STATE OF
NORTH CAROLINA

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO

GREENSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Constituent Institution of the University of North Carolina System and a Component Unit of the State of North Carolina

The University of North Carolina at Greensboro

Greensboro, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2011

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of The University of North Carolina at Greensboro, a constituent institution 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 the University'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 at Greensboro Investment Fund, Incorporated, which represent 23 percent, 32 percent, and 9 percent, respectively, of the assets, net assets, and revenues, of the University; the financial statements of The UNCG Excellence Foundation, Inc., which represent 11 percent, 14 percent, and 4 percent, respectively, of the assets, net assets, and revenues, of the University; or the financial statements of the Capital Facilities Foundation, Inc., which represent 6 percent, .25 percent, and .12 percent, respectively of the assets, net assets, and revenues, of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Greensboro 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2011 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

November 10, 2011

Introduction

The University of North Carolina at Greensboro (the "University") provides the following management discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2011. This discussion, the following financial statements, and the related notes to the financial statements have been prepared by management and comprise the University's complete financial report. The financial statements, notes to the financial statements, and this discussion are the responsibility of management.

The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. However, this discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the related financial statements and notes to the financial statements.

Using the Financial Report

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories.

Statement of Net Assets

The Statement of Net Assets is a "point of time" financial statement that presents the assets, liabilities, and net assets of the University. The purpose of this financial statement is to present to the readers of the University's financial report a fiscal snapshot as of the end of the fiscal year (i.e., June 30th). The Statement of Net Assets presents both the current and noncurrent portions of assets and liabilities. The differences between current and noncurrent assets and liabilities are discussed further in the notes to the financial statements.

From the data presented, readers of this statement are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors and lending institutions. The Statement of Net Assets also provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories: invested in capital assets, net of related debt; unrestricted net assets; and restricted net assets, which are reflected in two subcategories – expendable and nonexpendable. These three categories of net assets are discussed further in the notes to the financial statements.

A condensed Statement of Net Assets is reflected in the following table.

Condensed Statement of Net Assets

	6/30/11	6/30/10
Assets:		
Current Assets	$ 128,200,472	$ 124,398,561
Noncurrent Capital Assets, Net of Accumulated Depreciation	499,969,372	440,649,986
Other Noncurrent Assets	262,361,009	210,270,838
Total Assets	890,530,853	775,319,385
Liabilities:		
Current Liabilities	30,940,367	30,129,652
Noncurrent Liabilities	218,833,364	163,209,320
Total Liabilities	249,773,731	193,338,972
Net Assets:		
Invested in Capital Assets, Net of Related Debt	348,697,275	335,363,259
Restricted - Nonexpendable	109,584,624	101,513,750
Restricted - Expendable	106,809,952	76,398,920
Unrestricted	75,665,271	68,704,484
Total Net Assets	$ 640,757,122	$ 581,980,413

The total assets of the University increased by $115.2 million for the year ($3.8 million increase for current assets and a $111.4 million increase for noncurrent assets). This overall increase was attributable to increases of $59.3 million in capital assets, net of accumulated depreciation, $34.6 million in endowment investments, $17.4 million in noncurrent restricted cash and cash equivalents, and $4.7 million in current cash and cash equivalents. The increase in capital assets, net of accumulated depreciation, is the direct result of the completion and capitalization of two buildings and the completion and capitalization of major building renovations during the fiscal year. The School of Education Academic Classroom Building and the Baseball Locker Room and Training Facility were completed during the fiscal year. Major renovation projects to the Guilford and Mary Foust Residence Hall and the Fire Alarm System in the Bryan Building were completed and capitalized during the fiscal year. The most significant addition to construction in progress was the start up of the comprehensive renovation of the seven Quad Residence Halls. The increase in noncurrent restricted cash and cash equivalents is from the issuance of a $46.0 million note payable in January 2011, whose proceeds are being used for the aforementioned Quad Residence Halls renovation project. The increase in endowment investments is due to increases in value of all types of investments during the fiscal year. The increase in cash and cash equivalents is primarily due to the reclassification of cash from noncurrent to current related to accounts payable for construction projects at June 30, 2011. All other asset categories, both current and noncurrent, decreased by $0.8 million.

The total liabilities of the University increased by $56.4 million for the year ($0.8 million increase for current liabilities and a $55.6 million increase in noncurrent liabilities). This overall increase in total liabilities consists of a $59.1 million increase in notes payable, a $5.0 million decrease in bonds payable, a $1.7 million increase in annuity and life income payable liability, a $1.4 million decrease in due to primary government, a $1.2 million increase in accounts payable and accrued liabilities, and an increase of $0.8 million in all other liability categories, both current and noncurrent. The increase in notes payable is directly attributable to the University's issuance of a nontaxable note for $46.0 million to U.S. Bank for the Quad Residential Halls Renovation and an extension of $13.4 million in a line of credit for property acquisitions for the Mixed Use Village along the West Lee Street corridor. The decrease in bonds payable is due to scheduled payments of principal made during the fiscal year and no new bonds issued during this period. The increase of annuity and life income payable is due to improved market conditions of the University's investments and additional gifts received during the fiscal year. The increase in accounts payable is due to increased construction activity during the fiscal year mainly attributable to the Quad Residence Halls renovation project.

The combination of the increase in total assets of $115.2 million and the increase in total liabilities of $56.4 million yields an overall increase in total net assets of $58.8 million. This change consists of an increase in the category of invested in capital assets, net of related debt of $13.3 million, an increase in the category of restricted nonexpendable net assets of $8.1 million, an increase in the category of restricted expendable net assets of $30.4 million, and an increase in the category of unrestricted net assets of $7.0 million. The increase in the invested in capital assets, net of related debt is due to the capitalization of the School of Education Academic Classroom Building and the Baseball Locker Room and Training Facility, as well as, the capitalization of several building renovation projects. The increase in the restricted nonexpendable net asset category is due to the continued receipt of endowed gifts and increases in the market value of investments, which eliminated nearly all underwater endowments. The increase in restricted expendable net assets is the result of significant increases in the realized and unrealized gains on all types of investments. The increase in the unrestricted net asset category is from increases in tuition and fee revenue and sales and services due to increased rates and increased student enrollment.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are 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 earned by the institution, both operating and nonoperating, and the expenses incurred by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses earned or incurred by the institution.

