



# STATE OF NORTH CAROLINA

**THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE**

**ASHEVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2009**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE**

**ASHEVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2009**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

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**Beth A. Wood, CPA**  
State Auditor

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

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
Board of Trustees, The University of North Carolina at Asheville

We have completed a financial statement audit of The University of North Carolina at Asheville for the year ended June 30, 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.

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

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

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**Beth A. Wood, CPA**  
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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of The University of North Carolina at Asheville, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2009, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Asheville Foundation, Inc., the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the entity, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Asheville and its discretely presented component unit as of June 30, 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.

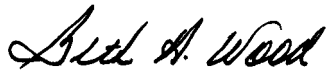
## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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As discussed in Note 16 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 May 20, 2010 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, CPA  
State Auditor

May 20, 2010

**THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Overview of the Financial Statement Information**

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

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

**Condensed Statement of Net Assets**

	<u>2009 Fiscal Year</u>	<u>2008 Fiscal Year</u>	<u>\$ Change</u>	<u>% Change</u>
Current Assets	\$ 18,476,722.24	\$ 12,813,619.48	\$ 5,663,102.76	44.20%
Capital Assets	139,024,433.36	131,645,404.00	7,379,029.36	5.61%
Other Noncurrent Assets	<u>11,762,334.12</u>	<u>18,537,995.27</u>	<u>(6,775,661.15)</u>	-36.55%
Total Assets	<u>169,263,489.72</u>	<u>162,997,018.75</u>	<u>6,266,470.97</u>	3.84%
Current Liabilities	6,670,129.75	6,152,602.06	517,527.69	8.41%
Noncurrent Liabilities	<u>24,990,106.53</u>	<u>26,008,593.09</u>	<u>(1,018,486.56)</u>	-3.92%
Total Liabilities	<u>31,660,236.28</u>	<u>32,161,195.15</u>	<u>(500,958.87)</u>	-1.56%
Invested in Capital Assets, Net of Related Debt	117,225,299.24	108,172,429.09	9,052,870.15	8.37%
Restricted - Nonexpendable	4,742,192.49	2,997,800.57	1,744,391.92	58.19%
Restricted - Expendable	8,194,801.43	10,818,062.85	(2,623,261.42)	-24.25%
Unrestricted	<u>7,440,960.48</u>	<u>8,847,531.09</u>	<u>(1,406,570.61)</u>	-15.90%
Total Net Assets	<u>\$ 137,603,253.64</u>	<u>\$ 130,835,823.60</u>	<u>\$ 6,767,430.04</u>	5.17%

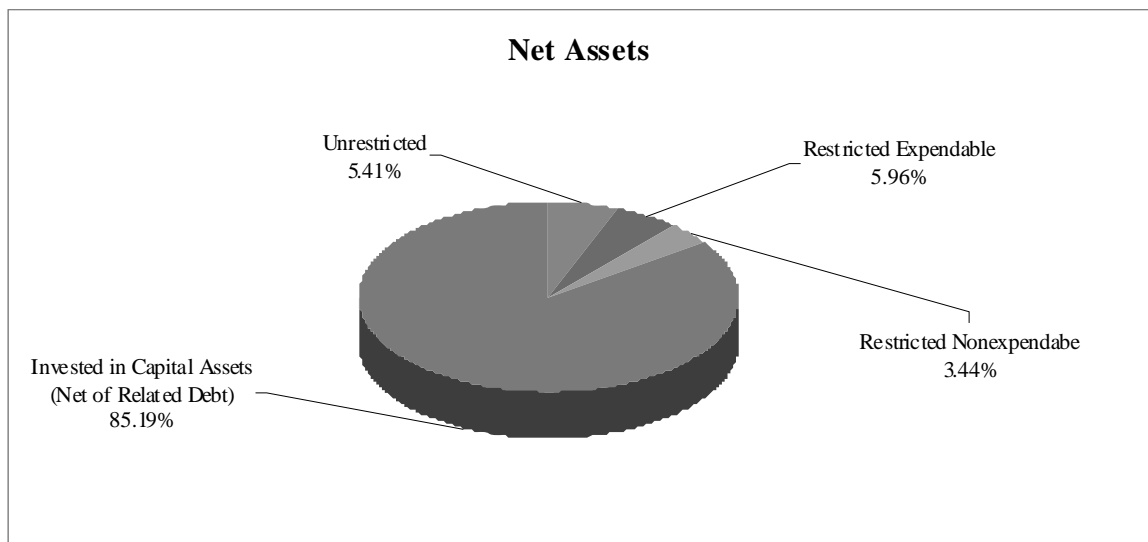
The University remains in sound financial condition as evidenced by the increase in total net assets of \$6.7 million (5.17%). The increase in current assets is due to the correction of cash presentation as a result of capital expenditures. The decrease in other noncurrent assets and increase in capital assets is primarily due to cash outlays for capital projects including the completion and capitalization of the Zeis Science & Multimedia building resulting in the correction of cash presentation described above. The decrease in total liabilities is primarily due to principal payments of bonds. Capital projects completed and capitalized in fiscal year 2009 include the Zeis Science & Multimedia Building, the Ramsey Library Chiller, and the Justice Gym Ramp.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net assets represent residual interest in the University's assets after all liabilities are deducted. For reporting purposes, they are divided into four major components:

- "Invested in Capital Assets, Net of Related Debt" represents the University's investment in capital assets such as movable equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. At June 30, 2009, \$117.2 million (85.19%) of the \$137.6 million in net assets was attributable to the University's investment in capital assets, net of related debt.
- "Restricted - Nonexpendable" net assets primarily include the University's permanent endowment funds received from donors for the purpose of creating present and future income. These funds, according to donor restrictions, must be held in perpetuity or for a specified period of time. The increase in restricted nonexpendable net assets was due to the addition of the Glaxo Smith Kline Endowed Professorship of \$1.0 million, the addition of the Ruth Paddison Endowed Professorship in the amount of \$750,000 and the Roy Carroll Endowed Professorship of \$250,000.
- "Restricted - Expendable" net assets are income from endowed funds, grants from others, and gifts with specific restrictions on spending. The decrease in restricted expendable net assets was primarily due to a decrease in allotments as a result of UNC Asheville completing capital projects.
- "Unrestricted" net assets are not subject to externally imposed restrictions, although management may designate these funds for various academic and research programs and initiatives, as well as capital projects. This year, unrestricted net assets totaling \$7.4 million represents 5.41% of total net assets. Unrestricted net assets decreased as a result of using these resources to complete the Zeis Science and Multimedia building.

Net assets are shown in the graph below.





## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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The *Statement of Revenues, Expenses, and Changes in Net Assets* presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. Given a public university's dependency on revenues such as state appropriations, gifts, and investment income, which are prescribed by GASB as nonoperating revenues, operating expenses will exceed operating revenues, resulting in an operating loss. Net nonoperating revenues and expenses are integral components in determining the increase or decrease in net assets.

Generally speaking, operating revenues are generated through the provision of goods and services, and include tuition and fees, contract and grant revenue, interest earnings on student loans, and sales and service revenue generated by student housing, the bookstore, and other enterprises. Operating expenses are the costs incurred to acquire or produce the goods and services provided and to conduct the affairs of the institution.

Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations, while budgeted for operations, are reported as nonoperating revenue because they are provided by the state legislature without the legislature directly receiving commensurate goods and services in return for those revenues. Prior to this year, Pell Grants, Federal Work Study, SEOG (Supplemental Educational Opportunity Grant), other similar federal student financial aid, as well as certain state grants were reported as operating revenues. Beginning in the fiscal year ending 2009, these grants are reported as nonoperating revenues. This change was the result of a clarification in the *GASB Comprehensive Implementation Guide*. Certain state grants are also reported as nonoperating revenue in the current year. Nonoperating expenses include interest expense, extraordinary items, and other expenses not incurred in the normal operations of the University.

Capital grants and gifts are considered neither operating nor nonoperating revenues and are reported on the statement after "Loss Before Other Revenues and (Expenses)."

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2009 Fiscal Year	2008 Fiscal Year	\$ Change	% Change
Tuition and Fees	\$ 16,107,583.15	\$ 16,474,469.90	\$ (366,886.75)	-2.23%
Grants and Contracts	3,974,067.32	7,711,313.89	(3,737,246.57)	-48.46%
Sales and Services	10,327,748.32	10,340,621.52	(12,873.20)	-0.12%
Other Operating Revenues	717,350.32	788,266.09	(70,915.77)	-9.00%
<b>Total Operating Revenues</b>	<b>31,126,749.11</b>	<b>35,314,671.40</b>	<b>(4,187,922.29)</b>	<b>-11.86%</b>
Salaries and Benefits	50,784,194.03	48,773,303.48	2,010,890.55	4.12%
Supplies and Materials	5,582,312.88	6,707,843.71	(1,125,530.83)	-16.78%
Services	10,262,211.82	10,538,958.52	(276,746.70)	-2.63%
Scholarships and Fellowships	2,075,270.45	2,793,798.40	(718,527.95)	-25.72%
Utilities	2,447,060.51	2,349,621.71	97,438.80	4.15%
Depreciation	4,360,839.72	3,652,696.62	708,143.10	19.39%
<b>Total Operating Expenses</b>	<b>75,511,889.41</b>	<b>74,816,222.44</b>	<b>695,666.97</b>	<b>0.93%</b>
<b>Operating Loss</b>	<b>(44,385,140.30)</b>	<b>(39,501,551.04)</b>	<b>(4,883,589.26)</b>	<b>12.36%</b>
State Appropriations	37,114,410.66	37,253,422.05	(139,011.39)	-0.37%
State Aid - Federal Recovery Funds	1,453,432.00	0.00	1,453,432.00	
Noncapital Grants	3,099,140.42	227,527.67	2,871,612.75	1262.09%
Noncapital Gifts	1,221,379.80	1,852,427.29	(631,047.49)	-34.07%
Investment Loss (Including Investment Expense)	(959,910.94)	1,180,811.69	(2,140,722.63)	-181.29%
Interest and Fees on Capital Asset-Related Debt	(1,046,187.43)	(1,302,899.37)	256,711.94	-19.70%
Other Nonoperating Revenues/(Expenses)	(358,492.10)	17,470.78	(375,962.88)	-2151.95%
<b>Total Nonoperating Revenues</b>	<b>40,523,772.41</b>	<b>39,228,760.11</b>	<b>1,295,012.30</b>	<b>3.30%</b>
<b>Loss Before Other Revenues and (Expenses)</b>	<b>(3,861,367.89)</b>	<b>(272,790.93)</b>	<b>(3,588,576.96)</b>	<b>1315.50%</b>
Capital Grants & Appropriations	1,746,761.89	3,714,265.17	(1,967,503.28)	-52.97%
Refund of Prior Years Capital Appropriations	(394,920.36)		(394,920.36)	
Capital Gifts	3,678,126.27	410,000.00	3,268,126.27	797.10%
Additions to Permanent Endowments	2,000,000.00	500,000.00	1,500,000.00	300.00%
<b>Increase in Net Assets</b>	<b>3,168,599.91</b>	<b>4,351,474.24</b>	<b>(1,182,874.33)</b>	<b>-27.18%</b>
Net Assets, Beginning of Year, as Restated	134,434,653.73	126,484,349.36	7,950,304.37	6.29%
<b>Net Assets, End of Year</b>	<b>\$ 137,603,253.64</b>	<b>\$ 130,835,823.60</b>	<b>\$ 6,767,430.04</b>	<b>5.17%</b>

Like other universities across the nation, the loss before other revenues and expenses increased significantly primarily due to the change in the fair market value of our endowed investments, lower interest rates with the State Treasurer, a decrease in contributions noncapital in nature and an expense related to parking fines due to the State. Even with economic factors outside the control of the University, UNC Asheville continues to see growth in total net assets, due in large part to private capital gifts and endowments and capital investments by the State.

The decrease in operating grants and contracts is primarily due to a reporting change in the current year for certain federal grants requiring them to be reported as nonoperating revenue. This change was the result of a clarification in the *GASB Comprehensive Implementation Guide*. Certain state grants are also reported as nonoperating revenue in the current year.

