

STATE OF NORTH CAROLINA

UNIVERSITY OF NORTH CAROLINA GENERAL ADMINISTRATION

CHAPEL HILL, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

UNIVERSITY OF NORTH CAROLINA GENERAL ADMINISTRATION

CHAPEL HILL, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

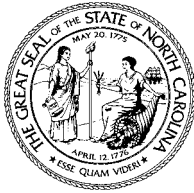
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Governors, University of North Carolina General Administration

We have completed a financial statement audit of the University of North Carolina General Administration for the year ended June 30, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

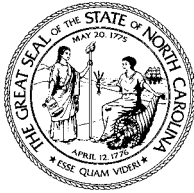
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Governors
University of North Carolina General Administration
Chapel Hill, North Carolina

We have audited the accompanying basic financial statements of the University of North Carolina General Administration (UNC GA), the administrative body of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of UNC GA's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of North Carolina Center for Public Television, which represent 44 percent, 45 percent, and 12 percent, respectively, of the assets, net assets, and revenues of UNC GA. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of North Carolina Center for Public Television, 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. 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 opinion.

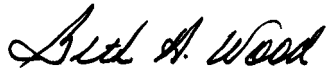
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina General Administration as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, UNC GA implemented Governmental Accounting Standards Board Statement No. 59, *Financial Instruments Omnibus*, during the year ended June 30, 2011.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2012 on our consideration of UNC GA'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

April 26, 2012

UNIVERSITY OF NORTH CAROLINA GENERAL ADMINISTRATION MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The University of North Carolina General Administration (UNC GA) provides this overview and management's discussion and analysis to assist in understanding the financial statements and notes to the financial statements presented herewith for the year ended June 30, 2011, and includes comparative data for the year ended June 30, 2010. This discussion describes important trends and events that have impacted the fiscal health of UNC GA and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of UNC GA's management along with the financial statements and the notes thereto. The report should be read and considered in its entirety.

Using the Annual Report

This annual report consists of a series of financial statements, notes to the financial statements, and other information prepared in accordance with the Governmental Accounting Standards Board (GASB). The GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a consolidated basis for UNC GA as a whole. These standards were used in the preparation of this document. The statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Comparative information for the prior fiscal year is also presented in the condensed financial statements.

The basic financial statements include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets are discussed in later sections of this discussion and analysis.

The Statement of Cash Flows provides information relative to UNC GA's sources and uses of cash for operating activities, noncapital financing activities, capital financing and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Assets as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Assets.

The Notes to the Financial Statements should be read in conjunction with the financial statements. The Notes to the Financial Statements provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on deposits and investments, accounts receivable, capital assets, accounts payable, long-term liabilities, lease obligations, revenues, expenses, required information on pension plans, other post employment benefits, insurance against losses, commitments, and a discussion of accounting changes. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

Reporting Entity

The financial statements report information about UNC GA as a whole using accounting methods similar to those used in the private-sector. UNC GA's supporting organization, The University of North Carolina Foundation Inc. (Foundation), is a legally separate not-for-profit corporation and is reported as a blended component unit based on the nature and significance of its relationship to UNC GA. Therefore, the results of its operations are blended with UNC GA's financial statements and are included in this discussion and analysis. The reporting entity also includes the University of North Carolina Center for Public Television and UNC Association of Student Government, divisions within UNC GA. Although the UNC Foundation, Inc., the University of North Carolina Center for Public Television, and the UNC Association of Student Government organizations are all included in the UNC General Administration reporting entity, each organization is subject to an independent outside audit due to organizational requirements or source of funding.

Financial Highlights

UNC GA's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2011. The combined net assets for UNC GA decreased by \$394,311.00 or 0.28%.

Summary of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of UNC GA as of the end of the fiscal year. The statement is a point-in-time statement presenting a fiscal snapshot of UNC GA. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of UNC GA. They are also able to determine how much UNC GA owes to vendors and others and how much is held for future use by UNC GA or others. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by UNC GA.

