S. Treasuries	$ 453,764
U.S. Agencies	132,918
Mortgage Pass Throughs	1,226,401
Collateralized Mortgage Obligations	620,290
State and Local Government	118,132
Asset-Backed Securities	366,640
Mutual Bond Funds	8,733,156
Money Market Mutual Funds	547,161
Domestic Corporate Bonds	1,094,078
Foreign Corporate Bonds	175,782
Other Securities	
UNC Investment Fund	225,594,520
Investments in Real Estate	22,729,398
Limited Partnerships	21,571,728
Pooled Investments	272,097
Domestic Stocks	1,096,017
Venture Capital	213,600
Collections & Mineral Rights	69,879
Total Investments	$ 285,015,561

Total investments include $48,061,096 held in the "Investment Fund" for the North Carolina State University Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements.

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University pool endowment funds are determined by applying 4% (the Board approved spending rate) to the average market value of the long-term investment pool (for a 20 quarter period), divided by the number of investment units in the pool to determine the "average spending amount" per unit of investment. The individual endowment fund payout or spending budget is determined by applying the "average spending amount" to the number of investment units held by the individual endowment fund. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2009, endowment net assets of $82,082,517 were available to be spent, of which $64,622,290 was restricted to specific purposes.

During the current year, the University incurred investment losses that exceeded the available accumulated income and net appreciation for certain endowment funds. These losses resulted in a reduction to the specific nonexpendable endowment fund balance. At June 30, 2009, the amount of accumulative investment losses reported against the nonexpendable endowment balances were $4,740,395.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 5,939,204	$ 3,411,947	$ 2,527,257
Accounts	22,833,736	2,104,640	20,729,096
Intergovernmental	13,767,812		13,767,812
Interest on Loans	732,802	273,063	459,739
Total Current Receivables	$ 43,273,554	$ 5,789,650	$ 37,483,904
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 2,542,942	$ 15,866	$ 2,527,076
Institutional Student Loan Programs	315,875	5,031	310,844
Other	1,129,446		1,129,446
Total Notes Receivable - Current	$ 3,988,263	$ 20,897	$ 3,967,366
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 10,000,437	$ 635,122	$ 9,365,315
Institutional Student Loan Programs	320,172	136,666	183,506
Other	1,120,414		1,120,414
Total Notes Receivable - Noncurrent	$ 11,441,023	$ 771,788	$ 10,669,235

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	$ 24,614,119	$ 2,300,309	$ 0	$ 26,914,428
Construction in Progress	114,984,835	86,213,981	55,685,443	145,513,373
Total Capital Assets, Nondepreciable	139,598,954	88,514,290	55,685,443	172,427,801
Capital Assets, Depreciable:				
Buildings	1,290,979,446	95,177,759	211,589	1,385,945,616
Machinery and Equipment	242,851,018	19,286,059	13,100,137	249,036,940
General Infrastructure	124,560,166	15,751,418		140,311,584
Total Capital Assets, Depreciable	1,658,390,630	130,215,236	13,311,726	1,775,294,140
Less Accumulated Depreciation/Amortization for:				
Buildings	323,254,576	33,068,300	231,752	356,091,124
Machinery and Equipment	167,567,170	20,065,967	12,866,550	174,766,587
General Infrastructure	27,880,760	3,351,557		31,232,317
Total Accumulated Depreciation	518,702,506	56,485,824	13,098,302	562,090,028
Total Capital Assets, Depreciable, Net	1,139,688,124	73,729,412	213,424	1,213,204,112
Capital Assets, Net	$ 1,279,287,078	$ 162,243,702	$ 55,898,867	$ 1,385,631,913

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 26,563,432
Accrued Payroll	8,609,688
Contract Retainage	5,787,125
Other	484,458
Total Accounts Payable and Accrued Liabilities	$ 41,444,703

NOTE 7 - SHORT-TERM DEBT - COMMERCIAL PAPER PROGRAM

The University has available Commercial Paper Program financing for short-term credit up to $100,000,000 to finance capital construction projects. The University's available funds are pledged to the Commercial Paper Program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2009, $20,000,000 in Tax-Exempt Commercial Paper was outstanding.

Short-term debt activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Draws	Repayments	Balance June 30, 2009
Commercial Paper Program	$ 75,500,000	$ 30,000,000	$ 85,500,000	$ 20,000,000

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Bonds Payable	$ 184,225,000	$ 93,560,000	$ 31,485,000	$ 246,300,000	$ 9,080,000
Add/Deduct Premium/Discount	6,861,912	572,087	596,464	6,837,535	
Total Bonds Payable	191,086,912	94,132,087	32,081,464	253,137,535	9,080,000
Notes Payable	905,000	4,089,095		4,994,095	
Capital Leases Payable	50,461	496,868	33,641	513,688	168,779
Compensated Absences	56,093,368	33,906,506	33,484,081	56,515,793	2,790,340
Total Long-Term Liabilities	$ 248,135,741	$ 132,624,556	$ 65,599,186	$ 315,161,111	$ 12,039,119