Generally speaking, operating revenues are earned for providing goods and services to the various constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues earned for which goods and services are not provided. State appropriations and federal financial aid awards are included as nonoperating revenues in accordance with GASB guidelines, even though these revenues are instrumental to the University's mission and operations. Nonoperating expenses are expenses not directly related to the normal operations of the University (e.g., interest expense and other fees on capital asset related debt) and are netted against nonoperating revenues on the Statement of Revenues, Expenses, and Changes in Net

Assets. Other revenues and expenses include capital contributions and additions to the principal of permanent and term endowments.

A condensed Statement of Revenues, Expenses, and Changes in Net Assets is reflected in the following table.

Condensed Statement of
Revenues, Expenses, and Changes in Net Assets
For the Years Ended

	6/30/2011	6/30/2010
Operating revenues		
Student Tuition and Fees, Net	$ 76,524,497	$ 67,769,046
Grants and Contracts	18,943,031	19,974,640
Sales and Services, Net	40,082,465	38,670,720
Interest Earnings on Loans	49,578	128,113
Other Operating Revenues	803,963	705,331
Total Operating Revenues	136,403,534	127,247,850
Operating Expenses		
Salaries and Benefits	230,816,024	217,920,170
Supplies and Materials	24,575,700	29,906,450
Services	53,718,467	49,737,725
Scholarships and Fellowships	36,037,248	33,532,529
Utilities	8,607,608	8,778,162
Depreciation	14,082,168	13,520,913
Total Operating Expenses	367,837,215	353,395,949
Operating Loss	(231,433,681)	(226,148,099)
Nonoperating Revenues (Expenses)		
State Appropriations	153,918,851	153,904,791
State Aid - Federal Recovery Funds	9,243,555	10,416,637
Noncapital Grants and Gifts	72,337,801	69,355,422
Investment Income (Net of Investment Expense)	37,048,884	17,492,107
Interest and Fees on Debt	(4,746,874)	(5,455,597)
Federal Subsidy on Debt	119,384	22,356
Other Nonoperating Expenses	(105,247)	(411,229)
Net Nonoperating Revenues	267,816,354	245,324,487
Income Before Other Revenues	36,382,673	19,176,388
Other Revenues (Expenses)		
Capital Grants and Gifts	17,623,492	16,866,142
Refund of Prior Year Capital Appropriations	0	(94,035)
Total Other Revenues	17,623,492	16,772,107
Income Before Additions to Endowments	54,006,165	35,948,495
Additions to Permanent Endowments	4,770,544	6,227,980
Increase in Net Assets	58,776,709	42,176,475
Net Assets - July 1, 2010	581,980,413	539,803,938
Net Assets - June 30, 2011	$ 640,757,122	$ 581,980,413

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in the net assets at the end of the year and an increase of $30.1 million (7.5%) in total revenues. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Operating revenues increased by $9.1 million (7.2%), whereas operating expenses increased by $14.4 million (4.1%), for a combined net increase in operating loss of $5.3 million. The largest increases within operating revenues was in student tuition and fees, net, which increased by $8.8 million (12.9%) and an increase of $1.4 million (3.7%) in sales and services, net. The increase in net student tuition and fees is due to increases in student enrollment and tuition and fee rates, but these increases were partially offset by higher financial aid awards recorded as tuition discounts. The increase in sales and services, net, is due to higher rates being charged for student and auxiliary services. The largest decreases within operating revenues were in federal grants and contracts which decreased by $0.8 million (4.9%) and State, local, and nongovernmental grants and contracts which decreased by $0.2 million (7.2%). These decreases are reflective of budget shortfalls for federal, State, and local governments resulting in less funding available for exchange type grants. Other sources of operating revenues were substantially unchanged from the prior year. The increase in operating expenses is the result of a $12.9 million (5.9%) increase in salaries and benefits, $5.3 million (17.8%) decrease in supplies and materials, a $3.9 million (8.0%) increase in services, a $2.5 million (7.5%) increase in scholarship and fellowships, a $0.6 million (4.2%) increase in depreciation, and a $0.2 million (1.9%) decrease in utilities. The increase in salaries and benefits is due to additional hiring of faculty positions to accommodate higher student enrollment which resulted in increased Exempt from Personnel Act (EPA) salaries and related benefits. The decrease in supplies and materials is related to State budget cuts and holdbacks during the fiscal year. The increase in services is due to an increase in the procurement of contracted service type expenditures. The increase in scholarship and fellowships is due to increased tuition and fee rates and a continued growth in demand for financial aid. The increase in depreciation is due to depreciation being recorded on newly capitalized major building additions and renovations. The decrease in utilities is a direct effect from the higher conservation practices and energy efficient upgrades in buildings across campus during the fiscal year and in prior fiscal years.

- State appropriations remained flat at $153.9 million which was attributable to State budget cuts which offset increased funding due to increased student enrollment. Investment income increased by $19.6 million because of substantial increases in realized and unrealized gains following the steady improvement of the values of investments from the previous fiscal year. The total return on the University's external investment pool improved to a gain of 21.1% for the current fiscal year compared to a gain of 10.8% for the prior fiscal year. Noncapital grants increased by $2.4 million (3.6%), due to an increase in federal student financial aid awards to cover higher tuition and fee rates. Noncapital gifts increased by $0.6 million (21.0%) due to increased giving. State aid decreased by $1.2 million (11.3%) as a result of a reduction in federal stimulus funds. Interest and fees on debt decreased by $0.7 million (13.0%). The University earned $119,384 in federal subsidy on debt on the $31.0 million note payable to Bank of America as "Build America Bonds" for the purpose of the American Recovery and Reinvestment Act of 2009. This encompassed a full year of interest compared to one quarter of interest of $22,356 from the prior year. The caption other nonoperating expenses consists of surplus property sales (a revenue) and the loss on the disposal of capitalized assets. Surplus property sales of $52,394 represent a $27,381 increase from the prior year due to higher returns from public sales events during the fiscal year. The loss on the disposal of capitalized assets was $157,641 which represented a decrease from the prior year amount of $436,242. These various net nonoperating revenue categories as a whole increased by $22.5 million (9.2%).

- Other revenues consist of capital grants and additions to permanent endowments. Capital grants increased by $0.8 million, representing slight increases in funding from the State's COPS and two-thirds GO bond capital project funding sources. The University received no capital appropriations from the State during the fiscal year. Additions to permanent endowments decreased by $1.5 million.