Net assets are divided into categories to show the availability to meet UNC GA obligations. The first category, invested in capital assets, provides UNC GA's equity in property, plant, and equipment. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net assets consist primarily of UNC GA's permanent endowment funds and are only available for investment purposes. Expendable restricted net assets are available for use by UNC GA, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to UNC GA for any lawful purpose. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of UNC GA's unrestricted net assets have been designated for various programs and initiatives.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	2011	2010	Increase/ (Decrease)	Percent Change
Assets:				
Current Assets	\$ 49,018,379.29	\$ 53,184,594.50	\$ (4,166,215.21)	(7.83%)
Noncurrent Assets				
Other	60,167,985.45	60,311,633.17	(143,647.72)	(0.24%)
Capital Assets, Net	43,946,483.62	39,201,321.58	4,745,162.04	12.10%
Total Assets	153,132,848.36	152,697,549.25		
Liabilities:				
Current Liabilities	11,737,794.13	10,854,281.16	883,512.97	8.14%
Noncurrent Liabilities	3,303,933.49	3,357,836.35	(53,902.86)	(1.61%)
Total Liabilities	15,041,727.62	14,212,117.51		
Net Assets:				
Invested in Capital Assets	43,946,483.62	39,201,321.58	4,745,162.04	12.10%
Restricted:				
Nonexpendable	30,258,767.40	37,864,848.20	(7,606,080.80)	(20.09%)
Expendable	47,964,496.35	54,116,559.54	(6,152,063.19)	(11.37%)
Unrestricted	15,921,373.37	7,302,702.42	8,618,670.95	118.02%
Total Net Assets	\$ 138,091,120.74	\$ 138,485,431.74		

Net Assets categories are defined in Note 1.L of the Notes to the Financial Statements.

As of June 30, 2011, total UNC GA net assets were \$138.09 million. Current assets, which include cash and receivables, decreased by \$4.17 million, or 7.83% primarily due to the non-availability of appropriation carry forward at fiscal year-end and decrease in cash balance for capital projects as a result of projects nearing completion. UNC GA's capital assets of \$43.95 million represent 31.82% of total net assets. Total assets increased by \$435,299.11, or 0.29%.

UNC GA's liabilities totaled \$15.04 million at June 30, 2011. Current liabilities, which include accounts payable, unearned revenue, and funds held for others, increased by \$883,512.97, or 8.14%, primarily due to the increase in funds held for others. Noncurrent liabilities of \$3.30 million represent compensated absences. Details of both current and noncurrent liabilities are shown on the Statement of Net Assets and in notes 6 and 7.

UNC GA incurs a long-term liability for accumulated unused vacation benefits for employees. UNC GA's long-term liabilities decreased by \$53,902.86 during fiscal year 2011. For detailed information about long-term liabilities, see Note 7 of the Notes to the Financial Statements.

UNC GA's current assets of \$49.02 million covered the current liabilities of \$11.74 million, at a ratio of 4.18 (\$4.18 in current assets for every \$1.00 in current liabilities).

Summary of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. UNC GA's dependency on State aid, certain grants, and gifts will result in operating deficits since the GASB requires that State appropriations, certain grants, and gifts be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The change in total net assets as presented on the Condensed Statement of Net Assets is based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by UNC GA, both operating and nonoperating, the expenses paid by UNC GA, operating and nonoperating, any other revenues, expenses, and any gains and/or losses received or spent by UNC GA.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of UNC GA. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of UNC GA. Nonoperating revenues are revenues received for which goods and services are not provided. Capital grants are considered neither operating nor nonoperating revenues and are reported after "Income (Loss) Before Other Revenues."