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009	See Table Below
CENTENNIAL CAMPUS SYSTEM							
Centennial Campus Projects	1997A	6.55-7.04%	12/15/2010	$ 7,765,000	$ 6,620,000	$ 1,145,000	1
GENERAL REVENUE							
Refund Housing System Series L & M	2002B	2-5%	10/01/2014	8,800,000	3,950,000	4,850,000	
Centennial Campus Projects	2002C	2.75-6,45%	10/01/2013	7,160,000	3,605,000	3,555,000	
Housing System Projects/Doak Field Projects	2003A	2-5%	10/01/2018	26,735,000	565,000	26,170,000	
Housing System Projects/Doak Field Projects	2003B	3.54%*swap	10/01/2027	45,660,000	1,575,000	44,085,000	
Various Construction Projects	2005A	3-5%	10/01/2025	81,615,000	8,680,000	72,935,000	
Various Construction Projects	2008A	3.86%*swap	10/01/2028	66,605,000		66,605,000	
Various Construction Projects	2008B	3-5%	10/01/2020	26,955,000		26,955,000	
Total General Revenue				263,530,000	18,375,000	245,155,000	
Total Bonds Payable (Principal Oonly)				$ 271,295,000	$ 24,995,000	246,300,000	
Less: Unamortized Discount						24,767	
Plus: Unamortized Premium						6,862,302	
Total Bonds Payable						$ 253,137,535	

* For variable rate debt, interest rates in effect at June 30, 2009 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal & Interest	Estimate of % of Revenues Pledged
(1)	Centennial Campus Revenues	$ 1,206,424	$ 5,940,805	$ 893,240	9%

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

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

The North Carolina State University at Raleigh General Revenue Bonds, Series 2003B: On June 20, 2003, the University issued tax-exempt variable rate demand bonds in the amount of $45,660,000 that have a final maturity date of October 1, 2027. The bonds are subject to mandatory sinking fund redemption that began on October 1, 2004. The University’s proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2003B bonds.

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

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

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider rate (the greater of the bank prime commercial lending rate and federal funds rate plus 0.5%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2009, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire on November 30, 2015, unless otherwise extended based on the terms of the Agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in 12 quarterly installments, beginning the first business day of January, April, July, or October, whichever first occurs on or following the Purchase Date along with accrued interest at the Liquidity Provider rate. In the event the entire issue of $44,085,000 of demand bonds was “put” and not resold, the University would be required to pay $15 million a year for three years under this agreement assuming a 3.25% interest rate.

The North Carolina State University at Raleigh General Revenue Bonds, Series 2008A: On July 10, 2008, the University issued tax-exempt variable rate revenue demand bonds in the amount of $66,605,000 that have a final maturity date of October 1, 2028. The bonds are subject to mandatory sinking fund redemption that begins on October 1, 2014. The University’s proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for the purpose, and to pay the costs incurred in connection with the issuance of the 2008A bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days notice and delivery to the paying agent, The Bank of New York Mellon. Upon notice from the paying agent, the remarketing agent, Citigroup Global Markets 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 Bank of America, N.A., a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.20% of the available commitment, payable quarterly in arrears, beginning on October 1, 2008 and on each October 1, January 1, April 1 and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Base Rate (the greater of the bank prime commercial lending rate and federal funds rate plus 3.0%) for 30 days. For the period of 31 through 60 days after purchase, the Bank Bonds bear interest at the Base Rate plus 1.0%. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due the first business day of each month in which Bank Bonds are outstanding. At June 30, 2009, there were no Bank Bonds held by the Liquidity Facility. The Liquidity Facility is scheduled to expire on July 10, 2011, unless otherwise extended based on the terms of the Agreement.

After the purchase of the Bank Bonds, or expiration or termination of the Agreement, the University is required to redeem (purchase) the Bank Bonds held by the Liquidity Facility in six semi-annual installments, beginning the first business day of the month which next occurs on or following 61 days after the Purchase Date along with accrued interest at the Bank Bond rate plus 2.0%. In the event the entire issue of $66,605,000 of demand bonds was “put” and not resold, the University would be required to pay $24 million a year for three years under this agreement assuming a 5.25% interest rate.

Interest Rate Swaps:

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

Terms, fair values, and credit risk: The University’s swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable category. The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2009, were as follows (dollars in thousands):

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating Moody's/S&P/Fitch
General Revenue 2003B	$ 24,655	6/20/2003	3.54%	75% of LIBOR	$ (1,782)	10/1/2027	Aa3 / A+ / A+
General Revenue 2008A	50,000	9/1/2008	3.86%	SIFMA	(4,305)	10/1/2026	Aa1 / AA- / AA-
	$ 74,655				$ (6,087)		

Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2009. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values are the market values as of June 30, 2009.