Capital Asset and Debt Administration

During fiscal year 2010-11, the School of Education Academic Classroom Building, the Baseball Locker Room and Training Facility, the Guilford and Mary Foust Residential Hall Renovation, and Bryan Building Fire Alarm System projects were all completed. The School of Education Academic Classroom Building is an energy-efficient 120,000 square foot building built to the LEED (Leadership in Energy and Environmental Design) standards. This is a certification defined by the U.S. Green Building Council and this is the first building on campus to receive the LEED designation. The Building will house five of six departments within the School of Education and features 19 classrooms, two lecture halls, sign language laboratories, multimedia and technology labs, a Student Advising Center, and office space.

Major projects included in construction in progress are as follows: $28.7 million for the Jefferson Suites Residence Hall, $11.8 million for the Quad Residence Halls Renovation, $2.1 million for the Dining Hall Renovations, $1.3 million for the Health and Human Performance Locker Room Renovations, $1.1 million for the Jackson Library Phase One Renovations, $0.4 million for the Railroad Pedestrian Underpass, and $0.8 million for other various campus projects. In August 2011 the Jefferson Suites Residence Hall located at the corner of Spring Garden and Kenilworth Streets will open and house 403 students in a variety of single and double suite plans. This new facility will alleviate some of the lost beds due to the Quad Residential Halls Renovation project.

On January 27, 2011 the University issued a nontaxable note in the amount of $46.0 million to U.S. Bank for the purpose of funding the comprehensive renovation of the seven Quad Residential Halls. These renovations include a complete interior and exterior conversion of the traditional double rooms to suite-style rooms with adjoining baths which include air conditioning, fire sprinklers, and accommodations for those with disabilities. On September 29, 2011, the University sold $77,505,000 in bonds, whose proceeds will be used to retire the $46.0 million note payable to U.S. Bank, fund a renovation of the University Dining Hall, and to advance refund $4,215,000 of outstanding 2002A University of North Carolina System Pool Revenue Bonds (see Note 17 in the notes to the financial statements). The Capital Facilities Foundation, Inc. (a blended component unit of the University) increased an existing line of credit with RBC Bank by $13.4 million, for a total amount outstanding of

$14.1 million, to acquire additional property for the Mixed Use Village project on West Lee Street.

For additional information concerning Capital Assets and Debt Administration, see Notes 5 and 7 in the notes to the financial statements.

Economic Outlook

The nationwide economic slowdown has severely affected the State's revenues in a negative manner in the current and recent past fiscal years. The University has received additional funding for enrollment growth, which has been offset by funding cuts to non-classroom functions, resulting in flat State appropriations during the fiscal year. University System budget cuts imposed by the State Legislature will result in a permanent reduction of State appropriations of approximately 15%. A portion of this reduction will be offset through higher tuition rates, but administrative and faculty positions have been eliminated and additional positions will be eliminated in the future to meet expected expenditure cuts. State appropriations constituted approximately 36% of the University's total revenues in fiscal year 2010-11, down from 38% of the University's total revenues in fiscal year 2009-10.

Even though student enrollment has leveled off, the University has raised admission standards for incoming freshman and remains committed to increasing the diversity of the entire University community. The record enrollment increases of prior years and aging of student facilities have necessitated the expansion of the University's on-campus housing and dining facilities. These projects will be financed by long-term bonds, the principal and interest of which will be paid from revenues generated by student fees paid by students who use those facilities. The demand for University-controlled student housing remains extremely strong. Through the Capital Facilities Foundation, Inc. (a blended component unit of the University), the Mixed Use Village project is being developed along the West Lee Street corridor. The first phase of this project will begin in the Fall of 2011 and consist of an 800 bed residence hall, a new campus police station, a railroad pedestrian underpass, and mixed-use spaces that will be used for offices and retail. Future phases of the project call for a new student recreation center and additional student housing and mixed-use spaces. The University also faces the challenge of meeting the increasing administrative requirements imposed by the federal and State governments and by UNC General Administration, with a reduced administrative staff.

As the past few years have demonstrated, it is not possible to predict ultimate results, but the University's overall financial condition is strong enough to allow it to continue to grow and strengthen during difficult economic times. Management will continue the University's ongoing efforts toward revenue diversification, cost containment, and implementation of operating efficiencies wherever possible, in addition to taking an enterprise-wide approach to risk management. Management will also continue to employ the University's long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from investment market volatility. Management believes that despite the challenges enumerated above, the University has sufficient resources to allow it to continue to grow and provide excellent service to students, the campus community, and the Piedmont Triad region.

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	86,817,958
Restricted Cash and Cash Equivalents		24,356,701
Short-Term Investments		753,928
Restricted Short-Term Investments		6,407,528
Receivables, Net (Note 4)		8,160,438
Inventories		394,891
Notes Receivable, Net (Note 4)		1,309,028
Total Current Assets		128,200,472
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		46,890,295
Receivables (Note 4)		652,481
Endowment Investments		206,365,518
Other Investments		4,295,674
Notes Receivable, Net (Note 4)		4,157,041
Capital Assets - Nondepreciable (Note 5)		101,813,987
Capital Assets - Depreciable, Net (Note 5)		398,155,385
Total Noncurrent Assets		762,330,381
Total Assets		890,530,853
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		18,234,471
Due to Primary Government		1,472
Deposits Payable		857,360
Funds Held for Others		12,172
Unearned Revenue		4,610,764
Interest Payable		1,324,736
Long-Term Liabilities - Current Portion (Note 7)		5,899,392
Total Current Liabilities		30,940,367
Noncurrent Liabilities:		
Funds Held for Others		1,665,052
U. S. Government Grants Refundable		5,084,360
Funds Held in Trust for Pool Participants		3,313,971
Long-Term Liabilities (Note 7)		208,769,981
Total Noncurrent Liabilities		218,833,364
Total Liabilities		249,773,731

NET ASSETS		
Invested in Capital Assets, Net of Related Debt		348,697,275
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		62,347,822
Endowed Professorships		16,084,277
Departmental Uses		21,668,384
Loans		874,969
Art		1,384,479
Other		7,224,693
Expendable:		
Scholarships and Fellowships		55,587,783
Research		13,151
Endowed Professorships		16,655,104
Departmental Uses		23,925,199
Loans		1,206,308
Capital Projects		4,884,372
Debt Service		5,127
Art		756,941
Other		3,775,967
Unrestricted		75,665,271
Total Net Assets	$	640,757,122