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

	2011	2010	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Sales and Services	\$ 4,241,934.77	\$ 4,068,860.04	\$ 173,074.73	4.25%
Other	11,378.65	16,300.30	(4,921.65)	(30.19%)
Total Operating Revenues	4,253,313.42	4,085,160.34		
Operating Expenses:				
Salaries and Benefits	30,761,109.26	30,212,470.70	548,638.56	1.82%
Supplies and Materials	1,649,750.08	1,541,340.82	108,409.26	7.03%
Services	25,934,310.08	26,430,005.79	(495,695.71)	(1.88%)
Utilities	1,716,981.19	1,540,083.06	176,898.13	11.49%
Depreciation	3,666,726.28	3,406,293.95	260,432.33	7.65%
Total Operating Expenses	63,728,876.89	63,130,194.32		
Operating Loss	(59,475,563.47)	(59,045,033.98)		
Nonoperating Revenues (Expenses)				
State Appropriations	214,175,510.87	229,670,740.58	(15,495,229.71)	(6.75%)
Noncapital Grants	48,870,353.67	46,743,157.90	2,127,195.77	4.55%
Noncapital Gifts, Net	9,463,694.88	10,952,953.75	(1,489,258.87)	(13.60%)
Investment Income, Net	7,789,757.51	3,781,277.84	4,008,479.67	106.01%
Grants, Aid and Subsidies	(222,236,880.45)	(228,757,622.54)	(6,520,742.09)	(2.85%)
Other Nonoperating Expenses	(389,791.65)	(1,028,614.67)	(638,823.02)	(62.11%)
Net Nonoperating Revenues	57,672,644.83	61,361,892.86		
Income (Loss) Before Other Revenues	(1,802,918.64)	2,316,858.88		
Refund of Prior Year Capital Appropriation	(1,034.52)	(69,000.00)	(67,965.48)	(98.50%)
Capital Grants	1,409,642.16	852,606.01	557,036.15	65.33%
Additions to Endowments	27,023.38	27,023.38	(27,023.38)	(100.00%)
Increase (Decrease) in Net Assets	(394,311.00)	3,127,488.27		
Net Assets				
Net Assets - July 1	138,485,431.74	135,357,943.47		
Net Assets - June 30	\$ 138,091,120.74	\$ 138,485,431.74		

The Statement of Revenues, Expenses, and Changes in Net Assets shows a decrease in net assets of \$394,311.00 for the fiscal year. The total operating loss for fiscal year 2011 was \$59.48 million. Since the State of North Carolina appropriation is not included within operating revenue per GASB, UNC GA shows a significant operating loss.

The State appropriations are received through an allotment and requisition system through the North Carolina Office of State Budget and Management and the North Carolina Office of State Controller. For the fiscal year ending June 30, 2011, the appropriations from the State for UNC GA were \$214.18 million for operations. State appropriations decreased by \$15.50 million, or 6.75% during the fiscal year due to budget reductions and allotment holdbacks. UNC GA was mandated to revert prior year's capital appropriations to the State in fiscal year 2010 and 2011 to meet statewide budget needs. The reversion in 2010 was \$69,000 compared to the reversion of \$1,034.52 in 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Noncapital grants increased \$2.13 million, or 4.55% primarily due to an increase in University Cancer Research Fund state grant. Noncapital gifts decreased \$1.50 million, or 13.60% due to fewer private gifts. Investment income increased \$4.01 million, or 106.01% due to continued improvement in investment market. Grants, aid and subsidies expenses decreased \$6.52 million, or 2.85% primarily due to a decrease in transfers from UNC GA to the UNC campuses.

Operating revenues include sales and services (including academic affairs private college licensure fees, NC Center for International Understanding exchange programs, School Leadership Development training and conferencing services, etc) and other operating revenues.

Operating expenses, including depreciation of \$3.67 million, totaled \$63.73 million. Of this total, \$30.76 million was used for salaries and benefits and \$25.93 million was for services. Services consisted of contractual agreements, data processing services, utilities, travel, and communication expenses.

Other nonoperating expenses decreased by \$638,823.02 or 62.11% due to a decrease in current year loss on sale of property and equipment as compared to the prior year.

One of UNC GA's greatest strengths is the diverse streams of revenues, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, State appropriations, and investment income. UNC GA has in the past and will continue to seek funding aggressively from all possible sources consistent with its mission and prudently manage the financial resources realized from these efforts to fund its operating activities.