As of June 30, 2009, the University was not exposed to credit risk related to positively valued swaps. The swap agreements require termination should the University's or the counterparty's credit rating fall below either Baa2 as issued by Moody's or BBB as issued by S&P or Fitch. Also, under the terms of the swap agreements, should one party become insolvent or otherwise default on its obligations, provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A3 as determined by Moody's or A- as determined by S&P, the swap will be collateralized by the counterparty with cash, U.S. government or agency securities. If the counterparty is required to collateralize, then the collateral will be posted with a third party custodian or secured party. The swap agreements entered into by the University are held with separate counterparties. All the counterparties are rated A+ or better.

Basis risk: The University is exposed to basis risk on the swaps when the variable payment received is based on an index other than the Securities Industry and Financial Markets Association (SIFMA). Should the relationship between the London Interbank Offered Rate (LIBOR) and SIFMA move to convergence, the expected cost savings may not be realized. As of June 30, 2009, the SIFMA rate was 0.35%, whereas 75% of LIBOR was 0.23%.

Termination risk: The University or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable-rate bonds would not longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for that amount.

Future swaps: The University has also entered into a future dated interest rate swap agreement for $22,382,500 to be effective March 1, 2017, on the General Revenue Series 2008A bonds.

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

	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2010	$ 9,080,000	$ 6,395,607	$ 2,571,649	$ 0	$ 40,952
2011	8,855,000	6,026,387	2,571,649		40,952
2012	11,925,000	5,558,603	2,571,649	4,994,095	20,476
2013	12,650,000	5,037,295	2,571,649		
2014	13,300,000	4,486,881	2,571,649		
2015-2019	61,210,000	14,920,565	11,846,965		
2020-2024	68,890,000	6,438,448	8,158,858		
2025-2029	60,390,000	837,901	1,654,381		
Total Requirements	$ 246,300,000	$ 49,701,687	$ 34,518,449	$ 4,994,095	$ 102,380

Interest on the variable rate 2003B revenue bonds is calculated at .23% at June 30, 2009
Interest on the variable rate 2008A revenue bonds is calculated at .30% at June 30, 2009

This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 8C.

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

On July 10, 2008, North Carolina State University issued $26,955,000 in North Carolina State University General Revenue Bonds, Series 2008B with an average interest rate of 3.59%. The bonds were issued for a current refunding of $5,520,000 of outstanding University of North Carolina System Pool Revenue Bonds, Series 1998B with an average interest rate of 5%.

On July 10, 2008, North Carolina State University issued $26,955,000 in North Carolina State University General Revenue Bonds, Series 2008B with an average interest rate of 3.59%. The bonds were issued to advance refund $3,155,000 of outstanding University of North Carolina System Pool Revenue Bonds, Series 2000 with an average interest rate of 5.35%.

The net proceeds of the refunding bonds along with other resources were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. Both the current refunding and this advance refunding was undertaken to reduce total debt service payments by $152,159 over the next 12 years and resulted in an economic gain of $128,386. At June 30, 2009, the outstanding balance was $3,155,000 for the defeased University of North Carolina System Pool Revenue Bonds.

F. Notes Payable - The University's Partnership Corporation has available a revolving commercial note up to $5,000,000 to finance construction of the Lonnie Poole Golf Course on Centennial Campus. This is an unsecured line of credit and it is expected that pledges received and course revenues will be used to retire the note by the December 21, 2011 due date.

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009
Lonnie Poole Golf Course	Sun Trust	Variable	12/31/2011	$ 4,994,095.00	$ 0.00	$ 4,994,095.00

NOTE 9 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2009:

Fiscal Year	Amount
2010	$ 171,783
2011	151,959
2012	136,336
2013	72,409
2014	57,323
Total Minimum Lease Payments	589,810
Amount Representing Interest (3.74% Rate of Interest)	76,122
Present Value of Future Lease Payments	$ 513,688

Machinery and equipment acquired under capital lease amounted to $898,433 at June 30, 2009.

B. Operating Lease Obligations - The University entered into operating leases for equipment and property rental. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

Fiscal Year	Amount
2010	$ 5,371,415
2011	4,321,467
2012	3,718,663
2013	3,681,035
2014	3,388,554
Total Minimum Lease Payments	$ 20,481,134

Rental expense for all operating leases during the year was $5,079,634.

NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 209,649,436	$ 390,681	$ 32,929,860	$ 803,996	$ 175,524,899
Other Revenues	$ 19,858,739	$ 5,301,844	$ 0	$ 582,499	$ 13,974,396
Sales and Services	$ 228,820,026	$ 47,646,995	$ 8,592,061	$ 106,028	$ 172,474,942

