
THE UNIVERSITY *of* NORTH CAROLINA *at* CHAPEL HILL

# 2009 Comprehensive Annual Financial Report

Fiscal year ended June 30, 2009
Chapel Hill, North Carolina

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

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# MESSAGE FROM THE CHANCELLOR

*Holden Thorp*

## *Carolina: Still Going Strong, Achieving Great Things*

We just enrolled the best-prepared first-year class in Carolina history. Faculty brought in over $716 million in research funding — another new record. Our researchers decoded the structure of the entire HIV genome. We had our second-best fundraising year ever. The final report from Bain & Company identified ways to become more operationally effective. And we opened a new state-of-the-art cancer hospital for the people of North Carolina.

Despite challenges, Carolina is achieving great things. We're actually a better university than we were a year ago.

The University has not been immune from the economy. We have absorbed reductions totaling about $67 million that represent our fair share of state budget cuts and holdbacks. Our endowment suffered and colleagues lost jobs. And 23 percent more students came to us with financial need than a year ago.

But there are many bright spots. Yes, more of our students struggled to pay for college. But, because we're Carolina, we met all of their needs. Carolina Covenant Scholars make up 11 percent of our first-year class. First-generation college students constitute 19 percent of our first-year class. We've also managed to offer undergraduates the same number of classroom seats they had last year. And we're moving ahead with about 60 faculty searches. Those things can only happen because we've cut administrative costs and protected academics.

Our University enjoys greater state support than just about every other public university. This year, Governor Perdue and the General Assembly continued to do what they've always done — believe in the power of higher education. Add to that the good work that our faculty and staff have done this year to do more with less, and we've got a university that's still going strong.

A year ago, we hired Bain & Company to help identify options to streamline our operations and reinvest any savings in academics. Now other prominent universities — Cornell and Berkeley — are following our lead with similar projects. The changes we're making aren't temporary corrections, but rather a permanent re-basing of our administrative budgets. We can make Carolina the most collaborative and best-managed university in the country.

At the same time that state support for higher education is down, we've been called on to come up with the innovations that will get North Carolina and our country moving again. We will play to Carolina's strengths — offering bright students a world-class education and the opportunity to experience the thrill of discovery alongside top scholars while fostering a collaborative, collegial environment that promotes creativity.

*"Despite challenges, Carolina is achieving great things. We're actually a better university than we were a year ago."*

Why does this matter? Because our success is important to North Carolinians who are looking to the University for answers.

Our pledge is to keep making our citizens healthier and more prosperous. We'll keep finding solutions to our greatest problems. And we'll continue making a difference for the people of North Carolina and beyond.

# LETTER OF TRANSMITTAL

December 8, 2009

*Richard L. Mann*

*To Chancellor Thorp, Members of the Board of Trustees, and Friends of The University of North Carolina at Chapel Hill:*

## INTRODUCTION

This Comprehensive Annual Financial Report includes the financial statements for the year ended June 30, 2009, as well as other useful information that helps ensure the University's accountability to the public. Responsibility for the accuracy of the information and for the completeness and fairness of its presentation, including all disclosures, rests with the University's management. We believe the information is accurate in all material respects and fairly presents the University's financial position, revenues, expenses, and other changes in net assets. We believe our system of internal controls is sound and sufficient to disclose material deficiencies in controls to the auditors and the audit committee. The Comprehensive Annual Financial Report includes Management's Discussion and Analysis and all disclosures necessary for the reader to gain a broad understanding of the University's financial position and results of operations for the fiscal year ended June 30, 2009.

The accompanying financial statements present all funds belonging to the University and its component units. While the multi-campus University of North Carolina System's Board of Governors has ultimate responsibility, the chancellor, the University's Board of Trustees, and the Board of Trustees of the Endowment Fund have both delegated and statutory responsibilities for financial accountability of the University's funds. For the fiscal year ended June 30, 2009, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 49 addresses reporting standards for pollution remediation obligations, which are obligations to address current or potential detrimental effects of existing pollution. GASB Statement No. 52 requires endowments to report their land and other real estate investments at fair value.

The financial reporting entity for the financial statements is comprised of the University and ten component units. Seven of these, although legally separate, are reported as if they were part of the University. These include The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Investment Fund), UNC Investment Fund, LLC (System Fund), UNC Management Company, Inc. (Management Company), The University of North Carolina at Chapel Hill Foundation, Inc. (UNC-CH Foundation), The Kenan-Flagler Business School Foundation (Business School Foundation), The School of Education Foundation, Inc. (School of Education Foundation), and U.N.C. Law Foundation, Inc. (Law Foundation).

The Investment Fund supports the University by operating an investment fund for charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The System Fund was organized to allow the University, the University of North Carolina and its constituent institutions (UNC System), affiliated foundations, associations, trusts, as well as endowments that support the University and the UNC System to pool their resources and invest collectively in investment opportunities identified, structured and arranged by the Management Company. The Investment Fund contributed and assigned all of its assets to the System Fund in exchange for membership interest in the System Fund. At year end, the Investment Fund membership interest was approximately 79.1 percent of the System Fund total membership interest.

The Management Company is organized and operated exclusively to support the educational mission of the University. The Management Company provides investment management and administrative services to the University, UNC System, and affiliated tax-exempt organizations. The purpose of the

UNC-CH Foundation, Business School Foundation, School of Education Foundation, and Law Foundation is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University.

The financial statements of the Investment Fund, System Fund, Management Company, UNC-CH Foundation, Business School Foundation, School of Education Foundation, and Law Foundation have been blended with those of the University.

Separate financial statements for three other component units are reported based on GASB Statement No. 39. The Medical Foundation of North Carolina, Inc. (Medical Foundation), The Educational Foundation Scholarship Endowment Trust (Educational Foundation Trust), and The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc. (Arts and Sciences Foundation) are legally separate, non-profit, tax-exempt organizations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

Other related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements. The University of North Carolina at Chapel Hill is a constituent institution of the 16-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.

## ECONOMIC CONDITION AND OUTLOOK

The total gross domestic product (GDP) of the U.S. peaked in real (adjusted for price changes) terms in the second quarter of 2008 at $13,415.3 billion measured in chained 2005 dollars. By the second quarter of 2009, GDP had fallen 3.9 percent to $12,892.5 billion. That is the worst decline of any of the eleven recessions since the advent of quarterly GDP data in 1947.

There are no publicly available estimates for quarterly GDP for North Carolina. However, the June 2, 2009 release from the Bureau of Economic Analysis reported that total GDP for North Carolina was $400.2 billion for 2008, up 2.5 percent from 2007. That ranked ninth among all states, below the $471.5 billion of Ohio and above the $397.8 billion of Georgia and the $397.0 billion of Virginia. North Carolina was 2.8 percent of the total U.S. economy.

In real GDP in 2008, North Carolina was 2.9 percent of the total U.S. economy with a total of $329.4 billion, up only 0.1 percent from 2007. That was slightly behind the $329.5 billion of Georgia. In terms of real per capita GDP in North Carolina for 2008, the total was $35,719. That ranked 25th among all states and was 94 percent of the U.S. average of $37,899. Delaware ranked first at $56,401 in per capita real GDP or 149 percent of the national average. Mississippi was last at $24,403 or 64 percent of the national average.

The Census Bureau estimated the population of North Carolina at 9,222,414 people on July 1, 2008. That was a 1.8 percent increase from the prior year, well above the national average of 0.7 percent. North Carolina is the tenth most populous state, between New Jersey and Georgia.

The employment picture in North Carolina has been dismal. The total number of people employed after the end of the 2001 recession in December 2001 was 3,890,727 with 283,461 unemployed for an unemployment rate of 6.8 percent. In October 2003 there were 3,998,277 people employed and 272,415 unemployed for an unemployment rate of 6.4 percent.

Total employment then rose somewhat steadily until reaching a new peak of 4,306,020 employed people in June 2007 with 213,648 unemployed and an unemployment rate of 4.7 percent. Since then the number of people unemployed has increased. On September 18, 2009, the Bureau of Labor Statistics (BLS) reported that total employment on a seasonally adjusted basis in August for North Carolina was 4,031,573 with 488,974 people unemployed for an unemployment rate of 10.8 percent, which tied North Carolina with Ohio and Tennessee for the ninth-highest unemployment rate in the country.

The picture for non-farm payroll jobs is similar. That number peaked in January 2001 at 3,943,900 jobs, fell to 3,772,500 in August 2003, and then gradually rose to a new record of 4,178,400 in February 2008. The bottom appears to have been reached in July 2009 at 3,909,600 jobs which is the lowest number since June 2005. The BLS report showed a slight upturn in August 2009 to 3,916,600 jobs on a seasonally adjusted basis.

Large job losses have reduced incomes and dramatically lowered tax receipts for all levels of government in North Carolina. The result has been severe budget cuts for both the University and the UNC System.

On a positive note, North Carolina has been less affected by the dramatic decline in house prices than many other states. The Federal Housing Finance Agency reported that the house purchase price index, which fell 6.13 percent for the entire U.S. on a year-over-year basis in the second quarter of 2009, declined only 3.28 percent for North Carolina. Furthermore, house prices in North Carolina are 19.57 percent above five years earlier, which is above the national average increase of 6.70 percent.

## PROGRESS AND MAJOR INITIATIVES

Carolina's progress, priorities, and major initiatives during fiscal 2008–2009 reflected the University's vision of becoming the nation's leading public university. Following this letter are recent highlights.

## FINANCIAL INFORMATION

### Internal Control Structure

The University's Finance and Administration Division establishes and maintains an effective system of internal control. One objective of an internal control structure is to provide management with reasonable, although not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition. Another objective is to ensure that transactions are executed in accordance with appropriate authorization and recorded properly in the financial records to permit the preparation of financial statements in accordance with generally accepted accounting principles. Organizational structure, policies, and procedures have been established to safeguard assets, ensure the reliability of accounting data, promote efficient operations, and ensure compliance with established governmental laws, regulations and policies, University policies, and other requirements of sponsors to whom the University is accountable.

As a recipient of federal financial awards, the University is responsible for ensuring compliance with all applicable laws and regulations. A combination of state and University policies and procedures, integrated with the University's system of internal controls, provides for this compliance. As an integral part of the State of North Carolina's Single Audit, the University is subject to an annual examination by the Office of the State Auditor of its federal financial assistance programs and federal cost-reimbursement contracts in accordance with U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations.*

The University determined a course of action as part of higher education's response to the Sarbanes-Oxley Act and has implemented practices to enhance the internal control structure. The University is a participant in both EAGLE (Enhancing Accountability in Government through Leadership and Education) and UNC FIT (Finance Improvement and Transformation). EAGLE is the State's new internal control program that was established by the Office of the State Controller to meet the requirements of House Bill 1551, Chapter 143D "State Governmental Accountability and Internal Control Act." UNC FIT is a collaborative project sponsored by the UNC System's General Administration that seeks to strengthen internal controls in the finance areas to ensure financial integrity and accountability.