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

The University of North Carolina at Greensboro
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2011 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	76,524,497
Federal Grants and Contracts		16,504,080
State and Local Grants and Contracts		1,545,550
Nongovernmental Grants and Contracts		893,401
Sales and Services, Net (Note 9)		40,082,465
Interest Earnings on Loans		49,578
Other Operating Revenues		803,963
Total Operating Revenues		136,403,534
EXPENSES		
Operating Expenses:		
Salaries and Benefits		230,816,024
Supplies and Materials		24,575,700
Services		53,718,467
Scholarships and Fellowships		36,037,248
Utilities		8,607,608
Depreciation		14,082,168
Total Operating Expenses		367,837,215
Operating Loss		(231,433,681)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		153,918,851
State Aid - Federal Recovery Funds		9,243,555
Noncapital Grants - Student Financial Aid		29,553,237
Other Noncapital Grants		39,224,124
Noncapital Gifts		3,560,440
Investment Income (Net of Investment Expense of $754,171)		37,048,884
Interest and Fees on Debt		(4,746,874)
Federal Interest Subsidy on Debt		119,384
Other Nonoperating Expenses		(105,247)
Net Nonoperating Revenues		267,816,354
Income Before Other Revenues		36,382,673
Capital Grants		17,623,492
Additions to Endowments		4,770,544
Increase in Net Assets		58,776,709
NET ASSETS		
Net Assets - July 1, 2010		581,980,413
Net Assets - June 30, 2011	$	640,757,122

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

The University of North Carolina at Greensboro
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 137,659,508
Payments to Employees and Fringe Benefits	(230,426,033)
Payments to Vendors and Suppliers	(88,701,879)
Payments for Scholarships and Fellowships	(36,037,248)
Loans Issued	(1,388,135)
Collection of Loans	1,423,427
Interest Earned on Loans	132,741
Other Receipts	765,771
Net Cash Used by Operating Activities	(216,571,848)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	153,918,851
State Aid - Federal Recovery Funds	9,243,555
Noncapital Grants - Student Financial Aid	29,553,237
Noncapital Grants	39,654,609
Noncapital Gifts	3,746,001
Additions to Endowments	4,770,544
William D. Ford Direct Lending Receipts	90,116,963
William D. Ford Direct Lending Disbursements	(90,116,963)
Related Activity Agency Disbursements	(877,987)
Net Cash Provided by Noncapital Financing Activities	240,008,810
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	59,454,267
Capital Grants	17,623,492
Acquisition and Construction of Capital Assets	(72,469,629)
Principal Paid on Capital Debt and Leases	(5,407,146)
Interest and Fees Paid on Capital Debt and Leases	(4,979,659)
Federal Interest Subsidy on Debt Received	112,512
Other Receipts	52,394
Net Cash Used by Capital Financing and Related Financing Activities	(5,613,769)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	119,157,152
Investment Income	2,900,273
Purchase of Investments and Related Fees	(117,737,885)
Net Cash Provided by Investing Activities	4,319,540
Net Increase in Cash and Cash Equivalents	22,142,733
Cash and Cash Equivalents - July 1, 2010	135,922,221
Cash and Cash Equivalents - June 30, 2011	$ 158,064,954

The University of North Carolina at Greensboro
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

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

Operating Loss	$	(231,433,681)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		14,082,168
Allowances and Write-Offs		137,378
Changes in Assets and Liabilities:		
Receivables (Net)		822,990
Inventories		60,993
Notes Receivable (Net)		(27,494)
Accounts Payable and Accrued Liabilities		17,700
Due to Primary Government		(1,411,718)
Unearned Revenue		1,065,830
Compensated Absences		153,836
Deposits Payable		(39,850)
Net Cash Used by Operating Activities	$	(216,571,848)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	86,817,958
Restricted Cash and Cash Equivalents		24,356,701
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		46,890,295
Total Cash and Cash Equivalents - June 30, 2011	$	158,064,954

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	878,235
Assets Acquired through a Gift		309,361
Change in Fair Value of Investments		26,291,008
Loss on Disposal of Capital Assets		(157,641)

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are blended in the University's financial statements. Although legally separate, The Human Environmental Sciences Foundation, Incorporated, The Weatherspoon Arts Foundation, The UNCG Excellence Foundation, Inc., The University of North Carolina at Greensboro Investment Fund, Incorporated, and The Capital Facilities Foundation, Inc., component units of the University, are reported as if they were part of the University.

The Human Environmental Sciences Foundation, Incorporated is governed by a 20 member board consisting of three ex officio directors and 17 appointed directors. The Foundation's purpose is to aid and promote excellence in higher education, service and research, and the endowment of the School of Human Environmental Sciences at The University of North Carolina at Greensboro. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The Weatherspoon Arts Foundation is governed by a 21 member board consisting of three ex officio directors and 18 appointed directors. The Foundation's purpose is to acquire by gift, purchase, lease, loan, or other means of conveyance works of art and to maintain and enhance the arts collection teaching, research, and public services purposes exclusively for the use and benefit of The University of North Carolina at Greensboro. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The UNCG Excellence Foundation, Inc. is governed by a 39 member board consisting of five ex officio directors and 34 appointed directors. The Foundation's purpose is to aid, support and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro as long as The University of North Carolina at Greensboro qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954 (or corresponding provisions of any future United States Internal Revenue law), its financial statements have been blended with those of the University.

The University of North Carolina at Greensboro Investment Fund, Incorporated is governed by a 16 member board consisting of nine ex officio directors and seven appointed directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. Because the directors of the Investment Fund are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Investment Fund's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The Capital Facilities Foundation, Inc. is governed by a nine member board of five ex officio directors and four appointed directors. The Foundation's purpose is to enhance the University's educational mission through assisting with the acquisition, development, financing, construction, management, and operation of capital assets for the University. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

An electronic version of the separate financial statements for the Foundations and the Investment Fund is available by accessing the UNCG Business Affairs home page (http://www.uncg.edu/baf/) and clicking on "Foundation Finance", then "Foundation Audit Reports", or by calling (335) 334-5200**.** Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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 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, 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 in the fair value of investments is recognized as a component of investment income.

Money market funds, real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied, and accrued interest receivable from investments and student loans. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice cost.

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 of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line over the estimated useful lives of the assets, generally 25 to 50 years for general infrastructure, 25 years for building components, 50 years for buildings, and 4 to 20 years for equipment.