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 285,051,344	$ 20,128,281	$ 26,753,787	$ 0	$ 1,190	$ 0	$ 331,934,602
Research	153,078,513	19,076,840	46,314,180		508,681		218,978,214
Public Service	88,089,341	9,473,359	24,252,448		328,527		122,143,675
Academic Support	40,991,764	11,966,059	15,789,141		15,561		68,762,525
Student Services	14,109,833	1,539,825	4,645,815		135,701		20,431,174
Institutional Support	53,977,668	1,613,112	11,539,789		267,067		67,397,636
Operations and Maintenance of Plant	35,127,575	5,460,560	8,973,873		29,493,774		79,055,782
Student Financial Aid	1,713,960	329,280	475,707	32,366,944			34,885,891
Auxiliary Enterprises	48,432,165	31,105,304	37,507,660		5,258,510		122,303,639
Depreciation						56,485,824	56,485,824
Total Operating Expenses	$ 720,572,163	$ 100,692,620	$ 176,252,400	$ 32,366,944	$ 36,009,011	$ 56,485,824	$ 1,122,378,962

NOTE 12 - PENSION PLANS

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

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

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

For the current fiscal year, the University had a total payroll of $628,944,092, of which $313,588,252 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $10,536,565 and $18,815,295, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were $10,536,565, $9,039,835, and $7,478,544, respectively.

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

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

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

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

For the current fiscal year, the University had a total payroll of \$628,944,092, of which \$212,674,095 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$14,546,908 and \$12,760,446, respectively.

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

University. The voluntary contributions by employees amounted to $2,743,795 for the year ended June 30, 2009.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2009, were $130,047. The voluntary contributions by employees amounted to $4,514,122 for the year ended June 30, 2009.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to $10,513,428 for the year ended June 30, 2009.

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

North Carolina Cooperative Extension employees with federal appointments prior to January 1, 1987 participate in the Civil Service Retirement System. Currently, 140 employees participate in CSRS. Participating employees are required by federal statute to contribute 7% of salary and the University 7% of salary to CSRS. In addition, the CSRS employees may contribute to the Thrift Savings Plan (a defined contribution plan managed by the Federal Retirement Thrift Investment Board) up to the annual IRS annual elective limits with no agency matching contributions. Total employee and employer contributions for CSRS for the year ended June 30, 2009, was $784,169 and $819,392 respectively. Employees covered under CSRS contributed $78,231 to the Thrift Savings Plan.

Under the Federal Employees Retirement System (FERS), employees are required to contribute 0.8% of salary and the University 11.2%. Currently, seven employees participate in FERS. In addition, the FERS employees may contribute to the Thrift Savings Plan up to the annual IRS annual elective limits with an agency matching contribution of up to 5% depending upon the employee's contribution. Total employee and employer contributions for the year ended June 30, 2009 were $7,073 and $99,023 respectively. For employees covered under FERS the total employee and employer contributions to the Thrift Savings Plan for the year ended June 30, 2009 were $79,657 and $42,473 respectively.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the current fiscal year, the University contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2008 and 2007 were 4.1% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were $21,576,756, $20,320,873, and $17,446,423, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2008 and 2007 were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were $2,736,564, $2,577,281, and $2,387,405, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 14 - RISK MANAGEMENT

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

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

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. University departments, as an individual business decision, may also purchase through the Fund primary extended coverage for buildings and contents. Coverage may also be purchased through the Fund for theft, vandalism, sprinkler leakage, or all-risk perils. University departments also have the option to purchase all-risk coverage for computers and "miscellaneous equipment" on a scheduled basis. Extended coverage for buildings and equipment, flood insurance, as well as other insurance coverage for which departments have not purchased such insurance through the Fund are considered retained risks by the University.

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

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is procured through the State's Agent of Record and approved by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is $1,000,000 per occurrence. The applicable deductible is $25,000 per occurrence.

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

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

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

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

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

NOTE 15 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $58,479,625 at June 30, 2009.

The University has amended the Use Agreement for the RBC Center with the Centennial Authority (a related party) and therein agreed to make scheduled capital contributions totaling $6,000,000 to the Authority's Building Enhancement Fund over a 15 year period. The total outstanding commitment on this agreement was $5,550,000 as of June 30, 2009.

B. Pending Litigation and Claims - As previously reported, the Environmental Protection Agency (EPA) filed a civil action against the

University pursuant to the Comprehensive Environmental Response, Compensation and Liability Act. The complaint sought relief that would cause the University to enter into remediation of a hazardous waste site known as "Lot 86." The University is involved in ongoing discussions and negotiations with the EPA concerning the appropriate means for addressing the remediation. A Consent Decree executed by North Carolina State University and the EPA has been approved by the Court. Remedial clean-up pursuant to the Consent Decree continues. The remediation costs remaining are estimated to be around $1,000,000.

As previously reported, the NC School Boards Association, et. al. filed a civil action against various state officials in their official capacity seeking a judicial determination as to whether the state constitution requires certain monetary payments collected by state agencies to be paid to the local county school funds. On July 1, 2005, the NC Supreme Court held in favor of the school boards with regard to parking fines. The matter was remanded back to the trial court for disposition in accordance with the Superior Court's decision. On August 8, 2008, the Wake County Superior Court issued judgment that the estimated amounts collected from January 1, 1996, to June 30, 2005, by UNC Campuses belong and should have been paid to the public schools of the State by payment to the State's Civil Penalty and Forfeiture Fund. The manner in which the judgment will be settled is uncertain and is to be determined by the North Carolina General Assembly. At issue for NC State University is approximately $6,047,286 in transportation fines collected since January 1, 1996, to June 30, 2005. Of this amount, the University has recorded a liability for $2,273,817 as instructed by Senate Bill 202, Session Law 2009-451 (Appropriations Act of 2009) and signed by the Governor on August 7, 2009. Since July 2005, the University has been forwarding collections, less collection costs, to the Office of State Budget and Management on a monthly basis.