The University's focused effort on financial controls provides a more proactive and broader approach in identifying and resolving potential limitations on sound internal control through the above mentioned programs, a self-assessment process, development of a professional code of ethics, targeted campus training sessions, special reviews, improved documentation of internal controls, and timely and useful responses to questions from campus units. A financial controls manager leads these efforts to strengthen and maintain sound internal controls while the Audit and Finance Committee of the Board of Trustees maintains an Audit Committee charter consistent with higher education standards.

### Budgetary Controls

The University is responsible for controlling its budget and using the funds to fulfill its educational, research, and public service missions. It is also responsible for planning, developing, and controlling budgets and expenditures within authorized allocations in accordance with University, state, and federal policies and procedures. The University maintains budgetary controls to ensure compliance with provisions embodied in the annual appropriated budget approved by the North Carolina General Assembly, and as further directed by the Board of Governors. Project-length financial plans are adopted for capital projects.

After the budget has been approved by the chancellor and the Board of Governors, the University follows an established system of budgetary controls. Finance and Administration issues periodic interim budget statements to department heads to guide them in managing their budget allocations. Monthly financial reports are provided on each fund to individual managers responsible for the fund. Financial reports are also provided to the state. When actual conditions require changes to the budget, revisions are prepared and these revisions are appropriately approved and communicated to those affected. Changes to the budget are approved at the University level and/or the state level as required. Based on the state's management flexibility legislation, the University has received delegated authority for designated budget changes. The University maintains an encumbrance accounting system as another method to ensure that imposed expenditure constraints are observed.

### Debt Administration

To ensure the appropriate mix of funding sources is utilized, the University established a debt policy, which is continuously used by management as a tool to evaluate the University's financing needs for its capital investments within the framework of portfolio management practices.

To fulfill its mission, the University makes capital investments, driving capital decisions that affect the University's credit. Appropriate financial leverage serves a useful role and should be considered a long-term component of the University's balance sheet. Just as investments represent an integral component of the University's assets, debt is viewed to be a continuing component of the University's liabilities. Debt, especially tax-exempt debt, provides a low-cost source of capital for the University to fund capital investments and achieve its mission and strategic objectives.

The debt strategies, combined with management judgment, provide the framework by which decisions will be made regarding the use and management of debt. The objectives of the debt policy are:

- *Identify projects eligible for debt financing.* Using debt to fund mission-critical projects will ensure that debt capacity is optimally used to fulfill Carolina's mission. Projects that relate to the core mission will be given priority for debt financing; projects with associated revenues will receive priority consideration as well.
- *Maintain Carolina's favorable access to capital.* Management's determination of the timing of capital projects will not be compromised by the University's access to capital sources, including debt. Management will use and issue debt to ensure timely access to capital.
- *Limit risk of University debt portfolio.* The University will manage debt on a portfolio basis. The University's continuing objective to achieve the lowest cost of capital will be balanced with the goal of limiting exposure to market shifts.
- *Manage the University's credit rating to maintain the highest acceptable credit.* This practice will permit the University to continue to issue debt and finance capital projects at favorable interest rates while meeting strategic objectives. The University will limit its overall debt to a level that will maintain an acceptable credit rating with the bond rating agencies.

In meeting these objectives, the University has adopted strategies and procedures for the management of its debt. These strategies include the following:

- *Mission-Based Capital Planning.* Provide framework with a link to mission to evaluate and prioritize debt-eligible projects.
- *Core Ratios.* Adopt a set of core ratios to guide capital planning and ensure central oversight of University-wide leverage levels.
- *Financial Instruments.* Provide management with appropriate debt vehicles based on borrowing needs.
- *Asset/Liability Management.* Manage outstanding debt and future debt-financing needs within the framework of sound portfolio management practices.

The University has $1,050,436,403 of outstanding long-term bonds and $148,291,000 of commercial paper at June 30, 2009. The bonds were issued to finance the construction and/or renovation of many campus facilities including essential new research buildings, major new cultural facilities that will benefit the local community and state, undergraduate residence halls, student family housing, parking facilities, and utilities infrastructure. Principal and interest for the bonds are payable from the general revenues of the University — excluding state appropriations, tuition, restricted gifts and restricted income from endowment investments — and net revenues generated by the operations of the debt-financed facilities.

The UNC-CH Foundation, which is part of the University's financial reporting entity, also adheres to a debt policy that maximizes the utility of the foundation's financial resources to continue to provide current and future support to the University.

## Cash Management

The cash management plan of the University provides guidance to ensure control and deposit of receipts, appropriate management of disbursements, and investment of funds to maximize earnings on the investment of cash and minimize non-productive cash balances. State law requires that state-appropriated funds be deposited and invested with the State Treasurer with investment earnings accruing to the state. Other resources, such as gifts, contract and grant awards, auxiliary revenues, and student activity fees are not appropriated by the state. These funds, except for fees from services of health care clinics, must be deposited and invested with the State Treasurer with investment earnings accruing to the University. Endowment, debt service, fees from services of health care clinics, and other designated funds are invested by the University in accordance with its investment policies.

The University administers a short-term investment pool for funds not required to be on deposit with the State Treasurer. The investment pool is administered in conjunction with cash receipts and disbursing requirements to minimize idle cash and to generate current income without loss of capital at a rate of return no less than the State Treasurer. Earnings are distributed to participating funds.

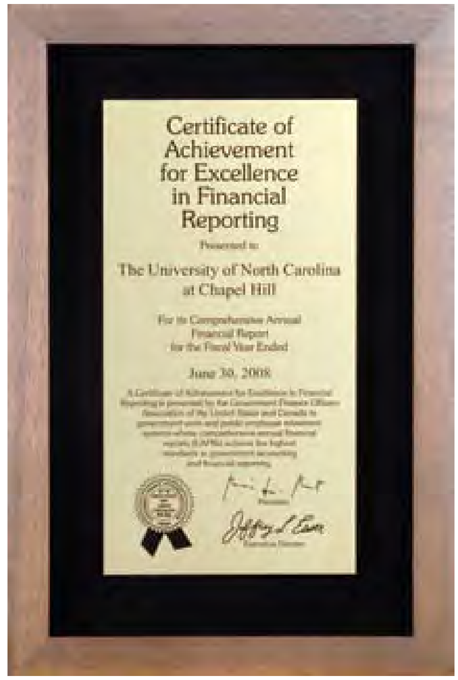
The objective in managing disbursements is to maintain funds in interest-bearing accounts for the longest appropriate period of time while ensuring that payments for goods and services are made timely. Disbursement cycles are established to coincide with this objective. The University uses the state's cash management control system to improve cash flow by electronically recording cash receipts and disbursements for funds deposited with the State Treasurer. Other electronic processes have been developed for the receipt and disbursement functions to provide efficient and effective processes.

## Risk Management

Risk has traditionally been viewed as something to be avoided or eliminated with only a negative outcome. Increasingly in today's environment, there is greater awareness that responsible risk taking leads to a competitive advantage and can maximize stakeholder value.

To optimize the benefits of risk and minimize their costs, the University has taken a more enterprise-wide approach to its risk management programs by holistically addressing its operational, financial, compliance, strategic and reputation risks. This enterprise risk management ensures that decisions that trade value and risk are made on an informed basis and are aligned with our risk tolerance and strategy. The risks constantly change so strategies must remain fluid. This ongoing process allows us to prioritize and efficiently use our risk management resources. Beginning this fiscal year, the University's treasury and risk management functions were merged into a new unit in order to strengthen the business and financing aspects of our risks.

Insurable risks are addressed in several ways, including participation in various state-administered risk pools, purchase of commercial insurance, and self retention of certain risks. Refer to Note 14 of the Notes to the Financial Statements for more detailed information concerning the University's insurance programs.




*The University of North Carolina at Chapel Hill has received the award for reporting excellence for the past 14 years.*

## OTHER INFORMATION

### Audits

State law, federal guidelines, and certain bond covenants require that the University's accounting and financial records be audited by the Office of the State Auditor each year. The University's internal auditors also perform fiscal, compliance, and performance audits. The reports resulting from these audits are shared with University management. Internal and external audit reports are provided to the Audit and Finance Committee of the Board of Trustees.

The audit of the University's federal financial assistance programs is performed by the Office of the State Auditor in conjunction with the statewide Single Audit. The accounting and financial records of the Investment Fund, UNC-CH Foundation, System Fund, Management Company, Business School Foundation, School of Education Foundation, Law Foundation, Arts and Sciences Foundation, Medical Foundation, Educational Foundation Trust, WUNC Radio, and the Athletic Department are each audited by a public accounting firm in addition to the State Auditor review. All audit reports are available for public inspection.

### Certificate Of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the University for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. This was the 14th consecutive year that the University has been honored with this prestigious award. To receive a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### Acknowledgments

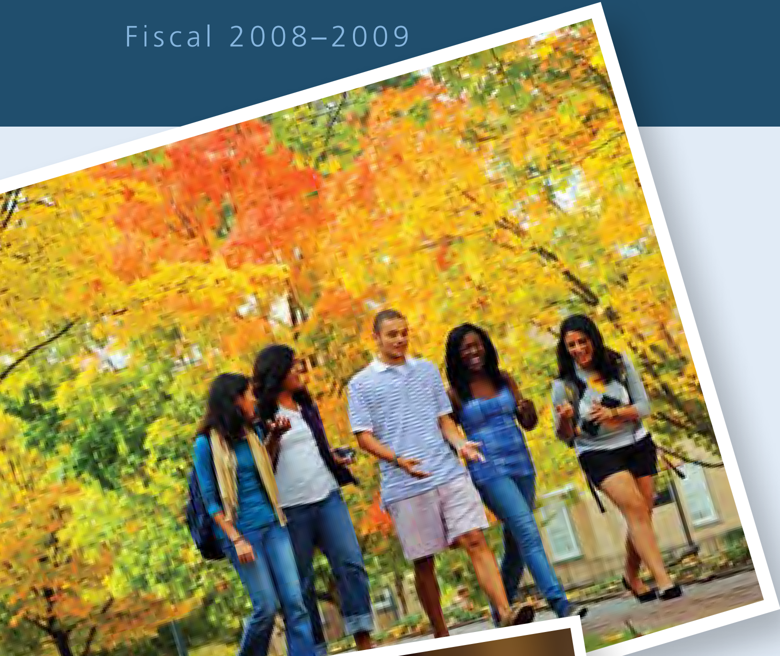
Preparation of this Comprehensive Annual Financial Report in a timely manner would not have been possible without the coordinated efforts of the University community, with special assistance from the Chancellor's Office, the Office of the Executive Vice Chancellor and Provost, Research and Economic Development, Student Affairs, Information Technology Services, University Advancement, University Relations, Institutional Research, the Office of Scholarships and Student Aid, the Department of Athletics, and Dr. James F. Smith, Adjunct Professor of Business Administration in the Kenan-Flagler Business School. In addition, the Office of the State Auditor provided invaluable assistance.