The Weatherspoon Art Collection is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is 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 for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

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

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

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refunds. The University amortizes bond premiums/discounts over the life of the bonds using the proportionate-to-stated interest method. The deferred losses on refunds are amortized over the life of the old debt using the straight-line method. Issuance costs are expensed.

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $150,053,229 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 1.9 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 $92,901. The carrying amount of the University's deposits not with the State Treasurer was $7,918,824 and the bank balance was $7,171,376. 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, 2011, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 3,966,276.00

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

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

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

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

Investments of the University's component units, The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, The UNCG Excellence Foundation, Inc., and The University of North Carolina at Greensboro Investment Fund, Incorporated, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University's formal policy is the majority of the fixed income holdings will be in U.S. fixed income portfolio of sufficient duration (four years or more) to provide effective protection in a deflationary environment. Specific allocations to other strategies such as non-U.S. fixed income are allowed on a tactical basis.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's formal policy is the majority of the fixed income holdings will be in a diversified, high quality (AA or better average credit rating). Specific allocations to other strategies such as non-U.S. fixed income are allowed on a tactical basis.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's formal policy is that no one portfolio manager will be responsible for more than 20% of the portfolio.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The University does not have a formal policy for concentration of credit risk.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have a formal policy for foreign currency risk. The foreign securities held by the University are traded in currency of the United States, and thus there is no foreign currency risk for these investments.

External Investment Pool - The University of North Carolina at Greensboro Investment Fund, Incorporated, an external investment pool sponsored by the University, was established on July 1, 1992. The pool is utilized to manage the investments for charitable, nonprofit organizations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Endowment funds, as well as those of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, and The UNCG

Excellence Foundation, Inc., represent the pool's internal participants. Other affiliated organizations not included in the University's reporting entity represent the pool's external participants. Fund ownership of the pool is measured using the unit market value method. Under this method, each participating fund's investment balance is determined based on the number of units of ownership purchased when joining the pool. Thereafter, the pooled assets are valued monthly, and a new market value is determined. The external portion of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The external investment pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Board has chosen not to make individual security selection decisions. The Board's primary role is to oversee the allocation of the pool's portfolio among the asset classes, investment vehicles, and investment managers.

US Bank is the custodian for the pool and provides the University with monthly statements defining income and fair value information, which is then allocated among the fund's participants. There are no involuntary participants in the pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the pool's investments. The annual financial report for the external investment pool may be obtained from the Business Affairs Office, 254 Mossman, Greensboro, NC 27402, or by calling (336) 334-5200.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011, for the External Investment Pool.

External Investment Pool

	Fair Value	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
Money Market Funds	$ 979,985	$ 979,985	$ 0	$ 0
Bond Mutual Funds				
Fixed Income	26,274,925		26,274,925	
Foreign Limited Partnership	3,318,814			3,318,814
		$ 979,985	$ 26,274,925	$ 3,318,814
Other Securities				
Corporate Securities				
Common Stocks	9,451,438			
International	2,564,651			
Mutual Funds				
International Equity	38,734,695			
Inflation Hedging	16,218,088			
US Equities	6,339,628			
Partnerships				
Hedge Funds	48,022,393			
Inflation Hedging	714,465			
Real Estate Securities	6,166,919			
US Equities	27,466,000			
Venture Capital	17,222,119			
Total External Investment Pool	$ 203,474,120			

At June 30, 2011, investments in the External Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A
Money Market Funds	$ 979,985	$ 979,985	$ 0	$ 0
Bond Mutual Funds				
Fixed Income	26,274,925		13,697,424	12,577,501
Foreign Limited Partnership	3,318,814		3,318,814	

Rating Agencies: Moody's Investor Services, Standard & Poor's

Concentration of Credit Risk: The External Investment Pool Board places no limit on the amount the Board may invest in any one issuer. More than 5% of the external investment pool investments are in Forester Partners LP, Forester Opportunities LP, Adage Capital Partners LP, and Iridian Private Business. These investments are 7.87%, 7.35%, 6.73% and 5.09%, respectively, of the External Investment Pool’s total investments.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011, for the University’s non-pooled investments.

Non-Pooled Investments

	Fair Value	Investment Maturities (in Years) Less Than 1	6 to 10
Investment Type			
Debt Securities			
Money Market Funds	$ 104,430	$ 104,430	$ 0
Bond Mutual Funds			
Fixed Income	4,129,087		4,129,087
		$ 104,430	$ 4,129,087
Other Securities			
Corporate Securities:			
Common Stock	1,187,087		
International	132,544		
Mutual Funds:			
International Equity	2,325,300		
Other	5,469,683		
Real Estate Investment Trust	17,705		
Other: Real Estate	982,692		
Total Non-Pooled Investments	$ 14,348,528		

At June 30, 2011, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa
Money Market Funds	$ 104,430	$ 104,430	$ 0
Bond Mutual Funds			
Fixed Income	4,129,087		4,129,087

Rating Agencies: Moody's Investor Services, Standard & Poor's

Total Investments - The following table presents the fair value of the total investments at June 30, 2011:

Investment Type		Fair Value
Debt Securities		
Money Market Funds	$	1,084,415
Bond Mutual Funds:		
Fixed Income		30,404,012
Foreign Limited Partnerships		3,318,814
Other Securities		
Corporate Securities:		
Common Stocks		10,638,525
International		2,697,195
Mutual Funds:		
International Equity		41,059,995
Inflation Hedging		16,218,088
US Equities		6,339,628
Other		5,469,683
Partnerships:		
Hedge Funds		48,022,393
Inflation Hedging		714,465
Real Estate Securities		6,166,919
US Equities		27,466,000
Venture Capital		17,222,119
Real Estate Investment Trust		17,705
Other: Real Estate		982,692
Total Investments	$	217,822,648

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

Cash on Hand	$	92,901
Amount of Deposits with Private Financial Institutions		7,918,824
Deposits in the Short-Term Investment Fund		150,053,229
External Investment Pool		203,474,120
Non-Pooled Investments		14,348,528
Total Deposits and Investments	$	375,887,602
Deposits		
Current:		
Cash and Cash Equivalents	$	86,817,958
Restricted Cash and Cash Equivalents		24,356,701
Noncurrent:		
Restricted Cash and Cash Equivalents		46,890,295
Total Deposits	$	158,064,954
Investments		
Current:		
Short-Term Investments	$	753,928
Restricted Short-Term Investments		6,407,528
Noncurrent:		
Endowment Investments		206,365,518
Other Investments		4,295,674
Total Investments	$	217,822,648