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

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

NOTE 16 - RELATED PARTIES

Foundations - There are 11 separately incorporated nonprofit foundations associated with the University. These foundations are the North Carolina Agricultural Foundation, Inc., North Carolina State University Foundation, Inc., North Carolina Tobacco Foundation, Inc., North Carolina State University Physical and Mathematical Sciences Foundation, Inc., North Carolina Engineering Foundation, Inc., North Carolina Veterinary Medical Foundation, Inc., NC State Natural Resources Foundation, Inc., North Carolina Textile Foundation, Inc., NC State Student Aid Association, Inc., Friends of NC State Baseball, LLC, and the North Carolina State Alumni Association, Inc.

These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. As described in Note 1 to the financial statements, the North Carolina State University Foundation, Inc. and the NC State Student Aid Association, Inc. are considered component units of the University for reporting purposes and their financial statements are presented separately as part of the University's financial statements. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. This support of the foundations, excluding amounts from the North Carolina State University Foundation, Inc, and the NC State Student Aid Association, Inc. approximated $31,879,638 for the year ended June 30, 2009.

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

The Authority entered into a Ground Lease with the State of North Carolina to lease land for the ESA for a period of 99 years at an annual rent of $1. The University entered into a Use Agreement with the Authority. Both parties agreed that the University shall be the primary and preferred user of all areas of the ESA. The University is required to pay the greater of 10% of gross ticket revenues or $46,381 for each men's and $20,285 for each women's basketball game to compensate the Authority for facility rental and operating expenses. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the ESA and the anticipated attendance.

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

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

NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the University implemented the following pronouncements issued by GASB:

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

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

GASB Statement No. 49 requires reporting pollution remediation obligations, which are obligations to address current or potential detrimental effects of existing pollution, including reporting pollution remediation obligations that previously may not have been reported.

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

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

NOTE 18 - SUBSEQUENT EVENTS

On November 4, 2009, the University borrowed $10,000,000 through the commercial paper financing program. These funds provided financing for current construction projects.

NOTE 19 - DISCRETELY PRESENTED COMPONENT UNITS

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

North Carolina State University Foundation, Inc.

ENDOWMENT

The Foundation's endowment consists of approximately 535 individual funds established for a variety of purposes related to the mission of the University. The endowment includes both donor-restricted endowments and funds designated by the Foundation Board to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The majority of the Foundation's signed endowment gift agreements with donors have donor-imposed restrictions which stipulate that principal shall not be used to fund spending.

Interpretation of Relevant Law:

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted in North Carolina as NC General Statute 36E effective March 17, 2009. UPMIFA defines a prudence standard for management and investment of institutional funds. As a result of the Foundation's interpretation of UPMIFA and the signed endowment agreements with donors, the

Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment that are required by the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation's endowment spending policy.

Funds with Deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets, and were $4,781,597 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations.

Investment Return Objectives and Risk Parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. The endowment assets are invested through the NC State Investment Fund, Inc. (NCSIF) in a manner that is intended to produce results that exceed a 70% S&P 500 Index/30% Barclays Aggregate Bond Index benchmark over rolling five and ten year periods while assuming a moderate level of investment risk.

Spending Policy:

The Foundation has a policy of appropriating for distribution each year 4.0% of its endowment fund's average market value over the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. However, in declining market conditions, many newer endowments are not able to fund spending at the 4.0% level. In this situation, as prescribed by the donor endowment agreements, the Foundation does not initiate or renew spending for the individual endowments affected by declining market conditions until their market value has been recovered and exceeds their original gift value. In establishing the spending policy, the Foundation considered the long-term expected return on its endowment. Spending budgets for fiscal year 2009 were calculated at $2,087,255 and $869,575 for fiscal year 2010.

Strategies Employed for Achieving Investment Objectives:

For the long term, the primary investment objective for the Fund is to earn a total return (net of investment and custodial fees), within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the Fund and to meet the spending needs of the University. To meet this investment objective, the Fund invests in various asset classes to offer diversification. The purpose of diversification is to provide reasonable assurance that no single security or class of securities or manager will have a disproportionate impact on the performance of the total fund.

The Fund's investments are diversified both by asset class (e.g. common stocks and fixed income securities) and within asset classes (e.g., within common stocks by economic sector, geographic area, industry, quality, and size). In general, the Investment Manager seeks to diversify exposure to all asset classes by hiring multiple managers that use a variety of investment approaches.