Richard L. Mann

Dr. Richard L. Mann
*Vice Chancellor for Finance and Administration*

# PROGRESS AND MAJOR INITIATIVES

Fiscal 2008–2009



## *Success Signals A Great Research University*

Carolina has earned a place among the world's most influential research universities. Through teaching, research and public service, the University improves the lives of people in North Carolina and around the globe every day. The remarkable accomplishments of students, faculty and staff during fiscal 2008–2009 have only strengthened these positions.

The University enrolled its best-prepared first-year class ever in fall 2009. A new study of the first class of Carolina Covenant Scholars showed the program helps qualified low-income students succeed in the classroom. Two more students were selected as Rhodes Scholars, pushing that total to 43 and making Carolina the leader among major U.S. public universities since 2000. Bain & Company, a global consulting firm, completed a privately funded study to identify options for the University to become more operationally effective. Faculty researchers attracted more than $716 million in total contract and grant funding in fiscal 2009 — up more than 5 percent over the previous year. Carolina scientists decoded the structure of the entire HIV genome. The North Carolina Cancer Hospital, the only public cancer hospital in the state, opened. And the generosity of loyal alumni and friends enabled the University to record its second most successful fundraising year in school history.

Following is a brief sampling of successes and progress at Carolina in fiscal 2008–09 and beyond.

Dr. Marion Couch, associate professor in the School of Medicine, discusses her work with Carolina Covenant Scholar Nesochi Adimorah.

## CAROLINA ATTRACTS TOP STUDENTS, PROTECTS ACCESSIBILITY

The University provides outstanding students the opportunity to learn in one of the highest quality academic environments on any college campus. The University's academic culture fosters excellence in interdisciplinary teaching and scholarship between and among the liberal arts and humanities, as well as the health, natural and social sciences. This approach helps develop students into thoughtful, informed citizens and compassionate leaders.

### Class of 2013 Elevates Academic Success, Reflects Economic Realities

The Class of 2013 set new standards with their achievements in key indicators of academic success. The University received 23,047 applications and enrolled 3,960 students in August 2009. That was up from 21,543 applications and 3,852 new students in 2008. Academically, the percentage of enrolled students who were in the top 10 percent of their high school class or who were among the top 10 students in that class has increased steadily — by nearly 6 percent and 5 percent, respectively — over the last five years. The number of valedictorians or salutatorians was also up, along with the average SAT score. And the University attracted more of the very best students from North Carolina — a point of emphasis in the past year. The Office of Undergraduate Admissions staff takes a holistic approach in evaluating applications, always considering how an entire first-year class fits together to bring another great group of new students to Carolina.

Because of the economy, 23 percent more students came to campus with financial need than a year ago. The same number was 26 percent higher among first-year students. Carolina met all of the need for those who qualified and applied for aid on time. Carolina Covenant Scholars make up 11 percent of the first-year class. First-generation college students constituted 19 percent of the first-year class. The University monitored these trends closely and intends to protect Carolina's commitment to accessibility.

### Carolina Covenant Helps Students Achieve in the Classroom

A new study of the first class of Carolina Covenant Scholars showed the program, which provides a debt-free education, helps qualified low-income students succeed in the classroom.

The program is a national model; more than 90 similar programs have been established at U.S. colleges and universities since Carolina announced the Covenant in 2003.

The University's study asked if the Covenant helps close the gap for earning degrees between low-income and other students. The University's Office of Scholarships and Student Aid and Office of Institutional Research and Assessment compared the first 2004 Covenant class with a group of 2003 students who would have qualified.

- *Covenant students performed slightly better in graduation rates (62 percent in eight semesters vs. 57 percent, and 73 percent in nine semesters vs. 70 percent).*
- *Graduation rates for all students ranged between 74 percent and 75 percent.*
- *The retention rate for 2004 Covenant Scholars in their fourth year was considerably higher.*
- *17 percent fewer Covenant students became academically ineligible.*

Another encouraging sign: Covenant Scholars' average grade-point average at graduation was within 2/10ths of a point of the average for all students.

*Elisabeth Yorke*

*Aisha Saad*

### Carolina Tops Public Campuses for Rhodes Scholars Since 2000

Since 2000, Carolina has produced more Rhodes Scholars than any other state-supported university, and the ninth most of any public or private school. Over the past five years, Carolina has ranked seventh overall in the production of Rhodes Scholars, ahead of several Ivy League schools. Since the program began, 43 Carolina students have received Rhodes Scholarships — the second most among all top public research universities. In 2008–09, the University had two winners, the fifth time that Carolina had two Rhodes winners in the same year. Since 1957, when the first Morehead Scholars graduated from UNC, the University has produced 28 Rhodes Scholars. All but three were Moreheads (now Morehead-Cain Scholars).

Carolina's 2008–2009 winners, both Morehead-Cain Scholars, were Elisabeth "Lisette" Yorke of Hillside Boularderie, Nova Scotia, and Aisha Saad of Cary. Both were named to USA Today's 2009 All-USA College Academic First Team — two of 20 undergraduates chosen by judges from among hundreds of juniors and seniors across the country. The newspaper called the winners "the nation's most gifted college students."

## FACULTY RESEARCH IMPROVES LIVES, ADVANCES KNOWLEDGE

Carolina ranks among the top U.S. public universities in securing funding for research that advances basic science, helps find cures for diseases and brings new discoveries to the commercial marketplace. Faculty attracted more than $716 million in contract and grant funding in fiscal 2009 — up about 5 percent over the record-setting $678 million received last year and more than double the amount from a decade ago.

### Cancer Research Fund Positions Lineberger Center for the Top

In 2007, the North Carolina General Assembly created the University Cancer Research Fund to support basic research in medicine, pharmacy and public health, as well as basic science departments of the College of Arts and Sciences through the Lineberger Comprehensive Cancer Center and the School of Medicine.

Supporting laboratory, clinical and outreach efforts across North Carolina, the fund directed $25 million to Carolina in 2007–08 and $40 million in 2008–09. The total increased to $50 million in 2009 — even with the state's budget challenges.

The fund, combined with the opening of the North Carolina Cancer Hospital *(see page 18)*, demonstrates unprecedented positive momentum for cancer research at Carolina that is positioning UNC Lineberger to become a top academic cancer center with state-of-the-art patient care.

*Lisa Carey, Charles Perou and postdoctoral fellow Katie Hoadley examine data that predict which treatments may be most effective for a specific cancer patient.*

## Imagine a Mammogram that Doesn't Hurt

Otto Z. Zhou, Lyles Jones Distinguished Professor of Physics and Materials Sciences, is adapting nanotechnology to better detect cancer. Zhou has used carbon nanotubes to invent a new way to generate X-rays. The technology could significantly enhance performance of a wide range of imaging devices — from medical diagnosis to homeland security.

University Cancer Research Fund support has enabled Zhou and his colleague, Jianping Lu, to develop a new mammography system for breast cancer early detection. This advance will enable radiologists to detect tumors earlier and without painful compression of the breast.

The cancer research fund purchased the equipment used to build a prototype. The researchers licensed the technology to Xintek, a University start-up company, and their work has attracted commercialization interest from one of the world's largest medical instrumentation companies. Other developments include a new joint venture company called XinRay Systems, LLC, formed with Siemens Medical. XinRay, located in the Research Triangle Park, has hired recent Carolina graduates and brought Siemens employees to North Carolina from Germany and China. A new imaging-guided radiation therapy device based on XinRay technology will be tested in a clinical trial at the North Carolina Cancer Hospital, the first U.S. test site.

*Otto Zhou s new method of medical X ray is based on pulsed nanofibers, which can capture images of the body or an organ while they are moving. The result is more precise and sensitive X-rays.*

## Federal Stimulus Funding Boosts Economy, Creates Jobs

Carolina's faculty are off to an impressive start in securing federal research funding from the 2009 American Recovery and Reinvestment Act (ARRA).

By November 2009, researchers had been awarded grants valued at more than $83 million over an eight-month period from virtually every major agency in the National Institutes of Health (NIH), as well as the National Science Foundation. This funding directly benefits the North Carolina economy and taxpayers by creating jobs and leads to important scientific and biomedical innovations that will make a difference in people's lives.

Research topics include prostate cancer, synthetic blood substitutes, schizophrenia, solar energy, memory and bone biology. These projects help illustrate the high quality of interdisciplinary research being conducted by Carolina scientists, who are leaders in their disciplines.

Carolina's ARRA awards also include new NIH biomedical research and training initiatives that involve hiring high school and college students and teachers to spend their summers in UNC laboratories and medical facilities doing hands-on, cutting-edge research with top scientists.

The University's early success in securing federal economic stimulus funding also reflects the growing power of the faculty's expertise in multidisciplinary research, a point of emphasis now among federal grant-making agencies.

*Above, senior Shaun Hampton and Graduate student Brittany Westlake work in the lab of chemistry researcher John Papanikolas. Westlake is among about 30 graduate students and postdoctoral fellows at the new Energy Frontier Research Center who are being sup ported by funding including the American Recovery and Reinvestment Act.*

*Right, senior Sarah Stoneking holds a fabricated solar cell device created from a new polymer synthesized in chemistry Professor Wei You s laboratory, where she spent a year studying polymer cells.*

## Coalition Seeks Solar Energy Breakthroughs

Chemistry Professor Tom Meyer led a coalition of scientists joined by the promise of solar fuels to secure a grant worth $17.5 million over five years from the U.S. Department of Energy and the American Recovery and Reinvestment Act. Nationwide, 46 Energy Frontier Research Centers aim to accelerate breakthroughs in energy technology development.

The University's proposal was the only one funded in North Carolina and among 16 designed to create jobs. Carolina's center studies low-cost and efficient solar fuels production by artificial photosynthesis.

Solar fuels could use the sun's energy to make fuels from water and carbon dioxide for heating, transportation and energy storage. The technology being studied at Carolina could also make electricity using inexpensive "solar shingles" on the roofs of buildings.

The center supports a mix of about 30 postdoctoral fellows and graduate students, and provide opportunities for undergraduates to try their hand at cutting-edge research.

Along with Carolina, Duke and N.C. State, N.C. Central University and the University of Florida are also partners in the Energy Frontier Research Center.

## THE POWER OF 1 CAN REACH THOUSANDS OF NORTH CAROLINIANS

Through teaching, research and public service, Carolina improves people's lives and builds futures across North Carolina. The following examples are adapted from **one.unc.edu**, a new Web site featuring stories about Carolina people who are helping North Carolinians and, at the same time, helping to lead the state into the future. It is part of a University effort to illustrate how powerful the work of one person at Carolina can be.

### 1 Inspirational Advocate; 75 Promising Futures

Jim Johnson has taken his research to a new level by opening a new K–8 laboratory school in Durham to help economically distressed children achieve academic success.

In August 2009, the free private school opened to its first 75 students. After eight years of hard work and raising millions of dollars, the school's opening was a major accomplishment on the way to transforming public education in North Carolina.

The Union Independent School is the brainchild of Johnson, the William R. Kenan Jr. Distinguished Professor of Strategy and Entrepreneurship at the Kenan-Flagler Business School, and Rev. Kenneth Hammond of Union Baptist Church, where Johnson is a member.