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 pooled endowment funds are equal to 4.25 percent of the average market value of the Investment Pool at December 31 for the past three years. To the extent that the current year earnings do not meet the payout requirements, the University uses accumulated realized appreciation to fund the difference. At June 30, 2011, endowment net assets of $33,494,852 were available to be spent, of which $31,098,954 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, 2011 the amount of investment losses reported against the nonexpendable endowment balances were $20,512.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 847,124	$ 346,575	$ 500,549
Accounts	547,915	66,678	481,237
Intergovernmental	4,464,992		4,464,992
Pledges	767,556	4,592	762,964
Investment Earnings	152,044		152,044
Interest on Loans	212,491		212,491
Federal Interest Subsidy on Debt	29,228		29,228
Other	1,556,933		1,556,933
Total Current Receivables	$ 8,578,283	$ 417,845	$ 8,160,438
Noncurrent Receivables:			
Pledges	$ 652,481	$ 0	$ 652,481
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 1,190,881	$ 87,099	$ 1,103,782
Institutional Student Loan Programs	307,716	102,470	205,246
Total Notes Receivable - Current	$ 1,498,597	$ 189,569	$ 1,309,028
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 4,667,629	$ 510,588	$ 4,157,041

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 and Permanent Easements	$ 24,818,964	$ 9,093,885	$ 162,539	$ 33,750,310
Art, Literature, and Artifacts	21,509,383	324,361	425	21,833,319
Construction in Progress	32,144,260	39,820,928	25,734,830	46,230,358
Total Capital Assets, Nondepreciable	78,472,607	49,239,174	25,897,794	101,813,987
Capital Assets, Depreciable:				
Buildings	386,985,851	44,594,647		431,580,498
Machinery and Equipment	46,775,823	5,622,744	1,669,125	50,729,442
General Infrastructure	67,237,516			67,237,516
Total Capital Assets, Depreciable	500,999,190	50,217,391	1,669,125	549,547,456
Less Accumulated Depreciation for:				
Buildings	90,775,841	8,439,207		99,215,048
Machinery and Equipment	25,752,630	2,960,038	1,511,908	27,200,760
General Infrastructure	22,293,340	2,682,923		24,976,263
Total Accumulated Depreciation	138,821,811	14,082,168	1,511,908	151,392,071
Total Capital Assets, Depreciable, Net	362,177,379	36,135,223	157,217	398,155,385
Capital Assets, Net	$ 440,649,986	$ 85,374,397	$ 26,055,011	$ 499,969,372

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 7,521,931
Accrued Payroll	6,257,270
Contract Retainage	2,097,399
Other	2,357,871
Total Accounts Payable and Accrued Liabilities	$ 18,234,471

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Revenue Bonds Payable	$ 99,920,000	$ 0	$ 4,670,000	$ 95,250,000	$ 4,860,000
Add/Deduct Premium/Discount	4,129,386		464,802	3,664,584	
Deduct Deferred Charge on Refunding	(2,097,824)		(124,628)	(1,973,196)	
Total Revenue Bonds Payable	101,951,562		5,010,174	96,941,388	4,860,000
Notes Payable	37,943,538	59,454,267	396,971	97,000,834	426,663
Compensated Absences	12,724,325	10,393,080	10,239,244	12,878,161	612,729
Annuity and Life Income Payable	6,123,587	1,725,403		7,848,990	
Total Long-Term Liabilities	$ 158,743,012	$ 71,572,750	$ 15,646,389	$ 214,669,373	$ 5,899,392

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2011	Principal Outstanding June 30, 2011
General Revenue Bonds						
General Revenue Bonds (2001)	A	4.63%	04/01/2011	$ 19,870,000	$ 19,870,000	$ 0
General Revenue Bonds (2001)	B	4.38%	04/01/2011	16,445,000	16,445,000	
General Revenue Bonds (2009)	A	3.00%-5.00%	04/01/2034	29,525,000	1,285,000	28,240,000
General Revenue Bonds (2009)	B	3.00%-4.00%	04/01/2016	4,120,000	1,080,000	3,040,000
Total General Revenue Bonds				69,960,000	38,680,000	31,280,000
The University of North Carolina System Pool Revenue Bonds						
General Revenue Bonds (2002A)	(A)	5.00%-5.38%	04/01/2027	8,835,000	2,640,000	6,195,000
General Revenue Bonds (2004C)	(B)	3.50%-5.00%	04/01/2029	18,350,000	3,015,000	15,335,000
General Revenue Bonds (2005A)	(C)	3.50%-5.25%	04/01/2026	22,235,000	3,575,000	18,660,000
General Revenue Bonds (2010B-2)	(D)	3.25%-5.25%	04/01/2026	23,780,000		23,780,000
Total The University of North Carolina System Pool Revenue Bonds				73,200,000	9,230,000	63,970,000
Total Revenue Bonds Payable (principal only)				$ 143,160,000	$ 47,910,000	95,250,000
Less: Unamortized Loss on Refunding						(1,973,196)
Plus: Unamortized Premium						3,664,584
Total Revenue Bonds Payable						$ 96,941,388

(A) The University of North Carolina System Pool Revenue Bonds, Series 2002A
(B) The University of North Carolina System Pool Revenue Bonds, Series 2004C
(C) The University of North Carolina System Pool Revenue Bonds, Series 2005A
(D) The University of North Carolina System Pool Revenue Bonds, Series 2010B-2

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2011, are as follows:

	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2012	$ 4,860,000	$ 4,571,788	$ 46,426,663	$ 1,138,417
2013	5,085,000	4,352,513	457,840	1,007,157
2014	5,325,000	4,126,063	31,490,569	929,467
2015	5,605,000	3,866,051	16,147,741	363,345
2016	5,885,000	3,591,438	560,952	89,401
2017-2021	25,530,000	14,220,381	1,917,069	141,256
2022-2026	25,705,000	7,873,831		
2027-2031	11,655,000	2,951,100		
2032-2036	5,600,000	569,250		
Total Requirements	$ 95,250,000	$ 46,122,415	$ 97,000,834	$ 3,669,043

D. Notes Payable - The University was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges		Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2011	Principal Outstanding June 30, 2011	See Table Below
Energy Savings Performance Contract	Banc of America	3.61%		03/01/2019	$ 5,808,994	$ 1,430,984	$ 4,378,010	
Renovation of Quad Residence Halls	US Bank	0.46%	*	01/15/2012	46,000,000		46,000,000	
Construct 400 bed Student Housing facility **	Bank of America	1.04%	*	05/01/2014	31,000,000		31,000,000	(1)
Property acquisition	RBC	3.00%	*	01/01/2015	14,122,824		14,122,824	
Operating funds for Capital Facilities Foundation, Inc.	Weaver Foundation	4.50%		12/31/2014	500,000		500,000	
Operating funds for Capital Facilities Foundation, Inc.	Bryan Foundation	4.50%		12/31/2014	1,000,000		1,000,000	
Total Notes Payable					$ 98,431,818	$ 1,430,984	$ 97,000,834	

* For variable rate debt, interest rates in effect at June 30, 2011 are reflected in the table above.