Capital Assets

Primary capital projects for fiscal year 2011 was UNC Center for Public Television transmission and studio upgrades related to the conversion to digital television funded from state appropriations, federal grants, and non-governmental grants from the Corporation for Public Broadcasting. Total capital assets, net of accumulated depreciation, at June 30, 2011 were \$43.95 million. For more detailed information about asset holdings, see Note 5 of the Notes to the Financial Statements.

Factors Impacting Future Periods

Management believes that UNC GA is well positioned to continue its level of excellence in service to UNC constituent institutions, students, the community, and governmental agencies. UNC GA's ongoing efforts toward maximizing the state's resources with efficiency and effectiveness measures will enable it to provide the necessary resources to support this level of excellence. However, reductions in state appropriations will continue to impact the ability of UNC GA to maintain resources to provide programs and services, including financial aid, to meet the growing demands of the state and its' citizens.

A crucial element to UNC GA's future will continue to be its relationship with the State of North Carolina. Private gifts are an important supplement to the fundamental support from

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

the State and other revenue sources. Economic pressures affecting donors may affect the future level of support UNC GA receives from corporate and individual giving, including the support received through The University of North Carolina Center for Public Television.

UNC GA will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate UNC GA's operations from temporary market volatility.

While it is not possible to predict the ultimate results, management believes that with cost reduction measures implemented and the continued support of the State of North Carolina and faithful donors, UNC GA's financial condition is strong enough to weather current economic uncertainties.

University of North Carolina General Administration
Statement of Net Assets
June 30, 2011

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 813,208.65
Restricted Cash and Cash Equivalents (Note 2)	43,954,412.62
Receivables, Net (Note 4)	2,184,850.11
Due from State of North Carolina Component Units	40,000.00
Inventories	31,916.86
Prepaid Items	1,993,991.05

Total Current Assets	<u>49,018,379.29</u>
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Noncurrent Assets:

Restricted Cash and Cash Equivalents (Note 2)	5,458,094.95
Restricted Due from Primary Government	139,485.00
Endowment Investments (Note 2)	54,570,405.50
Capital Assets - Nondepreciable (Note 5)	1,833,024.31
Capital Assets - Depreciable, Net (Note 5)	<u>42,113,459.31</u>

Total Noncurrent Assets	<u>104,114,469.07</u>
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Total Assets	<u>153,132,848.36</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,643,259.05
Due to Primary Government	2,970.55
Funds Held for Others	4,327,782.43
Unearned Revenue	4,643,189.53
Long-Term Liabilities - Current Portion (Note 7)	<u>120,592.57</u>

Total Current Liabilities	<u>11,737,794.13</u>
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<u>3,303,933.49</u>
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Total Liabilities	<u>15,041,727.62</u>
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NET ASSETS

Invested in Capital Assets	43,946,483.62
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Restricted for:

Nonexpendable:

Scholarships and Fellowships	28,332,996.38
Departmental Uses	87,000.23
Other	1,838,770.79

Expendable:

Scholarships and Fellowships	4,831,270.03
Endowed Professorships	3,840,912.62
Departmental Uses	38,568,736.92
Capital Projects	723,576.78

Unrestricted	<u>15,921,373.37</u>
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Total Net Assets	<u>\$ 138,091,120.74</u>
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The accompanying notes to the financial statements are an integral part of this statement

***University of North Carolina General Administration
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2011***

Exhibit A-2

REVENUES

Operating Revenues:	
Sales and Services	\$ 4,241,934.77
Other Operating Revenues	11,378.65
	<hr/>
Total Operating Revenues	4,253,313.42
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	30,761,109.26
Supplies and Materials	1,649,750.08
Services	25,934,310.08
Utilities	1,716,981.19
Depreciation	3,666,726.28
	<hr/>
Total Operating Expenses	63,728,876.89
	<hr/>
Operating Loss	(59,475,563.47)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	214,175,510.87
Noncapital Grants	48,870,353.67
Noncapital Gifts, Net (Note 9)	9,463,694.88
Investment Income (Net of Investment Expense of \$316,494.59)	7,789,757.51
Grants, Aid and Subsidies	(222,236,880.45)
Other Nonoperating Expenses	(389,791.65)
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Net Nonoperating Revenues	57,672,644.83
	<hr/>
Loss Before Other Revenues and Expenses	(1,802,918.64)
	<hr/>
Refund of Prior Years Capital Appropriations	(1,034.52)
Capital Grants	1,409,642.16
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Decrease in Net Assets	(394,311.00)
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NET ASSETS

Net Assets - July 1, 2010	138,485,431.74
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Net Assets - June 30, 2011	\$ 138,091,120.74
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The accompanying notes to the financial statements are an integral part of this statement.