They dreamed of developing a 21st-century prototype for urban education in distressed environments — to take kids "from the streets to the suites," Johnson says. They broke ground in a Durham neighborhood where 40 percent of children live in homes with incomes below the federal poverty level.

Johnson's model adds subjects like nutrition education, character development, entrepreneurship, global awareness and economic literacy to the North Carolina standard course of study. Students also study language arts, math, science, social studies and Spanish.

Starting with kindergarten through second grade, Union Independent School will add a grade each year until it reaches eighth grade. The school will operate year-round with extended hours to provide extra tutoring and enrichment and to keep kids off the streets. Eventually, Johnson and Hammond believe the facility can also be used for health care, fitness, healthy cooking classes and more for adults in the area.

*Left, James H. Johnson Jr. of UNC's Kenan-Flagler Business School researched studies about education and underprivileged youth to write an operations plan for Union Independent School in Durham.*

*Above, first-grade students raise their hands in Agatha Brown's class.*


*Right, second-grader Madison Kelly works intently at her desk on the first day at Union Independent School.*

## 1 Pioneering Researcher; 3,230 Optimistic Cancer Patients

Howard McLeod is director of the UNC Institute for Pharmacogenomics and Individualized Therapy — which makes him not just an expert in prescription drugs, but an expert in people.

Pharmacogenomics is the study of how people's genes affect their responses to drugs. Not everyone processes a drug the same way, and this research helps doctors to give patients the right drug and dose that works for them.

McLeod, also Fred Eshelman Distinguished Professor at the Eshelman School of Pharmacy, is an internationally renowned researcher in the field. One of his most successful projects in recent years involves breast cancer patients and the life-saving drug tamoxifen, which kills cancer cells.

Oncologists were calling McLeod and asking him why the regular dose of tamoxifen wasn't having a positive effect on their patients. In studying the women's genes, McLeod and his team discovered that about half of breast cancer patients do not respond to the typical drug dose. This group needs a dose specialized just for them

McLeod worked with patients in clinical trials around North Carolina to develop a new way of prescribing tamoxifen, and the trials paid off. As a result of his findings, the FDA changed the dosing recommendations.

In North Carolina alone, the new tamoxifen recommendations can help more than 3,000 women each year. McLeod hopes the University's institute will continue to be influential, even partnering with local doctors and pharmacists.

## Construction Highlights Include North Carolina Cancer Hospital

Carolina benefits from a highly successful capital construction program that has been among the most ambitious in American public higher education. This physical transformation was made possible in part by North Carolinians' overwhelming approval of the $3.1 billion bond referendum for higher education in 2000. Through 49 projects, the bonds have provided more than $515 million for renovations and new buildings. In addition, the University has invested funds from non-state

*Above, the opening of the North Carolina Cancer Hospital is among the latest giant steps that Carolina has taken in patient care and cancer research.*

*Left, Howard McLeod, right, a faculty member in the Eshelman School of Pharmacy, is featured in a new marketing effort showcased at one.unc.edu. His research has improved treatments for breast cancer patients.*

sources, including private gifts raised during the Carolina First Campaign, state appropriations and overhead receipts from faculty research grants, for other buildings essential to excellence. The resulting capital construction program totalled $2.3 billion.

Recent milestones include:

- The opening in fall 2009 of the ***North Carolina Cancer Hospital,*** which ushers in a new era for cancer care and treatment for patients and their families. The hospital, part of the UNC Health Care System, is the clinical home of the UNC Lineberger Comprehensive Cancer Center. The hospital triples the previous patient care space and significantly increases the number of patients that can be served. The state's only public cancer hospital, the facility was funded by an $180 million authorization from the North Carolina General Assembly.
- The dedication on University Day, October 12, 2009, of the new ***Education Center at the North Carolina Botanical Garden.*** It is the first public building in North Carolina to receive a platinum Leadership in Energy and Environmental Design (LEED) designation for green architecture.

## PRIVATE SUPPORT REMAINS STRONG AFTER CAROLINA FIRST CAMPAIGN

The Carolina First Campaign finished in December 2007 as the fifth biggest fund-raising drive among completed campaigns at that time in the history of U.S. higher education and as the largest in the South. With more than 194,000 donors, Carolina First surged past its $2 billion goal to raise $2.38 billion.

Reaching that goal was critical for the University to compete nationally for top faculty and students, invest in departments and programs, and build and renovate facilities.

Carolina's fundraising efforts brought in $271.25 million in gifts in fiscal 2009, the second highest total in school history. Such support accounts for money that is immediately available to the University. In commitments for fiscal 2009, which ended June 30, Carolina received $290.4 million. Commitments include pledges as well as gifts. Only fiscal 2008's gift total of $301 million tops the 2009 mark, and Carolina was in the final months of the Carolina First Campaign that year.

## NATIONAL RANKINGS RECOGNIZE ACADEMIC EXCELLENCE

Several national publications regularly publish rankings or ratings that list Carolina prominently in categories ranging from academic quality to affordability to diversity to international presence to public service. Recent highlights focusing on academic achievements include:

- 1st among the 100 best U.S. public colleges and universities that offer the best combination of top-flight academics and affordable costs as ranked by **Kiplinger's Personal Finance** magazine in December 2008. 1st for 8 consecutive times since Kiplinger's began these periodic surveys. Kiplinger's analysis stressed academic quality, as well as cost and financial aid offerings.
- 5th best public university in **U.S. News & World Report**'s 2010 ***"Best Colleges"*** guidebook for the 9th consecutive year. 1st among public campuses for the 5th consecutive year; 14th overall in "Great Schools, Great Prices," based on academic quality and the net cost of attendance for a student who received the average level of need-based financial aid. Tied for 6th among publics and tied for 11th overall for "a strong commitment to teaching" based on peer assessments of which campuses have faculty with an unusual commitment to undergraduate teaching.
- One of 7 public universities ranking in the top 25 for all nine measures used in the 2008 edition of ***"The Top American Research Universities,"*** produced by **The Center for Measuring University Performance.** Evaluates top research universities with at least $20 million in annual federal research funding using quantitative measures such as endowment assets, private giving, faculty awards, doctorates granted, postdoctoral appointees and SAT/ACT range. Since these studies began in 2000, Carolina is one of only 4 publics (along with Berkeley, UCLA and Michigan) with all 9 measures in the top 25 each year.


Kiplinger's Personal Finance *magazine has ranked Carolina the best value in U.S. public higher education eight consecutive times. The ranking is based on the best combination of outstanding academics and affordable costs.*

# BOARD OF TRUSTEES

June 30, 2009



# CHANCELLOR'S CABINET

June 30, 2009

**Holden Thorp**
*Chancellor*

**Richard A. Baddour**
*Director of Athletics*

**Bruce W. Carney**
*Interim Dean, College of Arts and Sciences*

**Larry D. Conrad**
*Vice Chancellor for Information Technology and Chief Information Officer*

**Nancy K. Davis**
*Associate Vice Chancellor for University Relations*

**Douglas S. Dibbert**
*President, General Alumni Association*

**Archie W. Ervin**
*Associate Provost for Diversity and Multicultural Affairs*

**Bernadette Gray-Little**
*Executive Vice Chancellor and Provost*

**Margaret A. Jablonski**
*Vice Chancellor for Student Affairs*

**Brenda W. Kirby**
*Secretary of the University*

**Matthew G. Kupec**
*Vice Chancellor for University Advancement*

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**Ann E. Penn**
*Equal Opportunity/ ADA Officer*

**Dwayne L. Pinkney**
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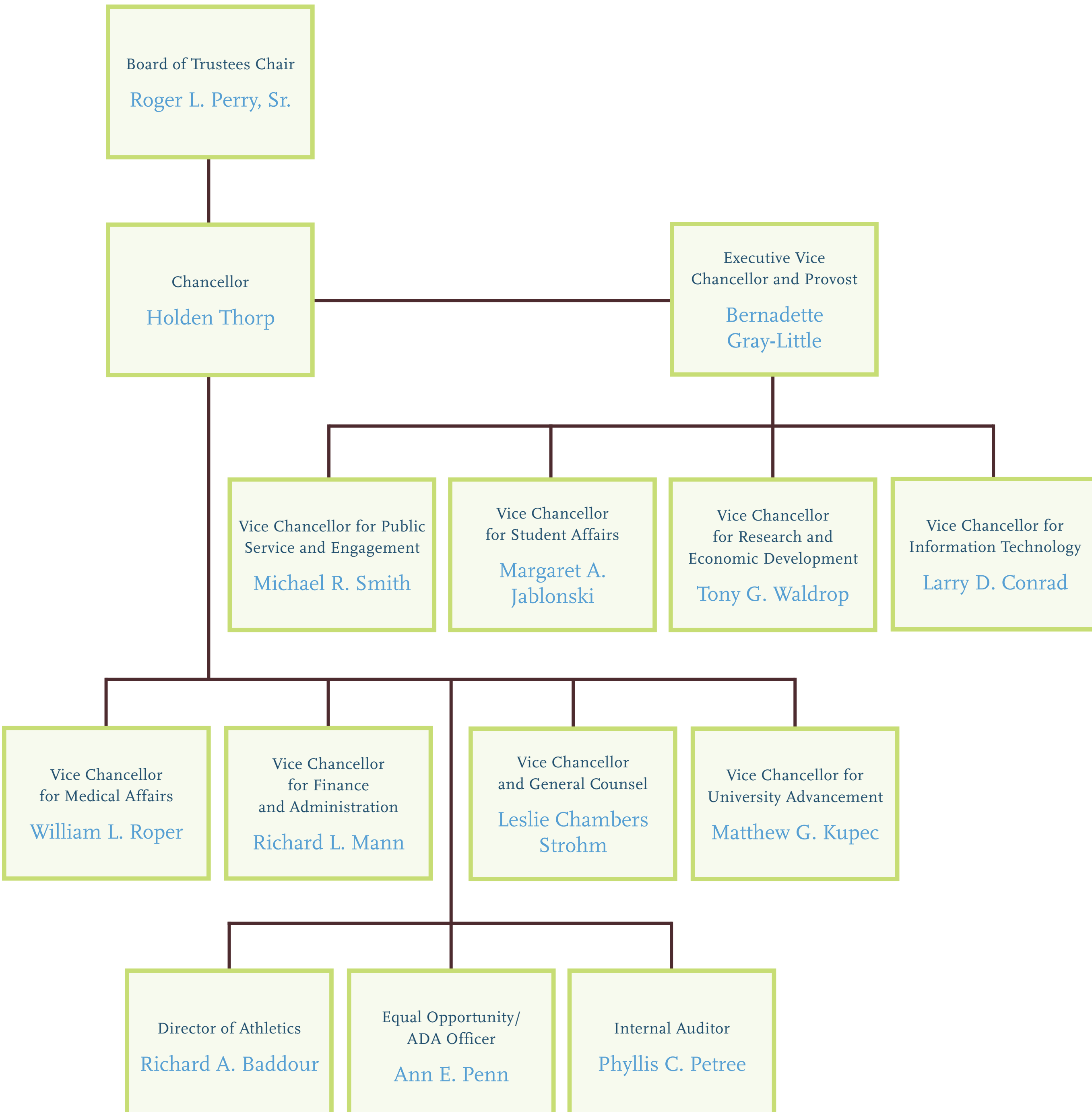
*Vice Chancellor for Public Service and Engagement and Dean, School of Government*

**Leslie Chambers Strohm**
*Vice Chancellor and General Counsel*

**Tony G. Waldrop**
*Vice Chancellor for Research and Economic Development*

# ORGANIZATION CHART

June 30, 2009 | The University of North Carolina at Chapel Hill



# Financial Section

STATE OF NORTH CAROLINA

# Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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20601 Mail Service Center
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Telephone: (919) 807-7500
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Internet
http://www.ncauditor.net

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The University of North Carolina at Chapel Hill
Chapel Hill, North Carolina

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

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Chapel Hill and its discretely presented component units as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

In accordance with *Government Auditing Standards*, we will also issue our report dated December 8, 2009 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The report on internal control and compliance will be issued under separate cover in the Financial Statement Audit Report of The University of North Carolina at Chapel Hill published by this Office.