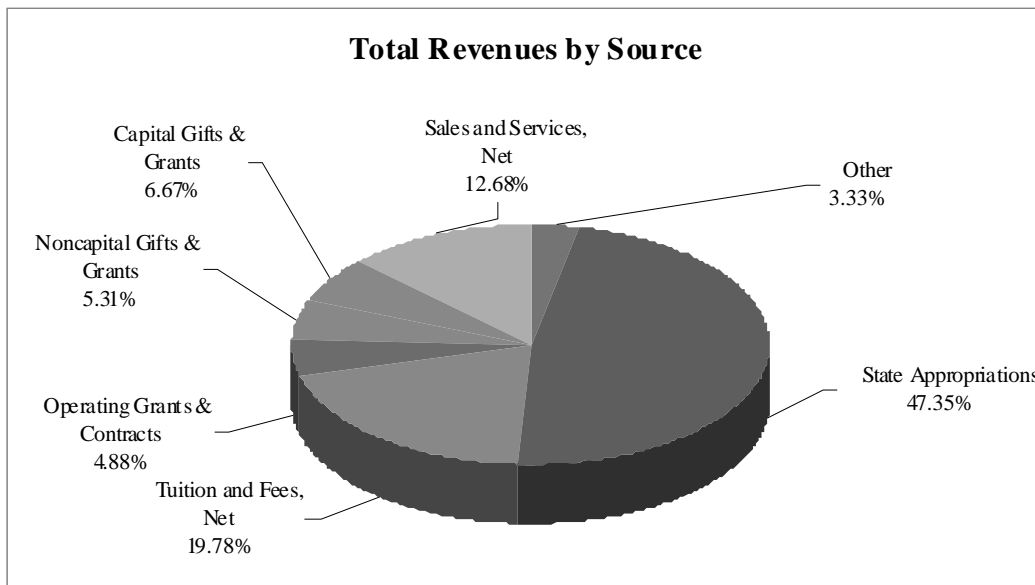
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The increase in total operating expenses is primarily due to the increase in salaries and benefits. This increase is primarily from the State and University pay increases of approximately 2.75% or \$1,100, whichever was greater, and paying out long term employee benefits.

The decrease in investment income has resulted from the 2008-2009 world-wide economic crises that caused a large decrease in the value of University endowment investments.

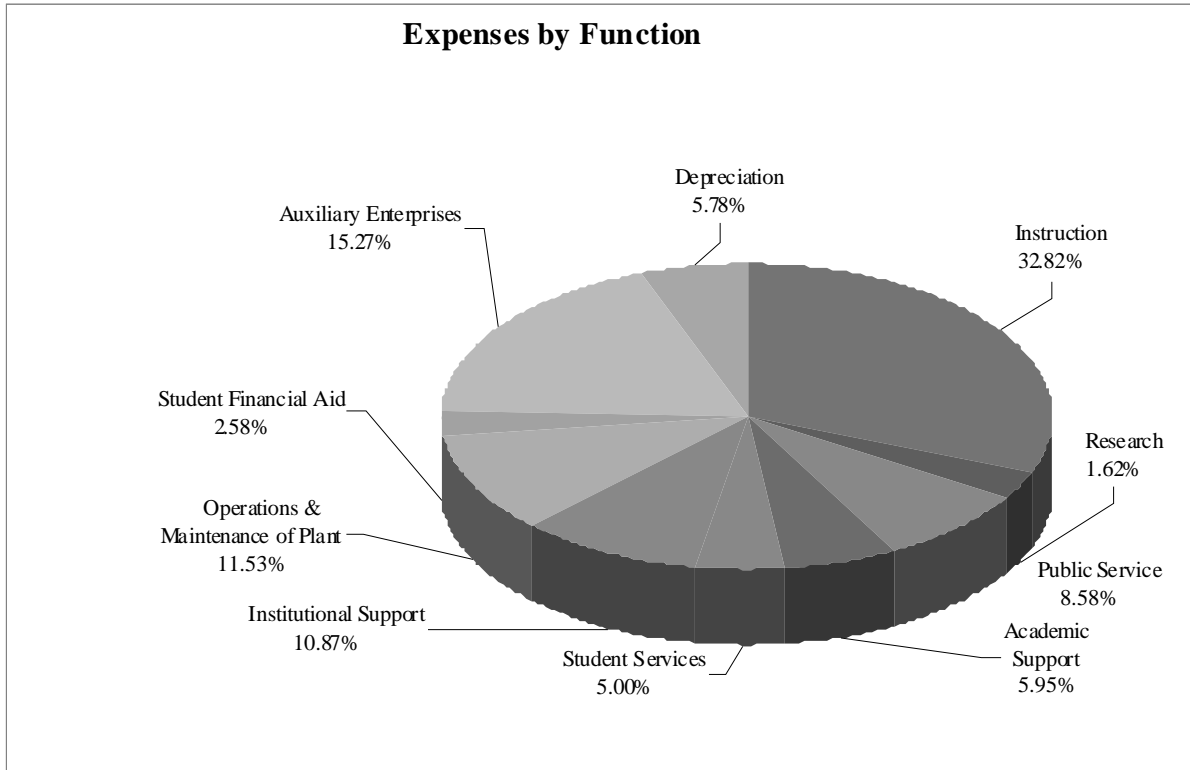
Though state appropriations are considered nonoperating, they are still a significant part of total University revenues (as shown in the graph below). State appropriations and state aid increased \$1.3 million or 3.53% this fiscal year. Capital grants and appropriations decreased significantly with the major capital project completion of the Zeis Science and Multimedia building.

The increase in capital gifts consist primarily of \$3.1 million from the University of North Carolina at Asheville Foundation, Inc. which is restricted in use for the construction of the North Carolina Center for Health & Wellness facility.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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



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

### Debt Administration and Capital Assets

UNC Asheville has several capital projects in various stages of planning and construction. Current projects are funded through capital appropriations and private fundraising. Projects include the North Carolina Center for Health and Wellness (approved by the General Assembly in 2004), the Rhoades Hall & Tower renovation, and continuing projects for the North Carolina Arboretum.

The University had \$21.8 million in outstanding debt at June 30, 2009 and continues to make all of its debt payments in a timely manner. More detailed information about UNC Asheville's debt obligations is provided in Note 7 of the Notes to the Financial Statements.

The capital assets, net of accumulated depreciation, at June 30, 2009 were \$139 million. For more detailed information about asset holdings, see Note 5 of the Notes to the Financial Statements.

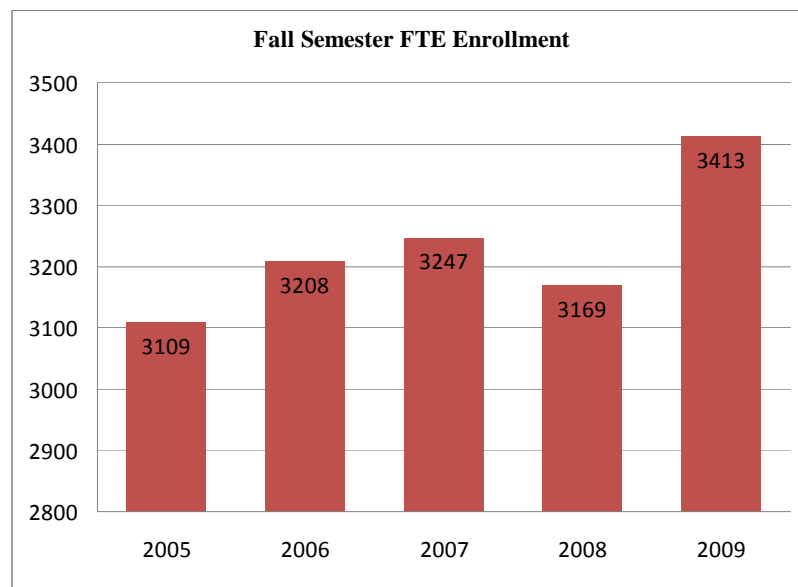
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

### Economic Outlook

The financial condition of the University is expected to remain stable for the foreseeable future. Management believes the University is well positioned to maintain its strong financial condition and to advance both the quality and scope of its services to students, the state, and the community. This expectation is grounded in North Carolina's history of support for higher education. The state has once again placed a high priority on funding the university system during a difficult budget year; including funding of \$750,000 for universities specializing in science and math and funding of \$650,000 to be used for campus safety. Nevertheless, the University continues to strategically seek alternative funding sources through contract and grant funding as well as private fundraising. The University will also closely monitor the economic situation both on a national and state level as it seeks to control its spending to be in accordance with available revenue sources.