The following represents changes in endowment net assets for the fiscal year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ 3,758,957	$ 31,539,988	$ 37,910,193	$ 73,209,138
Net Asset Reclassification Based on Change in Law	(4,781,597)	4,781,597		
Endowment Net Assets After Reclassification	(1,022,640)	36,321,585	37,910,193	73,209,138
Investment Return: Investment Income	(37,849)	(156,127)	155,145	(38,831)
Net Depreciation (Realized and Unrealized)	(3,066,289)	(15,263,829)	(598,615)	(18,928,733)
Total Investment Return	(3,104,138)	(15,419,956)	(443,470)	(18,967,564)
Contributions			1,141,141	1,141,141
Appropriations of Endowment Assets for Expenditure	(273,084)	(1,592,062)		(1,865,146)
Change in Value of Split Interest Agreements			1,015,810	1,015,810
Other Changes:				
Transfers Among Funds			1,060,180	1,060,180
Transfers to Other University-Associated Entities			(253,866)	(253,866)
Endowment Net Assets, End of Year	$ (4,399,862)	$ 19,309,567	$ 40,429,988	$ 55,339,693

The following represents endowment net asset composition by type of fund, as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - Underwater Endowments	$ (4,781,597)	$ 19,309,567	$ 40,429,988	$ 54,957,958
Donor Restricted Endowment Funds	2,598,649			2,598,649
Board-Designated Endowment Funds	(2,216,914)			(2,216,914)
Total Funds	$ (4,399,862)	$ 19,309,567	$ 40,429,988	$ 55,339,693

Marketable Securities

Marketable securities at June 30, 2009 consisted of:

	Cost	Fair Value
BNY Mellon - Liquidity DIRECT	$ 652,985	$ 652,985
NC State Investment Fund, Inc.	59,332,450	48,061,096
BNY Mellon - Trusts	5,617,629	5,462,401
Academy Centennial Fund, LLC	1,037,900	30,608
Citicorp Trust Bank	468,075	389,026
Total	$ 67,109,039	$ 54,596,116

Note that the $652,985 in BNY Mellon - Liquidity DIRECT is included in cash in the financial statement presentation.

Marketable securities held by NC State Investment Fund, Inc. at June 30, 2009 consisted of the following:

	Cost	Fair Value
Limitied Partnerships	$ 59,332,450	$ 48,061,096

The Foundation's investment in the NC State Investment Fund, Inc. ("Fund") represents approximately 18.69% of the member equity of the Fund at June 30, 2009. The Fund's net assets were primarily invested with the UNC Management Company as of June 30, 2009, and were valued at approximately $259,010,000.

The Foundation's investment in the Academy Centennial Fund, LLC, represents approximately 11.0% of the member capital of the Academy Centennial Fund, LLC at June 30, 2009. The Academy Centennial Fund, LLC's net assets were approximately $289,000 at December 31, 2008 (latest date available), and consisted primarily of common and preferred stock and convertible debt.

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

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

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

FAIR VALUE MEASUREMENT

Effective June 30, 2009, the Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements (SFAS 157)*, which provides a framework for measuring fair value under generally accepted accounting principles, SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1 - quoted prices in active markets for identical investments

Level 2 - other significant observable inputs (including quoted prices for similar investments, interest rates, credit risks, etc.)

Level 3 - significant unobservable inputs (including the fund's own assumptions in determining the fair value of investments)

To measure fair value, there are three general valuation techniques that may be used, as described below:

A.) Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

B.) Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

C.) Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Assets itemized below were measured at fair value during the year using market and income approaches. The market approach was used for level 2 and the income approach was used for level 3.

	Level 1	Level 2	Level 3	Total Fair Value
BNY Mellon - Liquidity DIRECT	$ 652,985	$ 0	$ 0	652,985
NC State Investment Fund, Inc.			48,061,096	48,061,096
BNY Mellon - Trusts		5,462,401		5,462,401
Academy Centennial Fund, LLC			30,608	30,608
Citicorp Trust Bank		389,026		389,026
Total	$ 652,985	$ 5,851,427	$ 48,091,704	$ 54,596,116

The following is a reconciliation of the investments in which significant unobservable inputs (Level 3) were used in determining value:

	NC State Investment Fund, Inc.	Academy Centennial Fund, LLC
Beginning Balance as of June 30, 2008	$ 64,919,115	$ 65,278
Unrealized Loss on Investments	(8,302,965)	(34,670)
Realized Loss on Investments	(7,373,792)	
Net Investment	(986,491)	
Net Transfers In and/or Out of Level 3	(194,771)	
Ending Balance as of June 30, 2009	$ 48,061,096	$ 30,608

PLEDGES RECEIVABLE

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

	Amount
Receivable in Less Than One Year	$ 6,084,828
Receivable in One to Five Years	11,925,468
Receivable in More Than Five Years	234,412
Total Gross Pledges Receivable	18,244,708
Less: Allowance for Uncollectible Pledges	253,000
Less: Unamortized Discount	1,047,680
Net Pledges Receivable	$ 16,944,028

NC STATE STUDENT AID ASSOCIATION, INC.