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.

The introductory and supplementary information sections, identified in the table of contents, were not audited by us, and accordingly, we do not express an opinion thereon.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

December 8, 2009

# MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

## INTRODUCTION

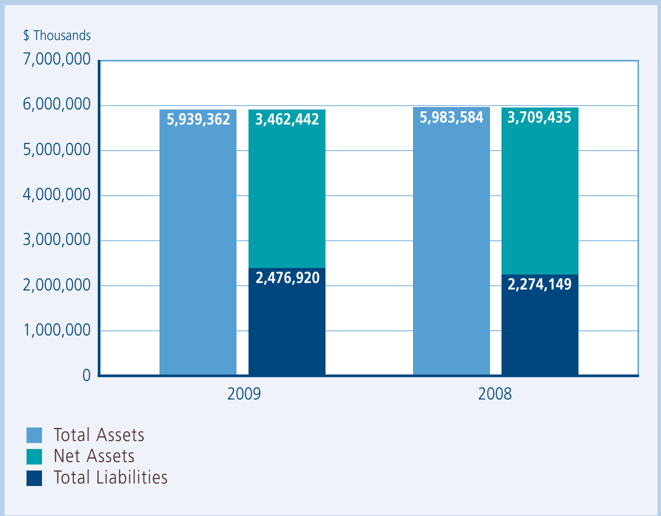
Management's discussion and analysis provides an overview of the financial position and activities of The University of North Carolina at Chapel Hill (the "University") for the fiscal year that ended June 30, 2009, with comparative information for the fiscal year ended June 30, 2008. Management has prepared the discussion and analysis to be read in conjunction with the financial statements and accompanying note disclosures.

The University is a constituent institution of the multi-campus University of North Carolina System (UNC System), a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report (CAFR)*. The financial reporting entity for the financial statements is comprised of the University and ten component units. Seven component units are reported as if they were part of the University, and three are reported as discretely presented component units based on the nature and significance of their relationship to the University. The reader may refer to Note 1A for detail information on the financial reporting entity.

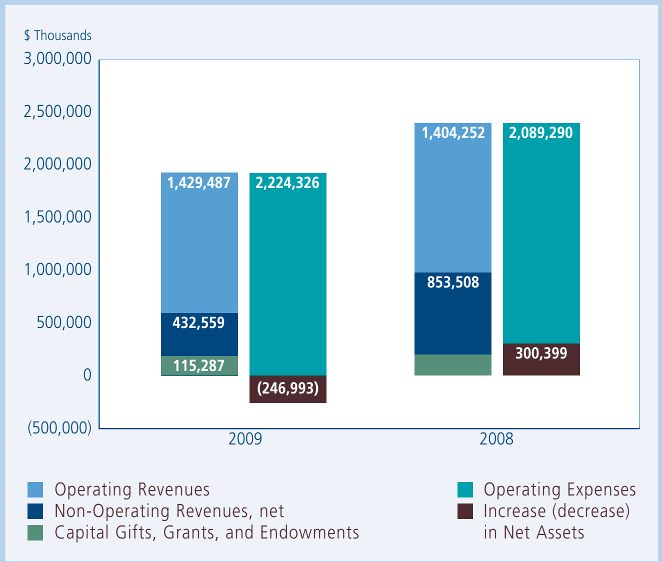
## FINANCIAL HIGHLIGHTS

The University's financial position at June 30, 2009 was impacted by the global economic downturn as the State's revenues were below budgeted levels and the financial markets incurred negative investment returns. Higher education was not immune from the national economic crises, and the University initiated spending reductions and other measures to address the shortages in resources. The University's proactive decisions helped mitigate the impacts of the financial shortfalls. The University's total assets were $5.9 billion at June 30, 2009. Net assets, which represent the residual interest in the University's assets after deducting liabilities, were $3.5 billion at June 30, 2009. The University's net assets decreased by $247 million in fiscal year 2008–2009 as a result of operating, non-operating, and other changes in net assets. A comparison of the total assets, liabilities, and net assets at June 30, 2009 and June 30, 2008, and a comparison of the major components of the changes in net assets for the two fiscal years are presented below:

### STATEMENT OF NET ASSETS




### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS



Net assets decreased 6.7 percent on June 30, 2009 over the prior year. Total assets decreased 0.7 percent from the prior year and total liabilities rose 8.9 percent for the same period. Operating revenues increased at a lower rate than operating expenses in fiscal year 2008–2009 over the prior year, 1.8 percent and 6.5 percent, respectively. Net non-operating revenues and expenses decreased 49.3 percent in fiscal year 2008–2009 over the prior year, due primarily to the substantial decline in investment income from $146.7 million in fiscal year 2007–2008 to ($296.9) million in fiscal year 2008–2009. Research funding, fund raising for operational and capital needs, and construction funding through the North Carolina Higher Education Bond Referendum of 2000 continued to provide important resources for the University.

## USING THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the University as a whole. 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.

The University's *CAFR* includes the following three financial statements.

- *Statement of Net Assets*
- *Statement of Revenues, Expenses, and Changes in Net Assets*
- *Statement of Cash Flows*

Management's discussion and analysis provides information regarding the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

## CONDENSED STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year, includes all assets and liabilities of the University and segregates the assets and liabilities into current and non-current components. Net assets represent the difference between total assets and total liabilities and are one indicator of the University's current financial condition. The following table summarizes the University's assets, liabilities, and net assets on June 30, 2009 and June 30, 2008.

**ASSETS, LIABILITIES, AND NET ASSETS**
(Dollars in Thousands)

| | 2009 | 2008 | Percent Change |
|---|---|---|---|
| *Assets* | | | |
| Current assets | $1,126,655 | $1,200,432 | (6.1) |
| Non-current assets | | | |
| Endowment, restricted and other investments | 2,058,756 | 2,277,442 | (9.6) |
| Capital assets, net | 2,530,951 | 2,289,015 | 10.6 |
| Other non-current assets | 223,000 | 216,695 | 2.9 |
| **Total Assets** | **5,939,362** | **5,983,584** | **(0.7)** |
| *Liabilities* | | | |
| Current liabilities | 423,124 | 372,616 | 13.6 |
| Non-current liabilities | | | |
| Funds held in trust for pool participants | 940,560 | 781,049 | 20.4 |
| Long-term liabilities | 1,082,197 | 1,088,637 | (0.6) |
| Other non-current liabilities | 31,039 | 31,847 | (2.5) |
| **Total Liabilities** | **2,476,920** | **2,274,149** | **8.9** |
| *Net Assets* | | | |
| Invested in capital assets, net of related debt | 1,338,833 | 1,290,034 | 3.8 |
| Restricted | 1,423,329 | 1,747,431 | (18.5) |
| Unrestricted | 700,280 | 671,970 | 4.2 |
| **Total Net Assets** | **$3,462,442** | **$3,709,435** | **(6.7)** |

### Current Assets and Liabilities

The Statement of Net Assets shows that working capital, which is current assets less current liabilities, was $703.5 million at June 30, 2009, a decrease of 15 percent, or $124.3 million, over the previous year. While the working capital decline results from many factors, two significant changes were an increase of $47.1 million in short-term debt used as bridge financing for capital construction and a decrease of $96.7 million in short-term investments. The Statement of Net Assets details the current asset and current liability categories.

### Endowment, Restricted and Other Investments

Endowment investments decreased 22.4 percent during 2008–2009 and were $1.153 billion at June 30, 2009 and $1.485 billion at June 30, 2008, and include permanent endowments, funds internally designated as endowments and similar funds such as gift annuities and charitable trusts. Net assets of endowment and similar funds were $1.13 billion at June 30, 2009, and $1.46 billion for the prior year.

The endowment assets are invested with The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. ("Investment Fund"), which is reported as a governmental external investment pool in the financial statements. The Investment Fund is a 501(c)(3) non-profit corporation established to support the University by operating an investment pool for charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. It is expected that all or substantially all of the assets of the Investment Fund will be invested in the UNC Investment Fund, LLC (System Fund), which began functioning as a pooled investment fund effective January 1, 2003.

The investment objective is to earn an average real total return of at least 5.5 percent per year, net of all fees, over rolling five- and 10-year periods. The earnings distribution policy is to provide a stable source of spending support that is sustainable over the long term while preserving the purchasing power of the endowment investments. The earnings distribution rate was established at 5 percent of the previous year's market value, with annual increases based on inflationary factors. Each year's distribution is subject to a 4 percent floor and a 7 percent cap based on estimated fiscal year-end market value.

Restricted investments for external pool participants of $819.1 million at June 30, 2009 include funds of affiliated entities that are neither part of the University's reporting entity nor reported discretely but do invest through the System Fund. Other investments include bond reserves and related funds of $86.6 million.

Most of the University's endowment investments are currently managed within the System Fund, a pooled investment fund vehicle. Fiscal year 2008–2009 clearly represented the most difficult investment environment for college and university endowments in more than a generation.

The System Fund is designed to provide long term, stable rates of return (CPI plus 5.5 percent) on the invested assets through the use of a diversified portfolio strategy. As reported by UNC Management Company, Inc., the manager of the System Fund, the investment return on the endowment assets invested in the Fund for fiscal year 2008–2009 was (19.6) percent. The respective returns for fiscal years 2007–2008 and 2006–2007 were 8.0 percent and 23.4 percent.

The System Fund's (19.6) percent return for fiscal year 2008–2009 lagged the (17.1) percent return on the Strategic Investment Policy Portfolio (SIPP) benchmark by 2.5 percentage points. The SIPP is a blended portfolio benchmark that represents a weighted average of the appropriate market benchmarks for the Fund's strategic asset classes. The 70/30 "traditional" domestic benchmark is comprised of 70 percent invested in the S&P 500 equity index and 30 percent in the Barclay's Aggregate bond index also returned (17.1) percent in fiscal year 2008–2009.