***University of North Carolina General Administration
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011***

Exhibit A-3

Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 6,035,661.84
Payments to Employees and Fringe Benefits	(30,732,247.44)
Payments to Vendors and Suppliers	(29,806,448.68)
Other Receipts	1,716,688.58
	<hr/>
Net Cash Used by Operating Activities	(52,786,345.70)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	214,175,510.87
Noncapital Grants	47,097,698.17
Noncapital Gifts	9,380,581.88
Grants, Aid and Subsidies	(222,236,880.45)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	48,416,910.47

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Refund of Prior Years Capital Appropriations	(1,034.52)
Capital Grants	9,386,608.75
Proceeds from Insurance on Capital Assets	9,624.86
Acquisition and Construction of Capital Assets	(8,695,310.31)
Other Payments	(297,500.00)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	402,388.78

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	1,135,373.00
Investment Income	738,603.31
	<hr/>
Cash Provided by Investing Activities	1,873,976.31
	<hr/>
Net Decrease in Cash and Cash Equivalents	(2,093,070.14)
Cash and Cash Equivalents - July 1, 2010	52,318,786.36
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Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 50,225,716.22</u></u>

***University of North Carolina General Administration
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011***

***Exhibit A-3
Page 2 of 2***

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

Operating Loss	\$	(59,475,563.47)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		3,666,726.28
Nonoperating Other Income		8,590.89
Changes in Assets and Liabilities:		
Receivables (Net)		1,782,348.42
Inventories		(14,170.70)
Prepaid Items		(848,773.13)
Accounts Payable and Accrued Liabilities		461,358.32
Due to Primary Government		2,191.43
Compensated Absences		(77,151.43)
Funds Held for Others		1,708,097.69
Net Cash Used by Operating Activities	\$	<u>(52,786,345.70)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	813,208.65
Restricted Cash and Cash Equivalents		43,954,412.62
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>5,458,094.95</u>
Total Cash and Cash Equivalents - June 30, 2011	\$	<u>50,225,716.22</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$	21,097.25
Change in Fair Value of Investments		7,303,077.94
Loss on Disposal of Capital Assets		(139,921.35)

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

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UNIVERSITY OF NORTH CAROLINA GENERAL ADMINISTRATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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 General Administration (UNC GA) is the administrative body of the multi-campus University of North Carolina System (University 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 UNC GA and its component unit. UNC GA is the organizational structure established, pursuant to *North Carolina General Statutes* 116-3 through 116-22, to support and assist the President of the University System in fulfilling his responsibilities to the Board of Governors in meeting overall responsibilities for administering the University System. The President, as chief administrative and executive officer, is responsible for (1) communication between the Board and persons inside and outside the University System, (2) preparation, presentation, and execution of the budget for the University System, and (3) establishment and supervision of administrative divisions to comply with policies of the Board. These responsibilities are accomplished through offices which address academic affairs, financial administration, long-range planning, student services and special programs, research, communications, and public affairs. UNC GA's component unit is blended in UNC GA's financial statements. The blended component unit, although legally separate, is, in substance, part of UNC GA's operations and therefore, is reported as if it were part of UNC GA.

Blended Component Unit - Although legally separate, The University of North Carolina Foundation, Inc. (Foundation), a component unit of UNC GA, is reported as if it were part of UNC GA.