Enrollment increased in the fall of 2009. There has been overall stability in enrollment for several years while maintaining a high level of academic achievement. This enrollment stability reflects UNC-Asheville's tradition of being a small, nationally recognized, public liberal arts University.

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



The University continues to receive high rankings in several national publications for its educational quality and value. A recent quote in the *Fiske Guide to Colleges* stated "UNC Asheville has been named a "Best Buy" for the past 18 years. In 2009, *U.S. News & World Report* stated "UNC Asheville is ranked among the top 25 liberal arts colleges in the nation whose students graduated with the least debt."

***The University of North Carolina at Asheville***  
***Statement of Net Assets***  
***June 30, 2009***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 13,379,443.36
Restricted Cash and Cash Equivalents	2,698,556.73
Restricted Short-Term Investments	70,590.37
Receivables, Net (Note 4)	1,244,362.26
Inventories	639,937.79
Notes Receivable, Net (Note 4)	443,831.93
	<hr/>
Total Current Assets	18,476,722.44

Noncurrent Assets:

Restricted Cash and Cash Equivalents	4,677,744.29
Restricted Due from Primary Government	130,005.63
Endowment Investments	6,303,865.89
Notes Receivable, Net (Note 4)	650,718.31
Capital Assets - Nondepreciable (Note 5)	11,103,480.26
Capital Assets - Depreciable, Net (Note 5)	127,920,953.10
	<hr/>
Total Noncurrent Assets	150,786,767.48

Total Assets	<hr/> <hr/> 169,263,489.92
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,858,542.86
Due to Primary Government	379,669.87
Unearned Revenue	1,593,628.26
Interest Payable	137,134.76
Long-Term Liabilities - Current Portion (Note 7)	1,701,154.00
	<hr/>
Total Current Liabilities	6,670,129.75

Noncurrent Liabilities:

Deposits Payable	88,098.47
Funds Held for Others	496,409.02
U. S. Government Grants Refundable	1,139,378.92
Long-Term Liabilities (Note 7)	23,266,220.12
	<hr/>
Total Noncurrent Liabilities	24,990,106.53

Total Liabilities	<hr/> <hr/> 31,660,236.28
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*The University of North Carolina at Asheville*  
*Statement of Net Assets*  
*June 30, 2009*

*Exhibit A-1*  
*Page 2*

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	117,225,299.24
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	533,897.60
Endowed Professorships	3,996,833.29
Departmental Uses	25,000.00
Loans	186,461.60
Expendable:	
Scholarships and Fellowships	1,405,391.47
Research	415,495.24
Endowed Professorships	1,135,632.61
Departmental Uses	235,468.97
Capital Projects	4,614,741.58
Debt Service	137,134.76
Other	250,936.80
Unrestricted	<u>7,440,960.48</u>
Total Net Assets	<u><u>\$ 137,603,253.64</u></u>

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

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

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 16,107,583.15
Federal Grants and Contracts	1,361,878.59
State and Local Grants and Contracts	886,890.24
Nongovernmental Grants and Contracts	1,725,298.49
Sales and Services, Net (Note 9)	10,327,748.32
Interest Earnings on Loans	4,019.74
Other Operating Revenues	713,330.58

Total Operating Revenues	31,126,749.11
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	50,784,194.03
Supplies and Materials	5,582,312.88
Services	10,262,211.82
Scholarships and Fellowships	2,075,270.45
Utilities	2,447,060.51
Depreciation	4,360,839.72

Total Operating Expenses	75,511,889.41
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Operating Loss	(44,385,140.30)
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	37,114,410.66
State Aid - Federal Recovery Funds	1,453,432.00
Noncapital Grants - Federal Student Financial Aid	2,944,175.86
Other Noncapital Grants	154,964.56
Noncapital Gifts	1,221,379.80
Investment Loss (Includes Investment Expense of \$31,998.14)	(959,910.94)
Interest and Fees on Debt	(1,046,187.43)
Other Nonoperating Expenses	(358,492.10)

Net Nonoperating Revenues	40,523,772.41
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Loss Before Other Revenues or Expenses	(3,861,367.89)
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Capital Appropriations	1,550,841.89
Refund of Prior Years Capital Appropriations	(394,920.36)
Capital Grants	195,920.00
Capital Gifts	3,678,126.27
Additions to Endowments	2,000,000.00

Increase in Net Assets	3,168,599.91
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**NET ASSETS**

Net Assets - July 1, 2008 as Restated (Note 17)	134,434,653.73
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Net Assets - June 30, 2009	\$ 137,603,253.64
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The accompanying notes to the financial statements are an integral part of this statement.



***The University of North Carolina at Asheville***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2009***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 31,550,965.17
Payments to Employees and Fringe Benefits	(50,592,735.72)
Payments to Vendors and Suppliers	(18,292,757.06)
Payments for Scholarships and Fellowships	(2,075,270.45)
Loans Issued	(73,565.00)
Collection of Loans	96,210.08
Interest Earned on Loans	3,048.72
Student Deposits Received	238,730.50
Student Deposits Returned	(362,550.94)
	<hr/>
Net Cash Used by Operating Activities	(39,507,924.70)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	37,114,410.66
State Aid - Federal Recovery Funds	1,453,432.00
Noncapital Grants - Federal Student Financial Aid	2,944,175.86
Noncapital Grants	154,964.56
Noncapital Gifts	1,221,379.80
Additions to Endowments	2,000,000.00
William D. Ford Direct Lending Receipts	7,085,039.00
William D. Ford Direct Lending Disbursements	(7,085,039.00)
Related Activity Agency Receipts	271,758.13
	<hr/>
Net Cash Provided by Noncapital Financing Activities	45,160,121.01