The investment performance resulted in the System Fund earning a three year annualized return of 2.3 percent at June 30, 2009. This three year return measure compares with the corresponding measure of (0.1) percent for the SIPP and (3.7) percent for the 70/30 benchmark. For the five years ended June 30, 2009, the System Fund earned 8.1 percent annualized return compared to 5.3 percent for the SIPP and the 0.1 percent for the 70/30 benchmark.

A policy for the University Statutory Endowment was approved to address the provisions of the Uniform Prudent Management of Institutional Funds Act, which was adopted by the State of North Carolina in March 2009. The market values for 194 of the 1,036 endowments had fallen below book value; and the actual, annual earnings distribution from the University Statutory Endowment was subsequently reduced by 9.6 percent, or $5 million, from the calculated earnings distribution to avoid any principal invasion.

The policy indicates that campus departments shall examine the endowment-supported activity for upcoming fiscal year for possible deferment of program expenses, and then pursue alternative funding for essential activities, and finally shall consult with donors regarding other funding options for program support. Invasion of endowment principal is an option of last resort and will only be done consistent with approved limitations to preserve the endowment principal's value.

## Capital Assets and Debt Management

An essential aspect for enhancing and maintaining the University's academic, research, and service programs and its residential life is the development and renewal of its capital assets. The University Board of Trustees approved the campus master plan in March 2001 to guide the University's physical development in the 21st Century. The master plan and subsequent modifications mesh the critical pieces needed for smart growth in the 21st Century — transportation, parking, housing, utilities, and sustainability — with the program needs of a growing campus. The master plan combines the practical requirements of a research university with the beauty that inspired its founders. The University expects continued growth in the future, including advancing plans for Carolina North, a satellite campus on property about two miles north of main campus.

A summary of changes in capital assets is disclosed in Note 5. Capital assets, net of accumulated depreciation, at June 30, 2009 and June 30, 2008, were as follows:

**CAPITAL ASSETS** (Dollars in Thousands)

| | 2009 | 2008 | Percent Change |
|---|---|---|---|
| *Assets* | | | |
| Construction in progress | $614,308 | $665,936 | (7.8) |
| Land and other non-depreciable assets | 146,428 | 115,155 | 27.2 |
| Buildings | 1,425,456 | 1,184,264 | 20.4 |
| General infrastructure | 207,171 | 212,514 | (2.5) |
| Machinery and equipment | 137,588 | 111,146 | 23.8 |
| **Total** | **$2,530,951** | **$2,289,015** | **10.6** |

The University is engaged in a $2.3 billion capital construction program that began in 2000 and will continue through the next few years. The 167 projects in the capital program include major capital renewal of existing buildings and infrastructure to address both deferred maintenance and programmatic needs. The 103 completed projects total $1.1 billion, or 48 percent of the $2.3 billion capital construction program. The 24 projects under construction total $633 million or 27 percent, and the 40 projects under design represent $577 million or 25 percent. Capital funds resulting from North Carolina Higher Education Bonds have provided essential resources for construction. The University is directly investing in its capital construction program using a variety of other funding sources including general revenue bonds, cost reimbursements from research grants, internal reserves, and private gifts.

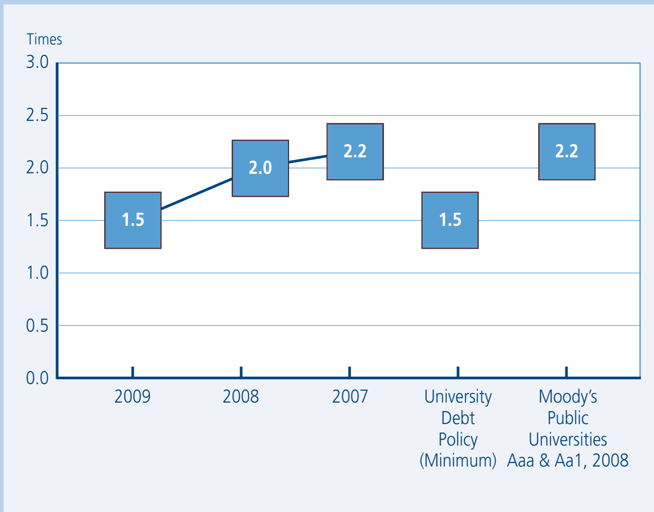
The University continues to use its commercial paper program to provide low-cost bridge financing for capital projects until gifts are received or in anticipation of an external bond issue. Commercial paper debt was $148.3 million at June 30, 2009 and $101.2 million at June 30, 2008. The University currently plans to issue a long-term bond during fiscal year 2009–2010 to refund a significant portion of outstanding commercial paper and to provide additional funds for capital projects.

The University maintains a combination of variable and fixed rate debt, consistent with its debt management policy. The interest rate on the commercial paper program for fiscal year 2008–2009 was 1.20 percent and for 2007–2008 was 3.19 percent. Interest rates on the University's variable rate, long-term bonds were 1.20 percent for fiscal year 2008–2009 and 2.84 percent for fiscal year 2007–2008. Interest rates on fixed rate, long-term bonds are disclosed in Note 8B of the financial statements. These rates reflect direct interest rates and do not reflect any impact from the interest rate swaps as referenced in Note 8C.

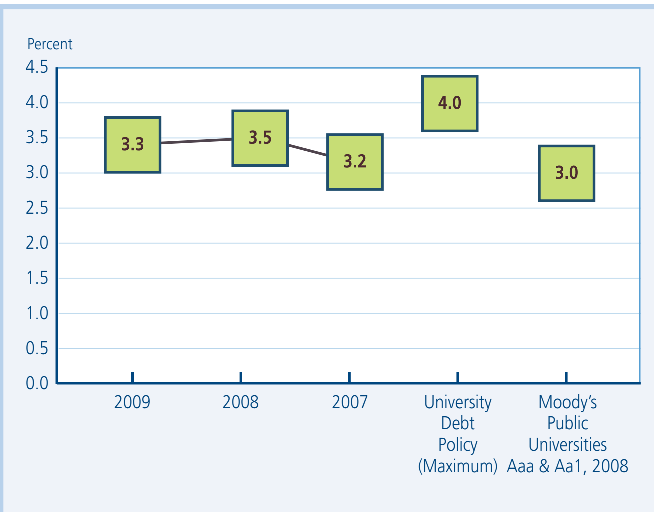
The University's debt policy uses two key ratios to measure debt capacity, financial health, and credit quality. The *expendable resources to debt ratio* measures unrestricted, expendable restricted, and temporarily restricted net assets to funded debt and serves as a relative indicator of financial health or cushion. The *debt service to operations ratio* provides an indicator of the University's ability to repay annual principal and interest relative to its overall operating expenses. Each ratio is compared to the University's debt policy standard and the appropriate peer group comparison for fiscal year 2007–2008 (the latest available numbers). The debt policy floor for the *expendable resources to debt ratio* is 1.5 times, the debt policy ceiling for the *debt service to operations ratio* is 4 percent. The *Summary of Ratios*, as included in the *Statistical Section*, includes the actual measures for both of these ratios, as well as other ratios, for the last eight fiscal years.

The University maintains long-term bond ratings of Aa1/AA+/AA+ from Moody's Investor Services, Standard & Poor's, and Fitch Ratings, respectively.

## EXPENDABLE RESOURCES TO DEBT




## DEBT SERVICES TO OPERATIONS



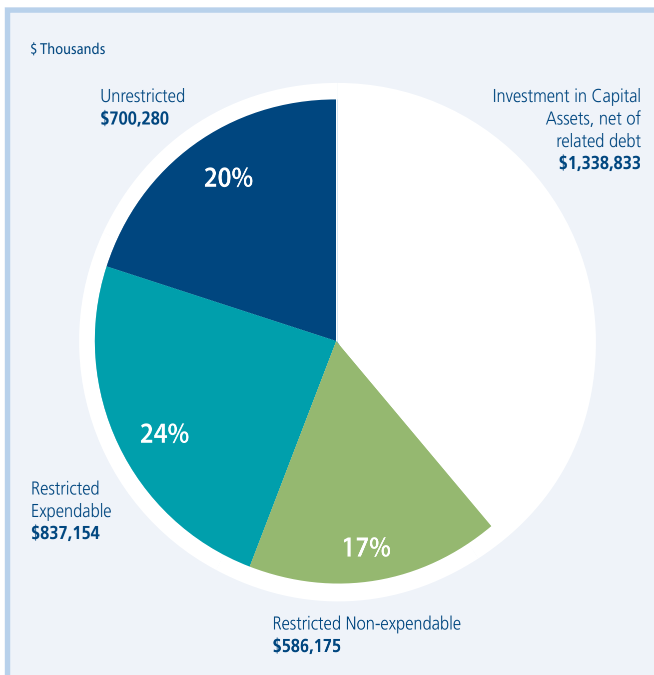

### Other Non-current Assets and Liabilities

Other non-current assets were $223 million at June 30, 2009 and $216.7 million at June 30, 2008, a 2.9 percent increase. Non-current liabilities were $2.1 billion at June 30, 2009 and $1.9 billion at June 30, 2008, and include funds held in trust for the University's affiliated foundations and other campuses in the UNC System and their affiliates of $940.6 million and $781 million, respectively. These entities are not part of the University's financial reporting entity and are not discretely presented, but the entities do invest through the System Fund. The increase in funds held in trust of 20.4 percent over the prior year resulted from additional participant contributions and new participants in the System Fund.

### Net Assets

Net assets represent the value of the University's assets after liabilities are deducted. The University's net assets were $3.5 billion at June 30, 2009, a decrease of $247 million over the prior year. Net assets invested in capital assets, net of related debt, 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. Non-expendable restricted net assets include endowment and similar 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. Expendable restricted net assets include resources in which the University is legally obligated to spend the resources in accordance with restrictions provided by external parties. Unrestricted net assets are not subject to externally imposed stipulations; however, most of these resources have been designated for particular academic, research, or other programs, as well as capital projects.