CONCENTRATIONS OF CREDIT RISK

The Association maintains cash balances at several financial institutions located in Raleigh, North Carolina, and in several brokerage accounts located in North Carolina. The balances in the financial institution are insured by the Federal Deposit Insurance Corporation up to $250,000 at June 30, 2009. The balances in the brokerage accounts are insured at varying amounts. The Association's uninsured cash balances totaled $20,960,339 at June 30, 2009.

PLEDGES RECEIVABLE

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

Pledges receivable at June 30, 2009 are as follows:

	Amount
Pledges Receivable	$ 46,236,525
Less: Allowance for Uncollectible Pledges	2,289,703
Less: Discount on Pledges	10,543,419
	33,403,403
Less: Current Portion	8,075,957
Pledges Due After One Year	$ 25,327,446

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

	Amount
Receivable in Less Than One Year	$ 8,477,720
Receivable in One to Five Years	23,693,714
Receivable in More Than Five Years	14,065,091
	46,236,525
Less: Allowance for Uncollectible Pledges	2,289,703
Less: Discount on Pledges	10,543,419
Net Pledges Receivable	$ 33,403,403

At June 30, 2009, Goal Line Drive pledges totaling $13,415,591 and Wolfpack Pride pledges totaling $1,772,356 were pledged as collateral for the Goal Line Drive bond payable and the Vaughn Towers bond payable. These pledge totals are reflected at the present value of estimated future cash flows less an allowance for uncollectible pledges.

INVESTMENTS

The Association held the following investments at June 30, 2009:

	Historical Cost	Market Value
U.S. Government Obligations	$ 3,643,191	$ 3,732,525
Marketable Equity Securities	13,119,770	10,747,381
Other Marketable Equity Securities	3,350,704	3,446,372
Partnership Interests	3,701,819	3,515,275
Mutual Funds	1,755,780	1,363,390
Total	$ 25,571,264	$ 22,804,943

Investment income consists of the following:

		Amount
Interest	$	379,622
Dividends		419,007
Realized Loss on Sale of Investments		(1,993,525)
Unrealized Loss on Investments		(1,961,554)
Investment Expenses		(200,499)
Net Pledges Receivable	$	(3,356,949)

LONG-TERM DEBT

BOND INDENTURE--GOAL LINE DRIVE

The Association, through the North Carolina Capital Facilities Finance Agency issued $40,000,000 of bonds during 2002. The bonds are secured by the Goal Line Drive pledges, Wolfpack Pride Campaign pledges, and the Medlin property. The bonds are also secured by approximately $2,000,000 in scoreboard revenues to be received from NCSU through 2012. The proceeds from these bonds were used for the Carter-Finley Stadium expansion and improvements. The bonds pay interest monthly at a variable rate equal to .35% plus the higher of the federal funds rate plus ½% or Bank of America's publicly announced prime rate.

The Association also must pay Bank of America a letter of credit fee. This fee, paid quarterly, is 1.5% of the outstanding debt balance. The Association must also pay annually $17,000 of agency and $5,000 of trustee fees. The Association pays a remarketing fee annually to Bank of America. This fee is .1% of the outstanding debt balance. The bond matures in 2012.

BOND INDENTURES--WOLFPACK CLUB STUDENT HOUSING FOUNDATION

The Housing Foundation, through the North Carolina Capital Facilities Finance Agency issued a $23,710,000 Series 2003A bond and a $1,235,000 Series 2003B bond in June 2003. The proceeds from these bonds were used to construct a residence hall for NCSU students and student athletes. The bonds pay interest monthly at variable rates. The Series 2003A bonds pay interest based on a variable rate established weekly by Wachovia Bank, remarketing agent. The Series 2003B bonds pay interest based on a variable rate established monthly by the remarketing agent. The Housing Foundation must pay a letter of credit fee quarterly to Wachovia Bank. The current fee, paid quarterly, is 1.50% of the outstanding balance. The Housing Foundation pays a remarketing fee semi-annually to Wachovia Bank. This fee is .125% of the outstanding balance. The Series 2003A bonds mature in July 2035. The Series 2003B bonds mature in July 2009.

The Housing Foundation has entered into a swap contract for a majority of this debt to hedge against interest rate fluctuations. The swap was issued at market terms so that it had no value at its inception. The carrying amount of the swap has been adjusted to its fair value at June 30, 2009, which, because of changes in forecasted levels of interest rates, resulted in reporting a liability of $2,030,856 at June 30, 2009 for the fair value of the net payments forecasted under the swap. The swap liability is classified as noncurrent since the Association does not intend to settle it within the next twelve months.

BOND INDENTURES--VAUGHN TOWERS

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

The Association has entered into swap contracts for a majority of this debt to hedge against interest rate fluctuations. The swaps were issued at market terms so that they had no value at their inception. The carrying amount of the swaps have been adjusted to their fair value at June 30, 2009, which, because of changes in forecasted levels of interest rates, resulted in reporting a liability of $1,292,784 at June 30, 2009 for the fair value of the net payments forecasted under the swap. The swap liability is classified as noncurrent since the Association does not intend to settle it within the next twelve months.