Interest on the variable rate US Bank notes payable is calculated at .46% at June 30, 2011. The interest rate is set on the first business day of the month and is reset on the first business day of the following month. The interest rate is calculated as the sum of (1) 77% of one-month LIBOR and (2) 35 basis points (.35%), calculated on the basis of a 365 or 366 day year for the actual number of days elapsed with a maximum interest rate of 12%.

Interest on the variable rate Bank of America notes payable is calculated at 1.04103% at June 30, 2011. The interest rate is set on the first day of the month and can be reset on the first day of the following month. The rate is calculated at the sum of (1) LIBOR Base Rate and (2) 85 basis points (.85%), calculated on the basis of a 365 day year for the actual number of days elapsed but at no time greater than a total interest rate of 12%.

Interest on the variable rate RBC line of credit (LOC) is calculated at 3% at June 30, 2011. The interest rate is set on the first day of the month and can be reset on the first day of the following month. The rate is calculated at the sum of (1) LIBOR Base Rate and (2) 200 basis points (2%), calculated on the basis of a 365 day year for the actual number of days elapsed but at no time less than a total interest rate of 3%. The maximum amount approved for this LOC is $20 million.

** The University has elected to treat the Bank of America note as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 35% of the interest payable on this note. For this note, the interest rate included above is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury. If the subsidy is factored in, the effective interest rate is .68%.

The University plans to refinance the notes maturing on January 15, 2012 with other long-term financing.

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal	Current Year Interest	Estimate of % of Revenues Pledged
(1)	Jefferson Suites Revenues	$ 31,611,822	$ 0	$ 0	$ 341,099	40%
(1)	Federal Interest Subsidy on Debt**	329,443	119,384			100%

**Federal Interest Subsidy on Debt revenue is pledged to pay 35% of the interest incurred on the Build America Bonds. The amount pledged does not include any principal payments.

E. **Annuities Payable** - The Annuity and Life Income Payable balance consists of 155 Charitable Annuity agreements and 16 Charitable Remainder Unitrusts with a market value of $12.2 million. The $7.8 million Annuity and Life Income Payable liability is the expected value payable to the donors based on their age, the agreed on payment rate, and the applicable federal rate.

NOTE 8 - LEASE OBLIGATIONS

The University entered into operating leases for real property and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	$ 316,750
2013	83,527
2014	9,685
Total Minimum Lease Payments	$ 409,962

Rental expense for all operating leases during the year was $753,092.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 105,882,680	$ 0	$ 29,230,050	$ 128,133	$ 76,524,497
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 18,455,457	$ 366,188	$ 4,845,126	$ 20,180	$ 13,223,963
Dining	13,704,874	9,425	3,396,558	13,938	10,284,953
Student Union Services	146,164				146,164
Health, Physical Education, and Recreation Services	1,305,218	16,859			1,288,359
Parking	5,378,819	166,794		40,057	5,171,968
Athletic	1,024,789	26,010			998,779
Other	6,182,401	3,633,348		813	2,548,240
Sales and Services of Education and Related Activities	6,858,113	438,074			6,420,039
Total Sales and Services	$ 53,055,835	$ 4,656,698	$ 8,241,684	$ 74,988	$ 40,082,465

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	$ 121,027,813	$ 5,702,111	$ 10,219,198	$ 26,500	$ 1,895	$ 0	$ 136,977,517
Research	11,289,389	722,288	6,136,596	179,524	7		18,327,804
Public Service	5,984,941	283,306	3,018,707	45,000	5,824		9,337,778
Academic Support	26,548,164	8,337,468	6,594,998	896,416	1,793		42,378,839
Student Services	10,573,903	1,026,159	2,686,414	14,108	50		14,300,634
Institutional Support	25,337,028	2,035,980	6,623,355		13,451		34,009,814
Operations and Maintenance of Plant	14,298,855	4,429,840	2,446,360		5,348,794		26,523,849
Student Financial Aid				34,857,438			34,857,438
Auxiliary Enterprises	15,755,931	2,038,548	15,992,839	18,262	3,235,794		37,041,374
Depreciation						14,082,168	14,082,168
Total Operating Expenses	$ 230,816,024	$ 24,575,700	$ 53,718,467	$ 36,037,248	$ 8,607,608	$ 14,082,168	$ 367,837,215

NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 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, the University had a total payroll of $186,330,986, of which $81,080,607 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $3,997,274 and $4,864,836, 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. The University made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were $3,997,274, $2,840,309, and $2,730,725, 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 faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2011, 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 $186,330,986, of which $79,460,861 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $5,435,123 and $4,767,652, 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 $526,386 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 the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2011, were $88,830. The voluntary contributions by employees amounted to $1,284,929 for the year ended June 30, 2011.

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 $2,834,750 for the year ended June 30, 2011.

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.

For the current fiscal year the University 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. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were $7,866,532, $6,971,415, and $6,402,448, 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 "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 by the General Assembly. For the fiscal year ended June 30, 2011, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2010, and 2009, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were $834,816, $805,586, and $812,018, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

The risk of tort claims of up to $1,000,000 per claimant is 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. The General Property Coverage Policy is the Fund's basic policy and is used to provide insurance against losses caused by Fire and Lightning, Extended Coverage, Broad Coverage, and Special Form Coverage. However, the University is covered only for those name perils for which the University has paid a premium and for which the named peril is indicated in the Declarations. Extended coverage has been purchased for all residence halls (buildings only) and the West Entranceway. Extended coverage for buildings and contents has been purchased for the following buildings: Chemical Storage Facility, the Baseball Complex, the Sullivan Science Building, the Graphics and Printing Services Building, and the Elliott University Center. Vandalism and malicious mischief insurance (VMM) has been purchased for the Elliott University Center and the West Entranceway. The University must fund the cost of this insurance. Both the Extended coverage and VMM are subject to a $5,000 per event deductible and the cost is based on the declared value of each structure.