## 2009 NET ASSETS: $3,462,442



## CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statements of Revenues, Expenses, and Changes in Net Assets present the University's results of operations. The statements for the fiscal year ended June 30, 2009 and the prior year are summarized as follows:

**UNIVERSITY OPERATIONS** (Dollars in Thousands)

| | 2009 | 2008 | Percent Change |
|---|---|---|---|
| *Operating Revenues* | | | |
| Student tuition and fees, net | $236,960 | $218,763 | 8.3 |
| Grants and contracts | 624,420 | 614,513 | 1.6 |
| Sales and services, net | 559,471 | 564,078 | (0.8) |
| Other | 8,636 | 6,898 | 25.2 |
| **Total Operating Revenues** | **1,429,487** | **1,404,252** | **1.8** |
| **Operating Expenses** | 2,224,326 | 2,089,290 | 6.5 |
| **Operating Loss** | **(794,839)** | **(685,038)** | **16.0** |
| Non-operating Revenues (Expenses) | | | |
| State appropriations and state aid | 538,327 | 543,292 | (0.9) |
| Non-capital gifts and grants | 241,242 | 216,026 | 11.7 |
| Investment income (loss) | (296,904) | 146,650 | (302.5) |
| Interest and fees on debt | (52,465) | (53,311) | (1.6) |
| Other net non-operating revenues | 2,359 | 851 | 177.2 |
| **Income Before Other Changes** | **(362,280)** | **168,470** | **(315.0)** |
| Capital grants and appropriations | 36,346 | 60,091 | (39.5) |
| Capital gifts | 34,686 | 11,596 | 199.1 |
| Additions to permanent endowments | 44,255 | 60,242 | (26.5) |
| **Increase (Decrease) in Net Assets** | **(246,993)** | **300,399** | **(182.2)** |
| **Net Assets — July 1** | 3,709,435 | 3,409,036 | 8.8 |
| **Net Assets — June 30** | **$3,462,442** | **$3,709,435** | **(6.7)** |

*Fiscal year 2008–2009 revenues and other changes total $2,326,702 and expenses total $2,573,695.*
*Fiscal year 2007–2008 revenues and other changes total $2,443,000 and expenses total $2,142,601.*

### Operating Revenues

The operating revenues represent resources generated by the University in fulfilling its instruction, research, and public service missions. Student tuition and fees are reported net of the scholarship discount, which was $63.5 million for fiscal year 2008–2009 and $57.1 million for the prior year. Net revenues from student tuition and fees increased 8.3 percent over the prior year. Tuition rates increased for fiscal year 2008–2009 by 6.5 percent for undergraduate non-residents, 8.7 percent for graduate residents, and 4.3 percent for graduate non-residents. Tuition rates for undergraduate residents did not change.

Revenues from non-capital grants and contracts increased 8.5 percent over the prior year when operating and non-operating sources are combined. Discussion of grants and contracts in terms of awards provides another useful perspective. The University is among the nation's leading public research universities, with a diversified portfolio of research that attracted $716.2 million in sponsored program funding during fiscal year 2008–2009, a 5.6 percent increase over the previous year total of $678.2 million. As federal funding for research stalls and competition for investment from other sources increases, the University was able to sustain growth in awards.

The contracts and grants come primarily from the federal government, especially the National Institutes of Health (NIH) and the National Science Foundation. The NIH is traditionally the University's largest source of research funding. The University's continuing success in attracting outside contract and grant awards for research was an important and positive factor on the revenue side of the University's budget, especially given the current economic downturn. Another positive trend was the strong performance by the University's faculty in attracting new federal research funding as part of the American Recovery and Reinvestment Act (ARRA). Although ARRA awards comprise only a small portion of the fiscal year 2008–2009 awards, the University will pursue additional ARRA funding over the next two fiscal years.

The School of Medicine attracted the largest proportion of such funding at $349.6 million, or 48.8 percent of the University's total. Amongst individual departments and University-based centers and institutes, the Carolina Population Center had the highest research awards total, at $54.2 million. Other top-performing University units include the Gillings School of Global Public Health with an increase of 54 percent to $97 million, the School of Information and Library Science with an increase of 572 percent to $7.7 million, the Eshelman School of Pharmacy with an increase of 22 percent to $20.2 million, and the School of Dentistry with an increase of 25 percent to $13.5 million. The Vice Chancellor Research and Economic Development area increased 8 percent to $133.7 million.

Sales and services include the revenues of campus auxiliary operations such as student housing, student stores, student health services, the utilities system, and parking and transportation, as well as revenues from patient services provided by the professional health-care clinics. Other revenues represent operating resources not separately identified and include, for example, an assessment to the Investment Fund to support University administrative services.

## Operating Expenses

The University's operating expenses were $2.2 billion for the fiscal year ended June 30, 2009, an increase of 6.5 percent over the prior year. The operating expenses are reported by natural classification in the financial statements and by functional classification in the notes to the financial statements (Note 11). The following table illustrates the University's operating expenses by functional classification and by natural classification.

### OPERATING EXPENSES BY NATURE
(Dollars in Thousands)

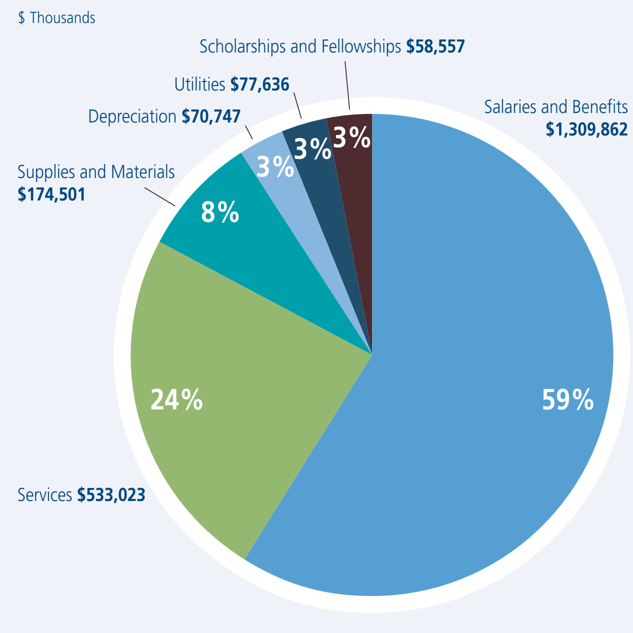
| | 2009 | 2008 | Percent Change |
|---|---|---|---|
| Salaries and benefits | $1,309,862 | $1,210,757 | 8.2 |
| Supplies and materials | 174,501 | 161,219 | 8.2 |
| Services | 533,023 | 526,646 | 1.2 |
| Scholarships and fellowships | 58,557 | 58,058 | 0.9 |
| Utilities | 77,636 | 66,197 | 17.3 |
| Depreciation | 70,747 | 66,413 | 6.5 |
| **Total Operating Expenses** | **$2,224,326** | **$2,089,290** | **6.5** |

### OPERATING EXPENSES BY FUNCTION
(Dollars in Thousands)

| | 2009 | 2008 | Percent Change |
|---|---|---|---|
| Instruction | $674,942 | $662,228 | 1.9 |
| Research | 398,754 | 358,199 | 11.3 |
| Public service | 126,427 | 95,618 | 32.2 |
| Academic support | 107,371 | 106,613 | 0.7 |
| Student services | 27,967 | 28,434 | (1.6) |
| Institutional support | 89,954 | 86,549 | 3.9 |
| Operations and maintenance of plant | 145,550 | 133,031 | 9.4 |
| Student financial aid | 58,557 | 58,058 | 0.9 |
| Auxiliary enterprises | 524,057 | 494,147 | 6.1 |
| Depreciation | 70,747 | 66,413 | 6.5 |
| **Total Operating Expenses** | **$2,224,326** | **$2,089,290** | **6.5** |

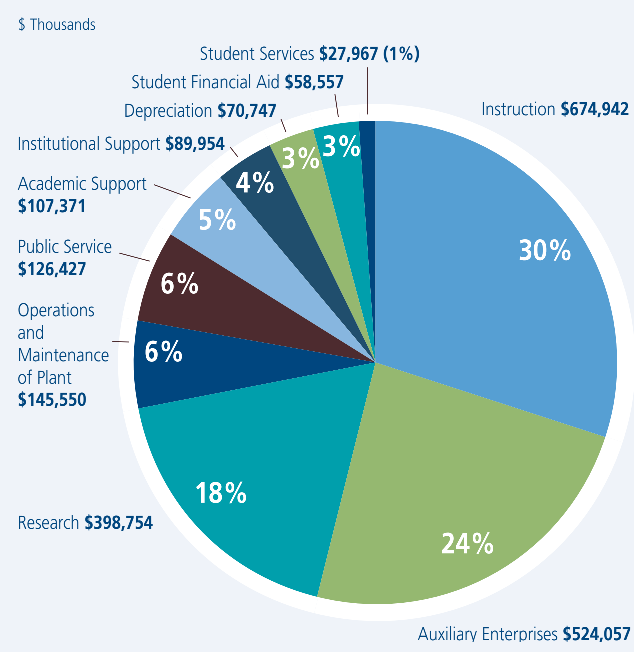
The following graph illustrates the University's operating expenses by the natural classification.

### 2009 OPERATING EXPENSES BY NATURE: $2,224,326




The following graph illustrates the University's operating expenses by function.

### 2009 OPERATING EXPENSES BY FUNCTION: $2,224,326



Operating expense categories changed at varying rates. Expenses for utilities for fiscal year 2008–2009 were impacted by significant increases in fuel costs such as coal and also by a number of new, University buildings that came online. Research expenses increased in keeping with the growth in sponsored awards. An objective of the University Cancer Research Fund is to accelerate progress in cancer prevention, early detection, and effective treatment; and community service efforts resulted in an increase in public service expenses.

## Non-operating Revenues and Expenses

State appropriations, non-capital gifts and grants, and investment income are considered non-operating because they were not generated by the University's principal, ongoing operations. For example, state appropriations were not generated by the University but were provided to help fund operating expenses.

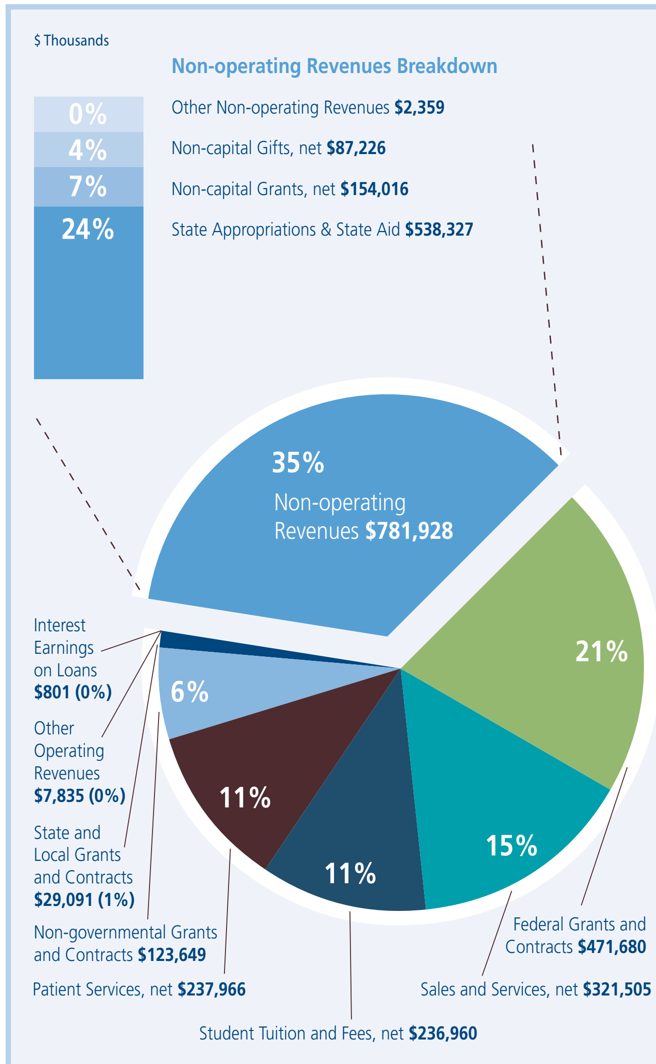
State appropriations, when including state aid of $20.1 million, totaled $538.3 million for fiscal year 2008–2009, a decrease of 0.9 percent from the prior year. The University received increases in state appropriations totaling $17.5 million to fund salary and benefit enhancements, $15.9 million for additional student enrollment and program enhancements, and $2.8 million for operating costs for new facilities. The reductions in state appropriations for fiscal year 2008–2009 totaled $41.2 million. These decreases in non-operating revenues from state appropriations resulted from state budget reductions and restrictions on the cash allotted to the University by the State of North Carolina. The reduced state appropriations required limitations on expenses that were achieved by a temporary restriction on employment of new, non-instructional staff, constraints on non-personnel expenses, and implementation of a 0.5 percent salary reduction for faculty and staff for fiscal year 2008–2009.