The Foundation is governed by a board consisting of four ex-officio directors and not less than three, nor more than nineteen other directors. The Foundation's purpose is to support the mission of the multi-campus

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

University System, primarily through raising funds to benefit the University System and funding research on ways the University System can better serve the citizens of North Carolina. The Foundation is included as part of UNC GA based on the nature and significance of its relationship with UNC GA. The four ex-officio directors are the Chairman of the Board of Governors of the University System, the President of the University System, the Vice-President for Public Affairs and University Advancement of the University System, and the Vice President for Finance of the University System. The other directors are elected by the board from among nominees recommended by the nominating committee. Because the other directors are elected by the ex-officio directors of the Foundation and the Foundation's sole purpose is to benefit the University System, its financial statements have been blended with those of UNC GA.

Separate financial statements for the Foundation may be obtained from the UNC GA Services Office, 910 Raleigh Road, Chapel Hill, NC, or by calling (919) 843-5183.

- 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 UNC GA'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*, UNC GA 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 UNC GA have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

E. Investments - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts 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.

Real estate not held by a governmental external investment pool is reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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 UNC GA for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.

F. Receivables - Receivables consist of amounts due from the federal government, State and local governments, other universities, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied, and accrued interest from investments. Receivables are recorded net of estimated uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

G. Inventories - Inventories, consisting of expendable supplies and postage, are valued at cost using the last invoice 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.

UNC GA capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

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 100 years for buildings, and 5 to 30 years for equipment.

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 for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

J. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

There is no liability for unpaid accumulated sick leave because UNC GA 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 - UNC GA's net assets are classified as follows:

Invested in Capital Assets - This represents UNC GA's total investment in 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 UNC GA 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 sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at UNC GA.

M. Revenue and Expense Recognition - UNC GA 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 UNC GA's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) sales and services of auxiliary enterprises, (2) certain federal, State, and local grants and contracts that are essentially contracts for services, and (3) 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to UNC GA, 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, UNC GA 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 General Statute 116-36.1, requires UNC GA to deposit its institutional trust funds with the State Treasurer. Although specifically exempted, UNC GA may voluntarily deposit endowment funds, special funds, and revenue bond proceeds with the State Treasurer. Special funds consist of agency funds held directly by UNC GA.

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$48,022,497.76 which represents UNC GA'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 1.9 years as of June 30, 2011. 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.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2011 was \$400.00. The carrying amount of UNC GA's deposits not with the State was \$2,202,818.46 and the bank balance was \$2,204,839.58. Custodial credit risk is the risk that in the event of a bank failure, UNC GA's deposits may not be returned to it. UNC GA does not have a deposit policy for custodial credit risk. As of June 30, 2011, \$1,953,633.71 of UNC GA's bank balance was uninsured and uncollateralized.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- B. Investments** - UNC GA 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.

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 UNC GA's 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.

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

Investments also include investments in real estate of \$25,200.00 and other investments of \$385.00 not subject to interest rate risk, credit risk, or custodial credit risk.

UNC Investment Fund, LLC - At June 30, 2011, UNC GA's investments include \$54,544,820.50 which represents UNC GA's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the UNC Investment Fund are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for UNC GA of June 30, 2011, is as follows:

Cash on Hand	\$ 400.00
Amount of Deposits with Private Financial Institutions	2,202,818.46
Deposits in the Short-Term Investment Fund	48,022,497.76
Investments in the UNC Investment Fund	54,544,820.50
Investments in Real Estate	25,200.00
Other Investments	<u>385.00</u>
Total Deposits and Investments	<u>\$ 104,796,121.72</u>
Current:	
Cash and Cash Equivalents	\$ 813,208.65
Restricted Cash and Cash Equivalents	43,954,412.62
Noncurrent:	
Restricted Cash and Cash Equivalents	5,458,094.95
Endowment Investments	<u>54,570,405.50</u>
Total Deposits	<u>\$ 104,796,121.72</u>