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

State Capital Appropriations	1,550,841.89
Refund of Prior Years Capital Appropriations	(394,920.36)
Capital Grants	1,276,081.34
Capital Gifts	3,553,206.27
Proceeds from Sale of Capital Assets	2,388.89
Acquisition and Construction of Capital Assets	(7,543,308.58)
Principal Paid on Capital Debt and Leases	(1,645,000.00)
Interest and Fees Paid on Capital Debt and Leases	(1,085,048.89)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(4,285,759.44)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	41,026.48
Investment Income	521,675.35
Purchase of Investments and Related Fees	(750,000.00)
	<hr/>
Net Cash Used by Investing Activities	(187,298.17)
	<hr/>
Net Increase in Cash and Cash Equivalents	1,179,138.70
Cash and Cash Equivalents - July 1, 2008	19,576,605.68
	<hr/>
Cash and Cash Equivalents - June 30, 2009	\$ 20,755,744.38

***The University of North Carolina at Asheville***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2009***

***Exhibit A-3***

***Page 2***

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

Operating Loss	\$ (44,385,140.30)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,360,839.72
Allowances, Write-Offs, and Amortizations	(86.31)
Changes in Assets and Liabilities:	
Receivables (Net)	347,512.13
Inventories	109,410.49
Accounts Payable and Accrued Liabilities	(230,262.17)
Due to Primary Government	27.12
US Grants Refundable	21,943.28
Unearned Revenue	100,632.70
Compensated Absences	268,374.00
Deposits Payable	(123,820.44)
Note Principal Repayments	96,210.08
Notes Issued	(73,565.00)
	<u>(39,507,924.70)</u>
Net Cash Used by Operating Activities	<u>\$ (39,507,924.70)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 13,379,443.36
Restricted Cash and Cash Equivalents	2,698,556.73
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	4,677,744.29
	<u>20,755,744.38</u>
Total Cash and Cash Equivalents - June 30, 2009	<u>\$ 20,755,744.38</u>

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

Assets Acquired through a Gift	\$ 124,920.00
Change in Fair Value of Investments	(778,368.14)
Loss on Disposal of Capital Assets	10,880.99

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

***The University of North Carolina at Asheville Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2009***

***Exhibit B-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 3,719,282.00
Sales Tax Receivable	3,056.00
Student Loans Receivable, Net	250.00
Other Receivables	25,350.00
UNCA Employee Loans Receivable, Net	3,517.00
Promises to Give, Net	3,585,793.00

Total Current Assets 7,337,248.00

Property and Equipment, Net 3,026,746.00

Other Assets:

Investments	14,475,096.00
Promises to Give, Net	1,177,899.00
Real Estate Held for Resale	6,422,014.00
Beneficial Interest in Perpetual Trust	103,626.00

22,178,635.00

Total Assets 32,542,629.00

**LIABILITIES**

Current Liabilities:

Current Portion of Notes Payable	1,425,000.00
Accounts Payable	378,941.00
Annuities Payable	43,864.00

Total Current Liabilities 1,847,805.00

Noncurrent Liabilities:

Annuities Payable	372,417.00
Notes Payable	3,336,618.00

Total Noncurrent Liabilities 3,709,035.00

Total Liabilities 5,556,840.00

**NET ASSETS**

Unrestricted	1,668,311.00
Temporarily Restricted	15,797,730.00
Permanently Restricted	9,519,748.00

Total Net Assets \$ 26,985,789.00

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

***The University of North Carolina at Asheville Foundation, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2009***

***Exhibit B-2***

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>REVENUES</b>				
Investment Income (Loss)	\$ (595,116.00)	\$ (2,887,262.00)	\$ 0.00	\$ (3,482,378.00)
Family Business Forum		56,750.00		56,750.00
Special Events		117,023.00		117,023.00
Gain (Loss) on Perpetual Trust			(32,409.00)	(32,409.00)
Other Income	72.00	257,019.00		257,091.00
Total Revenues	<u>(595,044.00)</u>	<u>(2,456,470.00)</u>	<u>(32,409.00)</u>	<u>(3,083,923.00)</u>
<b>PUBLIC SUPPORT</b>				
Contributions	137,298.00	5,023,847.00	128,127.00	5,289,272.00
Contributions - Gifts in Kind		2,887,724.00		2,887,724.00
Net Assets Released from Restriction	5,151,871.00	(5,151,871.00)		
Total Revenues, Gains, and Other Support	<u>4,694,125.00</u>	<u>303,230.00</u>	<u>95,718.00</u>	<u>5,093,073.00</u>
<b>EXPENSES</b>				
Program Services	5,072,468.00			5,072,468.00
Supporting Services:				
Management and General	328,322.00			328,322.00
Fundraising	64,973.00			64,973.00
Total Expenses	<u>5,465,763.00</u>			<u>5,465,763.00</u>
Change in Net Assets	<u>(771,638.00)</u>	<u>303,230.00</u>	<u>95,718.00</u>	<u>(372,690.00)</u>
Net Assets at Beginning of Year	<u>2,439,949.00</u>	<u>15,494,500.00</u>	<u>9,424,030.00</u>	<u>27,358,479.00</u>
Net Assets at End of Year	<u>\$ 1,668,311.00</u>	<u>\$ 15,797,730.00</u>	<u>\$ 9,519,748.00</u>	<u>\$ 26,985,789.00</u>

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

**THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying financial statements present all funds belonging to the University and its component unit. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component unit is discretely presented in the University's financial statements. Discretely presented component unit financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

During the year ended June 30, 2009, the Foundation distributed \$4,728,711.27 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University Controller's Office, 207 Phillips Hall, One University Heights, Asheville, NC 28804 or by calling 828-232-5109.

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students, charges for auxiliary enterprises' sales and services, sales tax and interest. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued at the moving weighted average cost method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 10 to 50 years for general infrastructure, 20 to 50 years for buildings, and 5 to 20 years for equipment.

The University does not capitalize the general collection available for use in the Ramsey Library or in other campus locations. These collections adhere to the University's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and 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.

The Colonial Forge artwork, the Evans painting, the School of Athens painting and the G4 Cast Bronze Bell were capitalized at cost or fair value at the date of donation. These items are depreciated over the life of the collection using the straight-line method. The estimated useful lives for these items are 10 years, except the G4 Cast Bronze Bell which has a useful life of 20 years.

The Bonsai collection, the Speculation papers, the Laliberte tapestry, the Gifts from the Mountains collection, the Birds of America collection, the Kelly Harrison collection, the Blue Ridge Panorama, the Bat sculpture and the "Oh Great Spirit" statue were capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

**Invested in Capital Assets, Net of Related Debt** - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

**O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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customers. These institutional auxiliary operations include activities such as central stores, printing services and telecommunications. 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 \$20,729,304.65 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 \$26,439.73. There was no book balance for the University's deposits not with the State Treasurer;

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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however the bank balance was \$19,693.88. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2009, the University's bank balance was not exposed to custodial credit risk.