NOTES PAYABLE--NORTH END ZONE

During the year ended June 30, 2008, the Association converted the bank lines of credit with Wachovia Bank and Bank of America into notes payable. Certain endowment investment accounts serve as collateral on these notes. The note payable to Wachovia Bank has an annual principal payment requirement of $120,960 plus interest at LIBOR (1.6776% at June 30, 2009) plus 1.5% through November 2012, at which time the remaining principal is due. The note payable to Bank of America has an annual principal payment requirement of $130,786 plus interest at LIBOR (1.6776% at June 30, 2009) plus 1.5% through November 2012, at which time the remaining principal is due.

The Association has entered into swap contracts for a majority of this debt to hedge against interest rate fluctuations. The swaps were issued at market terms so that they had no value at their inception. The carrying amount of the swaps have been adjusted to their fair market value at June 30, 2009, which because of changes in forecasted levels of interest rates, resulted in reporting a liability of $335,748 at June 30, 2009 for the fair value of the net payments forecasted under the swap. The swap liability is classified as noncurrent since the Association does not intend to settle it within the next twelve months.

The adjustments on the value of the swap contracts resulted in an unrealized loss of $2,276,310 which is reported in the Statements of Activities for the year ended June 30, 2009.

Long-term debt consists of the following at June 30, 2009:

	Amount
Goal Line Drive Bond Indenture	$ 12,220,000
Wolfpack Club Student Housing Foundation - Series 2003A	22,780,000
Wolfpack Club Student Housing Foundation - Series 2003B	290,000
Vaughn Towers Project Series 2004A	15,855,000
Vaughn Towers Project Series 2004B	7,435,000
Note Payable - Wachovia Bank	968,687
Note Payable - Bank of America	814,495
	60,363,182
Less: Amount Classified as Current Liability	5,741,746
Amount Due After One Year	$ 54,621,436

Maturities of long-term debt are as follows:

	Amount
2010	$ 5,741,746
2011	5,896,746
2012	5,976,746
2013	2,792,944
2014	1,885,000
Thereafter	38,070,000
Total	$ 60,363,182

LETTERS OF CREDIT

Pursuant to the issuance of the Goal Line Drive bonds payable, the Association obtained an irrevocable letter of credit in the amount of $40,460,274. The letter of credit will remain in effect until March 15, 2010.

Pursuant to the issuance of the Wolfpack Club Student Housing Foundation bonds payable, the Association obtained an irrevocable letter of credit. The original letter of credit expired June 9, 2006, and has been extended until November 24, 2009.

Pursuant to the issuance of the Wolfpack Towers bonds payable, the Association obtained two irrevocable letters of credit in the total amount of $33,976,814. The letters of credit will remain in effect until March 15, 2010.

CASH REQUIRED FOR GOAL LINE DRIVE BOND MATURITIES AND FEES

The administrative agent requires that contributions and revenues received after March 2002 for the Goal Line Drive Campaign and the Pride Campaign be placed in separate bank accounts. These monies can only be used for principal payments, interest payments, and loan fees. At June 30, 2009, cash held for bond obligations totaled $10,340,540. The administrative expenses for the Goal Line Drive Campaign are being paid for by the Pride Campaign and the Association's operating fund. These expenses will be reimbursed once the debt has been retired. At June 30, 2009, the amount due to Wolfpack Pride from Goal Line Drive was $8,571,772 and the amount due to the Association's operating fund from Goal Line Drive was $11,910,470.

FAIR VALUE MEASUREMENTS

The following table provides information by level for assets and liabilities that are measured at fair value, as defined by SFAS No. 157, on a recurring basis:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets			
Investments	$ 22,804,943	$ 19,289,668	$ 3,515,275
Liabilities			
Swap Contract			
Wolfpack Club Student Housing	$ 2,030,856	$ 0	$ 2,030,856
Vaughn Towers	1,292,784		1,292,784
North End Zone	335,748		335,748
Total Liabilities	$ 3,659,388	$ 0	$ 3,659,388

LOAN COVENANT

The Housing Foundation is required to maintain a debt service ratio of at least 1.20 to 1.00 in order to be in compliance with the terms of the bond agreements. At June 30, 2009 the Housing Foundation was in default in regards to this covenant. The Housing Foundation received a waiver from Wachovia Bank in regards to this loan covenant default for the year ended June 30, 2009.

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

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

Board of Trustees
North Carolina State University
Raleigh, North Carolina

We have audited the financial statements of North Carolina State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2009, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 8, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the NC State Investment Fund, Inc., which represent 13 percent, 18 percent, and 1 percent, respectively, of the assets, net assets and revenues of the University and the discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

<u>Internal Control Over Financial Reporting</u>

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

December 8, 2009

ORDERING INFORMATION

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

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

Telephone: 919/807-7500

Facsimile: 919/807-7647