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of UNC GA'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 Governors 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. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of UNC GA's endowment funds is predicated on the total return concept (yield plus appreciation). Annual distributions from UNC GA's endowment funds are based on an adopted spending policy and are subject to a maximum of 5% of the aggregate endowment fund's average market value for the previous year. Under this policy, annual distributions are calculated by comparing cash associated with the endowment fund to the projected expenses for programs associated with the fund. To the extent that the total return for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the current year exceeds the distribution, the excess is added to principal. If current year earnings do not meet the distribution requirements, UNC GA uses accumulated income and appreciation to fund the difference. At June 30, 2011, endowment net assets of \$24,247,067.25 were available to be spent, of which \$8,188,444.33 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Accounts	\$ 454,873.68	\$ 0.00	\$ 454,873.68
Intergovernmental	1,495,424.43		1,495,424.43
Pledges	380,380.00	145,828.00	234,552.00
Total Current Receivables	<u>\$ 2,330,678.11</u>	<u>\$ 145,828.00</u>	<u>\$ 2,184,850.11</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 802,658.00	\$ 0.00	\$ 0.00	\$ 802,658.00
Construction in Progress	1,339,792.82	923,353.37	1,232,779.88	1,030,366.31
Total Capital Assets, Nondepreciable	<u>2,142,450.82</u>	<u>923,353.37</u>	<u>1,232,779.88</u>	<u>1,833,024.31</u>
Capital Assets, Depreciable:				
Buildings	90,170,395.77	6,104,033.89	1,006,420.92	95,268,008.74
Machinery and Equipment	11,253,494.56	903,072.84	752,813.23	11,403,754.17
General Infrastructure	19,218,134.39	1,863,754.31	14,528.44	21,067,360.26
Total Capital Assets, Depreciable	<u>120,642,024.72</u>	<u>8,870,861.04</u>	<u>1,773,762.59</u>	<u>127,739,123.17</u>
Less Accumulated Depreciation for:				
Buildings	67,017,515.84	2,613,294.88	908,437.84	68,722,372.88
Machinery and Equipment	9,046,357.92	546,952.76	705,973.70	8,887,336.98
General Infrastructure	7,519,280.20	506,478.64	9,804.84	8,015,954.00
Total Accumulated Depreciation	<u>83,583,153.96</u>	<u>3,666,726.28</u>	<u>1,624,216.38</u>	<u>85,625,663.86</u>
Total Capital Assets, Depreciable, Net	<u>37,058,870.76</u>	<u>5,204,134.76</u>	<u>149,546.21</u>	<u>42,113,459.31</u>
Capital Assets, Net	<u>\$ 39,201,321.58</u>	<u>\$ 6,127,488.13</u>	<u>\$ 1,382,326.09</u>	<u>\$ 43,946,483.62</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	<u>Amount</u>
Accounts Payable	\$ 1,358,245.15
Accrued Payroll	<u>1,285,013.90</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 2,643,259.05</u>

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Current Portion</u>
Compensated Absences	\$ 3,501,677.49	\$ 2,140,162.76	\$ 2,217,314.19	\$ 3,424,526.06	\$ 120,592.57

NOTE 8 - OPERATING LEASE OBLIGATIONS

UNC GA entered into operating leases for tower sites and office and storage facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 273,374.00
2013	153,378.00
2014	116,366.00
2015	45,217.00
2016	43,502.00
2017-2021	193,337.00
2022-2026	124,765.00
2027-2031	48,131.00
2032-2036	23,545.00
2037-2041	23,545.00
2042-2046	23,545.00
2047-2051	23,545.00
2052-2056	23,545.00
2057-2061	23,541.00
2062-2066	23,540.00
2067-2071	15,329.00
2072-2110	<u>8,417.00</u>
Total Minimum Lease Payments	<u>\$ 1,186,622.00</u>

Rental expense for all operating leases during the year was \$403,019.38.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Less Allowance for Uncollectibles	Net Revenues
Nonoperating - Noncapital Gifts	<u>\$ 9,503,099.88</u>	<u>\$ 39,405.00</u>	<u>\$ 9,463,694.88</u>