### **B. Investments**

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Investments are subject to the following risks.

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

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

**Long-Term Investment Pool** - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit method. Under this method, each participating fund's investment balance is determined on the basis of the number of units purchased multiplied by the current unit market value. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board. At year-end, the pooled investments were all with the UNC Investment Fund, LLC.

**UNC Investment Fund, LLC** - At June 30, 2009, the University's investments include \$6,303,865.89 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 using the unit method valued on a monthly basis. Investment risks associated with the System Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from the UNC CH Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270.

**Non-Pooled Investments** - The fair value of investments of the University's non-pooled investments subject to interest rate risk at June 30, 2009 was \$70,590.37. These investments were held in money market mutual funds with maturities of less than 1 year. The credit rating of the money market mutual funds was Aaa as rated by Moody's Investors Service.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Investment Type	<u>Fair Value</u>
Debt Securities	
Money Market Mutual Funds	\$ 70,590.37
Other Securities	
UNC Investment Fund	<u>6,303,865.89</u>
Total Investments	<u><u>\$ 6,374,456.26</u></u>

**Component Unit** - Investments of the University's discretely presented component unit, the Foundation, 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. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

The Foundation purchased membership interest in the UNC Investment Fund, LLC (a North Carolina limited liability company) in July 2007. The Fund is managed by the UNC Management Company, Inc. (a North Carolina non-profit corporation).

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

	<u>2009</u>		<u>Cumulative Unrealized Gains (Losses)</u>
	<u>Cost</u>	<u>Fair Value</u>	
Membership interest in UNC Investment Fund LLC	<u>\$ 12,860,794.00</u>	<u>\$ 14,475,096.00</u>	<u>\$ 1,614,302.00</u>

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

	<u>2009</u>
Interest and Dividends	\$ 116,966.00
Realized Gains (Losses)	81,284.00
Unrealized Gains (Losses)	<u>(3,680,628.00)</u>
	<u><u>\$ (3,482,378.00)</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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's endowment funds are based on an adopted spending policy which limits spending to 5% of the endowment principal's three-year trailing market value. Under this policy, the spending policy is agreed upon prior to the beginning of the University's fiscal year and is maintained at that level unless altered by Board action. To the extent that the total return for the current year exceeds the payout, the excess is added to the appreciation of the 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 \$1,609,413.81 were available to be spent, of which \$1,214,855.13 was restricted to specific purposes.

During the current year, the university incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2009 the amount of investment losses reported against the nonexpendable endowment balances were \$257,430.34.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 468,789.68	\$ 8,771.44	\$ 460,018.24
Accounts	412,901.73		412,901.73
Intergovernmental	234,147.57		234,147.57
Interest on Loans	58,721.56		58,721.56
Other	78,573.16		78,573.16
<b>Total Current Receivables</b>	<b>\$ 1,253,133.70</b>	<b>\$ 8,771.44</b>	<b>\$ 1,244,362.26</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 532,371.40	\$ 88,539.47	\$ 443,831.93
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 784,360.70	\$ 133,642.39	\$ 650,718.31

### 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 as restated	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 3,824,752.97	\$ 0.00	\$ 0.00	\$ 3,824,752.97
Art, Literature, and Artifacts	501,702.70	102,920.00		604,622.70
Construction in Progress	28,374,334.36	7,594,974.33	29,295,204.10	6,674,104.59
<b>Total Capital Assets, Nondepreciable</b>	<b>32,700,790.03</b>	<b>7,697,894.33</b>	<b>29,295,204.10</b>	<b>11,103,480.26</b>
Capital Assets, Depreciable:				
Buildings	129,690,007.63	29,252,667.10		158,942,674.73
Machinery and Equipment	5,714,365.31	444,025.61	112,952.30	6,045,438.62
Art, Literature, and Artifacts	191,500.00	10,000.00		201,500.00
General Infrastructure	26,569,503.73	42,537.00	192,731.09	26,419,309.64
<b>Total Capital Assets, Depreciable</b>	<b>162,165,376.67</b>	<b>29,749,229.71</b>	<b>305,683.39</b>	<b>191,608,922.99</b>
Less Accumulated Depreciation for:				
Buildings	44,942,258.86	2,697,900.99		47,640,159.85
Machinery and Equipment	2,706,122.48	580,144.78	111,242.30	3,175,024.96
Art, Literature, and Artifacts	47,350.00	17,550.00		64,900.00
General Infrastructure	11,926,201.23	1,065,243.95	183,560.10	12,807,885.08
<b>Total Accumulated Depreciation</b>	<b>59,621,932.57</b>	<b>4,360,839.72</b>	<b>294,802.40</b>	<b>63,687,969.89</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>102,543,444.10</b>	<b>25,388,389.99</b>	<b>10,880.99</b>	<b>127,920,953.10</b>
<b>Capital Assets, Net</b>	<b>\$ 135,244,234.13</b>	<b>\$ 33,086,284.32</b>	<b>\$ 29,306,085.09</b>	<b>\$ 139,024,433.36</b>



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

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**NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	Amount
Accounts Payable	\$ 1,912,356.92
Accrued Payroll	816,592.32
Contract Retainage	106,156.50
Intergovernmental Payables	15,554.07
Other	7,883.05
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 2,858,542.86</b>

**NOTE 7 - LONG-TERM LIABILITIES**

**UNIVERSITY**

**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	\$ 22,925,000.00	\$ 0.00	\$ 1,645,000.00	\$ 21,280,000.00	\$ 1,485,000.00
Add Premium	547,974.91		28,840.79	519,134.12	
Total Bonds Payable	23,472,974.91		1,673,840.79	21,799,134.12	1,485,000.00
Compensated Absences	2,899,866.00	1,913,461.00	1,645,087.00	3,168,240.00	216,154.00
Total Long-Term Liabilities	\$ 26,372,840.91	\$ 1,913,461.00	\$ 3,318,927.79	\$ 24,967,374.12	\$ 1,701,154.00

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009	See Table Below
Revenue Bonds Payable							
Dormitory and Dining System							
UNCA Revenue Bonds	2002A	4.50%*	06/01/2027	\$ 18,900,000.00	\$ 4,185,000.00	\$ 14,715,000.00	
UNC System Pool Revenue Bonds (A)	2005A	3.54%*	04/01/2023	7,575,000.00	1,180,000.00	6,395,000.00	
Total Dormitory and Dining System				26,475,000.00	5,365,000.00	21,110,000.00	
Parking System							
UNC System Pool Revenue Bonds (B)	2000	5.00%*	10/01/2010	705,000.00	535,000.00	170,000.00	(1)
Total Bonds Payable (principal only)				\$ 27,180,000.00	\$ 5,900,000.00	21,280,000.00	
Plus: Unamortized Premium						519,134.12	
Total Bonds Payable						\$ 21,799,134.12	