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.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These purchased coverages are: postal bond (coverage limit $30,000); athletic accident (accidental death and dismemberment $1.0 million overall maximum for any one accident, maximum death specific loss $25,000, maximum specific loss $25,000; maximum medical coverage limit $90,000, with $3,000 deductible); selective athletic travel ($10,000 accidental death and dismemberment); physicians professional medical liability ($1.0 million per person, $3.0 million total); non-physicians professional medical liability ($1.0 million per person, $3.0 million total); leased computer equipment (stated value with $500 deductible); fine art (property coverage – museum collection and temporary loan, Limits of Liability: $250.0 million limit at insured premises, $25.0 million at any other location, $25.0 million limit in transit on any one conveyance, $25.0 million limit for international transportation, exhibition, and location, $70.0 million for TRIA (Terrorism Risk Insurance Act), and $250.0 million aggregate limit in any one loss or disaster; Deductibles: $2,500 for loan items, $2,500 for owned items); musical instruments ($1.45 million cash replacement value with $1,000 deductible); robbery and safe burglary ($500,000 per event, $1,000 deductible); commercial crime and employee dishonesty ($5.0 million – computer fraud, $5.0 million – public employee dishonesty); boiler and machinery ($25.0 million equipment breakdown limit, $5,000 deductible); “all-risk” for equipment covering all perils including fire (replacement cost, $5,000 deductible per event); University intern liability ($1.0 million per incident / $3.0 million per year); volunteer liability ($1.0 million per incident / $3.0 million per year); camp accident ($250,000 accidental death and dismemberment maximum annual limit); business travel (100% of stated services, $10,000 maximum accidental death and dismemberment maximum benefit, $100,000 medical evacuation maximum benefit); study abroad accident and health ($200,000 per injury or sickness medical expenses, $10,000 accidental death and dismemberment, $25,000 repatriation of remains, $100,000 lifetime benefit limit, $1,500 bedside visit); international students accident ($150,000 maximum limit for medical expenses, $10,000 accidental death and dismemberment with $5,000 limit for spouse and $1,000 limit for children, $15,000 for repatriation of remains and $50,000 lifetime benefit for medical evacuation).

University 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, 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 $49,226,318 at June 30, 2011. The Capital Facilities Foundation, Inc. (a blended component unit) has outstanding options to purchase real estate with a value of $544,000 as of June 30, 2011, of which approximately $515,000 was purchased subsequent to June 30, 2011.

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.

C. Other Contingent Receivables - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

Purpose	Amount
Pledges to The UNCG Excellence Foundation Endowment Fund	$ 754,646
Pledges to the Human Environmental Sciences Foundation Endowment Fund	59,361
Pledges to the UNCG Endowment Fund	2,124,420

NOTE 15 - RELATED PARTIES

The University and North Carolina Agricultural and Technical State University have formed a jointly governed nonprofit organization, Gateway University Research Park, Inc., which is also a component unit of the State of North Carolina. The purpose of this organization is to provide a collaborative research environment that fosters academic enrichment, research growth, technology transfer, commercialization and discovery while encouraging and promoting regional economic development.

During the fiscal year the University made payments totaling $2,685,081 to the Gateway University Research Park, Inc. These payments consisted of: $630,994 for the operation and maintenance of University facilities at the Gateway University Research Park; $187,500 (first year of a three year commitment) for operating funding for the Gateway University Research Park; $172,662 for rental expense at the south campus of the Gateway University Research Park; $250,000 for the first year of a two year commitment to enhance the Joint School of Nanoscience and Nanoengineering community outreach; $1,440,000 grant for the purchase, installation, and operation of an MRI machine; and $3,925 for facility use fees and maintenance expenses.

NOTE 16 - SUBSEQUENT EVENTS

General Revenue Bonds and Revenue Refunding Bonds -

On September 29, 2011 the University sold $73,340,000 in Series 2011 tax-exempt General Revenue Bonds. These bonds are dated September 29, 2011, and will bear interest from that date. Interest on the bonds will be payable semiannually on each October 1st and April 1st, commencing April 1, 2012. The bonds will mature from April 1, 2012 to April 1, 2036 and were issued at coupon rates ranging from 2% to 5%. The bonds were issued to provide funds for the renovation of seven Quad Dormitories and renovation of the Dining Hall.

On September 29, 2011, the University issued $4,165,000 in Series 2011 General Revenue Refunding bonds with an average interest rate of 4.3224%. The bonds were issued to advance refund $4,215,000 of outstanding 2002A University of North Carolina System Pool Revenue Bonds with an average interest rate of 5.143%. The net proceeds of the refunding bonds (along with other resources) were used to purchase securities from a federally sponsored pool. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability will be removed from the Statement of Net Assets in the subsequent reporting period. This advance refunding was undertaken to reduce total debt service payments by $580,495 over the next 16 years and will result in an economic gain of $442,957. At June 30, 2012, the outstanding balance will be $4,215,000 for the defeased 2002A University of North Carolina System Pool Revenue Bonds.

***Line of Credit* -**

The Capital Facilities Foundation, Inc., a blended component unit of the University of North Carolina at Greensboro, closed on a line of credit for $67 million from SunTrust Bank on November 2, 2011 and an initial draw against the line in the amount of $15.99 million was made on that date. The proceeds from the line of credit will be used to pay costs to construct an 800 bed student housing facility and to retire an existing line of credit with RBC Bank used to purchase land. This line of credit is secured by the Capital Facilities Foundation, Inc. assignment of base rentals from the project to SunTrust Bank. The interest rate is set on the 1st business day of each month and is calculated by taking 75% of the 1 month London Interbank Offered Rate (LIBOR) rate plus 124 basis points.

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

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

We have audited the financial statements of The University of North Carolina at Greensboro, a constituent institution 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 November 10, 2011. Our report includes a reference to 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. Other auditors audited the financial statements of The University of North Carolina at Greensboro Investment Fund Incorporated, The UNCG Excellence Foundation, Inc., and the Capital Facilities Foundation, Inc., as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A 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 deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

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)

possibility that a material misstatement of the University'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 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*.

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

November 10, 2011

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:

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