NOTE 10 - OPERATING EXPENSES BY FUNCTION

UNC GA's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Utilities	Depreciation	Total
Instruction	\$ 1,754,963.20	\$ 350,479.39	\$ 917,614.33	\$ 2,717.48	\$ 0.00	\$ 3,025,774.40
Research			14,194.34			14,194.34
Public Service	13,414,714.49	1,222,021.02	17,315,176.93	1,480,820.65		33,432,733.09
Institutional Support	15,591,431.57	77,249.67	6,306,594.34	233,443.06		22,208,718.64
Operations and Maintenance of Plant			991,218.91			991,218.91
Student Financial Aid			389,511.23			389,511.23
Depreciation					3,666,726.28	3,666,726.28
Total Operating Expenses	<u>\$ 30,761,109.26</u>	<u>\$ 1,649,750.08</u>	<u>\$ 25,934,310.08</u>	<u>\$ 1,716,981.19</u>	<u>\$ 3,666,726.28</u>	<u>\$ 63,728,876.89</u>

NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, UNC GA had a total payroll of \$24,473,775.10, of which \$19,922,767.08 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$982,192.42 and \$1,195,366.02, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. UNC GA made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$982,192.42, \$699,297.04, and \$682,057.49, 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.osc.nc.gov/> and clicking on "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 employees of UNC GA may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2011, these rates were set at 6.84% of covered payroll for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employers and 6% of covered payroll for members. UNC GA assumes no liability other than its contribution.

For the current fiscal year, UNC GA had a total payroll of \$24,473,775.10, of which \$2,989,758.81 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$204,499.50 and \$179,385.53, 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 UNC GA. The voluntary contributions by employees amounted to \$115,719.00 for the year ended June 30, 2011.

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 UNC GA. The voluntary contributions by employees amounted to \$254,722.00 for the year ended June 30, 2011.

IRC Section 403(b) and 403(b)(7) Plans - Eligible UNC GA 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 UNC GA. The voluntary

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions by employees amounted to \$304,667.00 for the year ended June 30, 2011.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - UNC GA 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.

For the current fiscal year UNC GA contributed 4.9% 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, 2010, and 2009, were 4.5% and 4.1%, respectively. UNC GA made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$1,122,713.77, \$1,025,186.89, and \$975,663.24, respectively. UNC GA 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - UNC GA 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 by the General Assembly. For the fiscal year ended June 30, 2011, UNC GA made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2010, and 2009, were .52% and .52%, respectively. UNC GA made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$119,145.13, \$118,466.04, and \$123,742.66, respectively. UNC GA assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

UNC GA 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.

The risk of 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. UNC GA pays the premium, based on a composite rate, directly to the private insurer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

UNC GA 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 UNC GA for operations supported by the State's General Fund. UNC GA has opted to purchase additional coverages offered by the 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.

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. UNC GA pays premiums to the North Carolina Department of Insurance for the coverage.

UNC GA 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. UNC GA is 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.

UNC GA employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - COMMITMENTS

UNC GA has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$277,853.00 at June 30, 2011.

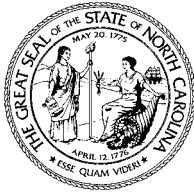
NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2011, UNCGA implemented the following pronouncements issued by GASB:

GASB Statement No. 59, *Financial Instruments Omnibus*.

GASB Statement No. 59 updates the disclosure and reporting requirements for certain financial instruments and external investment pools.

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

Board of Governors
University of North Carolina General Administration
Chapel Hill, North Carolina

We have audited the financial statements of the University of North Carolina General Administration (UNC GA), the administrative body of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, and have issued our report thereon dated April 26, 2012. Our report includes a reference to other auditors.

As discussed in Note 15 to the financial statements, UNC GA implemented Governmental Accounting Standards Board Statement No. 59, *Financial Instruments Omnibus*, during the year ended June 30, 2011.

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 Center for Public Television, as described in our report on UNC GA's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered UNC GA'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 UNC GA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of UNC GA's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of UNC GA's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management of UNC GA, the Board of Governors, 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

April 26, 2012

ORDERING INFORMATION

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

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

Telephone: 919/807-7500

Facsimile: 919/807-7647