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

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

\* For variable rate debt, interest rates in effect at June 30, 2009 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)	Parking Revenues	\$ 178,500.00	\$ 90,437.96	\$ 90,500.00	97%

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

Fiscal Year	Annual Requirements	
	Revenue Bonds Payable	
	Principal	Interest
2010	\$ 1,485,000.00	\$ 1,016,364.05
2011	1,555,000.00	952,774.45
2012	1,540,000.00	882,672.90
2013	1,245,000.00	812,624.70
2014	1,330,000.00	763,148.50
2015-2019	6,880,000.00	2,772,518.50
2020-2024	5,025,000.00	1,263,657.70
2025-2027	2,220,000.00	225,500.00
Total Requirements	\$ 21,280,000.00	\$ 8,689,260.80

Interest rates for variable rate debt is predefined in each of the bond covenants.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**D. Component Units** - Notes payable for The University of North Carolina at Asheville Foundation, Inc. (Foundation) consist of the following:

Asheville Savings Bank (ASB) - a \$1,000,000 non-revolving line of credit with quarterly interest payments fixed at 3.98% and annual principal reduction requirements of 20% of the highest principal balance during the year, with a balloon payment of principal and accrued interest at maturity on September 16, 2013. The line of credit is secured by signed/recorded pledges and statements of intent and unrestricted net assets of the Foundation.

Branch Banking and Trust Company (BB&T-a) - a \$850,000 term note with quarterly interest varying at prime less .25% and 2 annual principal payments of \$280,000 and a final payment of \$290,000 in principal plus accrued interest due on November 5, 2011. The note is unsecured and the bank and the Foundation have executed a negative pledge agreement.

Branch Banking and Trust Company (BB&T-b) - a \$3,500,000 term note with quarterly interest varying at prime less .25% and one principal payment of \$1,000,000 and a final payment of \$2,500,000 plus accrued interest due on December 10, 2010. The note is unsecured and the bank and the Foundation have executed a negative pledge agreement.

Reconciliation of Long-Term Notes Payable	
	2009
ASB	\$ 890,000.00
BB&T-a	795,000.00
BB&T-b	3,076,618.00
Total Notes Payable	4,761,618.00
Less: Current Portion	(1,425,000.00)
Total Long-Term Notes Payable	\$ 3,336,618.00

Maturities of notes payable for the years following June 30, 2009 are as follows:

2010	\$ 1,425,000.00
2011	2,494,618.00
2012	400,400.00
2013	88,320.00
2014	353,280.00
	\$ 4,761,618.00

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Interest costs for the year ended June 30, 2009 aggregated \$63,348.00, none of which was capitalized.

Subsequent to June 30, 2009 and prior to the date of these financial statements, the Foundation made additional principal payments on one of the notes with BB&T totaling \$650,000.00. These payments were in addition to any required payments under the note agreements.

On December 17, 2009, the Foundation signed a note modification agreement with BB&T to defer the principal note payment of \$1,000,000.00 originally due on December 10, 2009, to a due date of December 10, 2010.

### NOTE 8 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for digital equipment, mailroom equipment, wireless equipment and software, computers, servers, telephone equipment, and NC Arboretum land leases. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 620,494.83
2011	576,088.46
2012	530,892.32
2013	276,090.10
2014	140,320.33
2015-2017	9,000.00
Total Minimum Lease Payments	<u>\$ 2,152,886.04</u>

Rental expense for all operating leases during the year was \$551,970.11.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 18,897,642.34	\$ 0.00	\$ 2,685,798.99	\$ 104,260.20	\$ 16,107,583.15
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 4,614,699.03	\$ 0.00	\$ 682,784.28	\$ 0.00	\$ 3,931,914.75
Dining	3,149,331.02		491,088.12		2,658,242.90
Student Union Services	75,749.81	760.00			74,989.81
Health, Physical Education, and Recreation Services	128,037.50				128,037.50
Bookstore	2,067,393.71				2,067,393.71
Parking	496,156.48	8,156.50	33,398.36		454,601.62
Athletic	550,404.96				550,404.96
Other	507,600.79	440,090.13			67,510.66
Sales and Services of Education and Related Activities	661,878.66	267,226.25			394,652.41
<b>Total Sales and Services</b>	\$ 12,251,251.96	\$ 716,232.88	\$ 1,207,270.76	\$ 0.00	\$ 10,327,748.32

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 22,422,619.31	\$ 707,242.66	\$ 1,552,071.35	\$ 103,784.75	\$ 0.00	\$ 0.00	\$ 24,785,718.07
Research	867,333.79	147,102.74	201,695.07	7,200.00			1,223,331.60
Public Service	4,542,483.04	669,945.92	1,114,724.46	30,156.10	118,681.40		6,475,990.92
Academic Support	3,321,730.34	763,047.07	409,348.49				4,494,125.90
Student Services	2,925,855.29	113,828.00	734,691.74				3,774,375.03
Institutional Support	6,881,714.74	109,871.47	1,215,500.29				8,207,086.50
Operations and Maintenance of Plant	5,619,548.63	988,772.86	504,224.31		1,596,922.93		8,709,468.73
Student Financial Aid	38,524.53			1,911,182.92			1,949,707.45
Auxiliary Enterprises	4,164,384.36	2,082,502.16	4,529,956.11	22,946.68	731,456.18		11,531,245.49
Depreciation						4,360,839.72	4,360,839.72
<b>Total Operating Expenses</b>	\$ 50,784,194.03	\$ 5,582,312.88	\$ 10,262,211.82	\$ 2,075,270.45	\$ 2,447,060.51	\$ 4,360,839.72	\$ 75,511,889.41

### NOTE 11 - PENSION PLANS

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$40,587,891.68, of which \$19,972,558.35 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$671,077.96 and \$1,198,353.50, 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 \$671,077.96, \$562,636.52, and \$448,637.89, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$40,587,891.68, of which \$16,417,598.78 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,122,963.76 and \$985,055.93, 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 \$177,719.04 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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year ended June 30, 2009, were \$91,971.41. The voluntary contributions by employees amounted to \$309,580.00 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 \$491,149.92 for the year ended June 30, 2009.

### NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by *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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$1,491,996.44, \$1,405,959.13, and \$1,185,080.80, 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. The required contribution rate for the years ended June 30, 2008, and 2007, was .52% for both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$189,228.81, \$178,316.76, and \$162,168.95, 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*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 13 - RISK MANAGEMENT

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

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

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. Auxiliary buildings have extended and vandalism coverage for buildings and contents in addition to the fire coverage with the same \$5,000 coverage. The University also purchased through the Fund, extended coverage for boiler and machinery components with a \$5,000 deductible, and fine arts coverage for artwork that has a \$2,500 deductible.

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

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$31,649,253.54 and on other purchases were \$2,598,195.48 at June 30, 2009.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

### NOTE 15 - RELATED PARTIES

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

These entities are in existence to support the individual programs of the University. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the entities, except for support from each organization to the University. This support was considered immaterial for the year ended June 30, 2009. Further information, including audit reports, may be obtained directly from these entities.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (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, 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*.

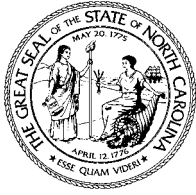
### NOTE 17 - NET ASSET RESTATEMENT

As of July 1, 2008, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2008 Net Assets as Previously Reported	\$ 130,835,823.60
Restatements: Correction of Error in Determining Useful Lives of Capital Assets	<u>3,598,830.13</u>
July 1, 2008 Net Assets as Restated	<u>\$ 134,434,653.73</u>

### NOTE 18 - SUBSEQUENT EVENT

On March 1, 2010, the University issued bonds in the amount of \$5,815,000.00 in order to partially refund the Series 2002A bonds. The borrowing is through the University of North Carolina System Pool Revenue Bonds, Series 2010C.



**Beth A. Wood, CPA**  
State Auditor

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

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

We have audited the financial statements of The University of North Carolina at Asheville, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2009, which collectively comprise the University's basic financial statements and have issued our report thereon dated May 20, 2010. Our report was modified to include a reference to other auditors.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 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 University of North Carolina at Asheville Foundation, Inc., the discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

---

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 and 2 to be material weaknesses.

Compliance and Other Matters

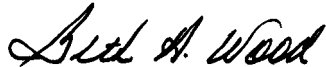
As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

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

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

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



Beth A. Wood, CPA  
State Auditor

May 20, 2010

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## AUDIT FINDINGS AND RESPONSES

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### **Matters Related to Financial Reporting**

The following findings and recommendations were identified during the current audit and discuss conditions that represent deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grants.

#### 1. INAPPROPRIATE ACCESS TO THE INFORMATION SYSTEMS

The University did not maintain adequate internal control over access to its information systems and data. This increases the risk of error or fraud.

We identified seven information systems staff members with database access that gives them the ability to update, alter, or remove financial data. The ability to access and change database information should be restricted to employees with the need to perform database administration functions.

We also identified four computer programmers who perform security administration functions for the financial accounting system. This allows the programmers to create, modify, and remove system users and related access rights for the financial information. We further identified three computer programmers with access to directly update data using the financial accounting system. To prevent inappropriate access to financial information, the ability to change computer programs should be segregated from responsibilities for system administration of the financial accounting system. Further, these individuals should not have access to perform accounting functions.

*Recommendation:* The University should improve internal control over granting and managing access to the information systems and data.

*University Response:* Management agrees with this finding and is implementing procedures to improve internal control over granting and managing access to the information systems and data.

#### 2. DEFICIENCIES IN FINANCIAL REPORTING

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

- a. The restricted expendable capital projects net asset balance was understated by \$1,340,893, the restricted expendable debt service net asset balance was overstated by \$1,197,279, and unrestricted net assets were overstated by \$143,614 as a result of classification errors.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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- b. Nonexpendable net asset balances were overstated as a result of the University's failure to record investment losses that exceeded the related endowment's available accumulated income and net appreciation. Nonexpendable net asset balances were overstated by \$257,430 and expendable net asset balances were understated by the same amount. As a result, the note disclosure of endowment balances available to be spent and those restricted for specific purposes were also understated. The University incorrectly reported that endowment losses did not exceed available accumulated income and net appreciation.
- c. The University failed to record the effects of borrowing unrestricted cash to cover deficit balances in restricted funds. As a result, current unrestricted cash was overstated by \$261,910, restricted current cash was understated by \$230,361 and restricted noncurrent cash was understated by \$31,549.
- d. Student tuition and fees, net of discounts and allowances, was overstated by \$208,520. This was the result of the University reversing the journal entry to adjust the allowance for doubtful accounts in error.
- e. The University failed to properly report a portion of federal student financial aid as nonoperating revenue. This resulted in an overstatement of federal grants and contracts of \$153,164 and an understatement of nonoperating noncapital grants from federal student financial aid of the same amount.
- f. The allocation of salaries and benefits across functional classifications disclosed in the notes to the financial statements was misstated. Although the net effect of the changes did not affect the total balance, misstatements by functional classification ranged from an understatement of \$38,525 to an overstatement of \$2,792,958.
- g. The change in fair value of investments reported on the statement of cash flows was reported as an increase of \$778,368, when in fact there was a decrease by that amount.

Significant aspects of this finding were also reported in the prior year.

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

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

### 3. INAPPROPRIATE USEFUL LIVES FOR CAPITAL ASSETS

The University did not appropriately evaluate and adjust the useful lives of its capital assets. As a result, the financial statements prepared by the University contained misstatements that were corrected as a result of our audit.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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Review of useful lives is a continual and inherent part of the depreciation process. The University failed to appropriately evaluate the remaining useful lives of capital assets, resulting in a material amount of fully depreciated assets that are still in use. The University reported \$5.5 million in fully depreciated capital assets in the financial statements. Correcting this error resulted in an increase in capital assets of \$3,598,830 and an increase in current year depreciation expense of \$130,622.

*Recommendation:* The University should implement adequate internal controls to ensure that the useful lives of capital assets are appropriately evaluated and adjusted accordingly.

*University Response:* Management reluctantly accepts this recommendation. The University controller reviewed and increased the useful life for new assets in 2007. In 2008, the useful life was reviewed and increased for new assets. In 2009, the useful life for new assets was reviewed and increased. Our fixed assets are housed in the Banner system which does not allow the flexibility to extend the useful lives of assets that are going to fully depreciate within the year. During the 2009 year end process, our fixed asset accountant position became vacant and any kind of major change regarding fixed assets would have been at great risk. The fixed asset accountant position has been filled and we have ordered new fixed asset software that allows the flexibility to change the useful life of our fixed assets. With this said, hiring the new fixed asset accountant coupled with ordering, installing, and putting into use the new fixed asset software mitigates the risk of a recurrence of this finding.

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## **ORDERING INFORMATION**

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