Non-capital gifts and grants increased 11.7 percent to $241.2 million and include expendable gifts and federal awards that are not considered to be operating revenues. Net investment income from fiscal year 2008–2009 of ($296.9) million, a significant decrease from 2007–2008, includes income and realized and unrealized gains and is net of realized and unrealized losses and investment management fees. For additional discussion, the reader may refer to the Endowment and Other Investments section of the Management's Discussion and Analysis.

## Total Operating and Non-operating Revenues

Operating and non-operating revenues such as state appropriations, non-capital grants, non-capital gifts, and investment income are used to fund University operations. The following chart illustrates the University's operating and non-operating revenues, which total $2.2 billion for fiscal year 2008–2009.

**2009 TOTAL REVENUES BY SOURCE: $2,211,415**



### Other Changes in Net Assets

Capital grants and appropriations of $36.3 million for fiscal year 2008–2009 and $60.1 million for fiscal year 2007–2008 are from statewide higher education bond proceeds and state appropriations for capital construction projects. These resources decreased as other resources are used and the pace of new constructions lessens. Capital gifts of $34.7 million for fiscal year 2008–2009 and $11.6 million for the prior year resulted from fund-raising efforts and also provided funding for construction projects. Non-expendable gifts and funds from the state's program to match gifts for distinguished professorship endowments resulted in additions to permanent endowments of $44.3 million during fiscal year 2008–2009 and $60.2 million during fiscal year 2007–2008.

## ECONOMIC OUTLOOK

The economic downturn during fiscal year 2008–2009 will also impact University resources for fiscal year 2009–2010. The University's fiscal state declined during fiscal year 2008–2009, but its overall financial condition is solid. The University will continue to maintain and generate sufficient resources to successfully fulfill its teaching, research, and service missions. Decisions to curtail or eliminate expenses have consistently protected the academic core from significant resource limitations. The University maintains low tuition levels in relative terms that provide important resources. Support from the state declined due to the economic downturn, but in relative terms higher education in North Carolina is soundly funded. Sponsored awards are a proven and reliable source in support of the University's research mission, philanthropic efforts continue to demonstrate success in a challenging environment, and invested funds provide an important distribution of earnings despite the declines in the global financial markets. The University's strong debt credit ratings of Aa1 and AA+ allow it to obtain competitive financing for capital construction.

Tuition rates increased for fiscal year 2009–2010 by 4.3 percent for undergraduate residents, 5.6 percent for undergraduate non-residents, 8 percent for graduate residents, and 2.1 percent for graduate non-residents. The University's academic standing allows it to continuously attract top students. For the first-class enrolling for the Fall 2009 semester, 79.6 percent graduated in the top 10 percent of their class. The University's CAFR Statistical Section includes historical data for important metrics including the ratio of accepted applications as a percentage of total applications and the ratio of enrolled students as a percentage of accepted applications.

The University has benefited from the historically strong support that public higher education receives from the Governor and General Assembly. These are extraordinary economic times, and the global financial crisis and its ripple effects created uncharted territory in many respects. Despite the economic challenges, the projected funding level for state appropriations for fiscal year 2009–2010 totals $536.9 million, which represents a decrease of 0.3 percent over fiscal year 2008–2009 actual state appropriations. This projected level of state appropriations funding includes a 5 percent limitation of $28.6 million in the cash allotted to the University. The 5 percent limitation is a cautionary action by the Governor given the current economic environment and may be restored later in fiscal year 2009–2010.

The projected funding level of $536.9 million is also net of required budget reductions of 7 percent, or $39.3 million. In implementing the budget reductions, the University has strived to protect the academic core and instructional programs and also reviewed campus operations to identify additional efficiencies to generate savings. General administrative support units on campus incurred reductions in budgeted state appropriations of 10 percent in order to minimize budget reductions for academic units. Academic support and related administrative areas incurred reductions of 6.7 percent and instructional units incurred reductions of 5.2 percent on average. Significant reductions in budgeted state appropriations for centers and institutes were mandated by legislative action and resulted in a budget reduction of 17.6 percent for the research and economic development area. While academic programs were appropriately protected in allocating the reduction in state appropriations, the University recognizes the increased focus necessary to ensure compliance and reporting requirements are met as well as daily administrative functions.

The projected funding level of $536.9 million for state appropriations included an increase of $6 million for enrollment increases and program enhancements. The fiscal year 2008–2009 pay increase of 3 percent for faculty and 2.75 percent for staff was the fifth consecutive year of base salary increases for all employees. There were no state appropriations provided for pay increases for fiscal year 2009–2010.

External funding from contracts and grants increased to $716.2 million in fiscal year 2008–2009. The federal research funding as part of the American Recovery and Reinvestment Act (ARRA) supports new and ongoing research at the University that will help jumpstart the state and national economies by creating jobs in addition to expanding our knowledge about diseases, human health and the environment. Since March of 2009 University researchers have received notifications about nearly 60 grants or awards totaling more than $20 million from virtually every major agency in the National Institutes of Health (NIH), as well as the National Science Foundation. That total doesn't yet include a five-year, $17.5 million grant for a solar energy consortium from the U.S. Department of Energy that started in August 2009.

The University's ARRA awards also include new NIH biomedical research and training initiatives that involve hiring high school and college students and teachers to spend their summers in University laboratories and medical facilities doing hands-on, cutting-edge research with top scientists. The University's early success in securing federal economic stimulus funding also reflects the growing ability of the faculty's expertise in multidisciplinary research, which attracts new contracts and grants despite the challenging budget climate. This strength has been a positive aspect of the University's financial picture while the campus copes with taking its share of budget reductions in state appropriations.

The University's investment management operation is separately organized as the UNC Management Company, Inc. (UNCMC), the non-profit corporation organized and operated as a 501(c)(3) entity, to provide investment management services and administrative services to the University and to the other campuses of the UNC System and their affiliated non-profit foundations as appropriate. This structure provides the ability to attract and retain investment professionals and increase the pool of funds and resulting investment returns. As of June 30, 2009, the UNCMC managed invested assets of $2.2 billion. Although the course the financial markets will take this fiscal year and beyond is not known, the UNCMC will manage the funds in a highly diversified manner to capture a fair share of the upside in asset classes that are strengthening while, more importantly, providing downside protection in periods of declining markets. The focus remains on the core mission of identifying the most attractive intermediate-to-long-term investment opportunities while also remaining highly aware of the elevated risks in the current financial environment.

Fund-raising has been a cornerstone resource for the University, and in a down economy becomes even more vital. The University's fund-raising efforts brought in $271.25 million in gifts in fiscal year 2008–2009. The total represented the University's second highest year in history for this type of support, funds that are immediately available to the University. Including pledges as well as gifts, the University raised $290.4 million in commitments. Commitments in fiscal year 2008–2009 helped the University create 21 endowed professorships, as well as a total of 86 undergraduate scholarships and graduate fellowships. The University had more than 75,000 donors for the fiscal year.

The University will continue to provide excellent teaching, research, and public service endeavors for students, citizens, and other constituents. Management has taken action to restructure and reduce the operating budget while protecting the academic foundation. Through prudent planning by management, most of the 300 positions being abolished were vacant. A policy to manage any shortfalls in endowment earnings was implemented, and some slowdowns in capital spending have been initiated. University operations were reviewed during fiscal year 2008–2009 to identify ways to streamline processes and be more effective. Some actions have been taken, and additional strategies are being assessed and an implementation plan is under development. The University's remains committed to sound financial and budgetary planning, protection and enhancement of its endowed and physical assets, as well as its observance of compliance and control standards.

## STATEMENT OF NET ASSETS June 30, 2009

| Assets | |
|---|---|
| *Current Assets* | |
| Cash and cash equivalents | $386,531,355 |
| Restricted cash and cash equivalents | 330,973,825 |
| Short-term investments | 107,673,223 |
| Restricted short-term investments | 94,830,921 |
| Receivables, net (Note 4) | 177,473,726 |
| Due from State of North Carolina component units | 2,204,498 |
| Inventories | 22,980,867 |
| Notes receivable, net (Note 4) | 3,793,101 |
| Other assets | 193,915 |
| **Total current assets** | **1,126,655,431** |
| *Non-current Assets* | |
| Restricted cash and cash equivalents | 143,832,681 |
| Receivables, net (Note 4) | 30,133,673 |
| Restricted due from primary government | 6,673,891 |
| Endowment investments | 1,153,045,145 |
| Restricted investments for external pool participants | 819,088,465 |
| Other investments | 86,622,629 |
| Notes receivable, net (Note 4) | 34,039,251 |
| Investment in joint venture | 8,318,917 |
| Capital assets, non-depreciable (Note 5) | 760,735,930 |
| Capital assets, depreciable, net (Note 5) | 1,770,215,275 |
| **Total non-current assets** | **4,812,705,857** |
| **Total assets** | **5,939,361,288** |

| Liabilities | |
|---|---|
| *Current Liabilities* | |
| Accounts payable and accrued liabilities (Note 6) | 116,363,522 |
| Due to primary government | 3,909,926 |
| Due to State of North Carolina component units | 4,668,792 |
| Deposits payable | 1,080,924 |
| Funds held for others | 617,538 |
| Unearned revenue | 36,351,781 |
| Interest payable | 4,318,008 |
| Short-term debt (Note 7) | 148,291,000 |
| Long-term liabilities — current portion (Note 8) | 107,522,144 |
| **Total current liabilities** | **423,123,635** |
| *Non-current Liabilities* | |
| U.S. government grants refundable | 31,039,068 |
| Funds held in trust for pool participants | 940,560,485 |
| Long-term liabilities (Note 8) | 1,082,196,532 |
| **Total non-current liabilities** | **2,053,796,085** |
| **Total liabilities** | **2,476,919,720** |
| **Total assets less liabilities** | **$3,462,441,568** |

*Continued in next column*

| Net Assets | |
|---|---|
| Invested in capital assets, net of related debt | $1,338,832,577 |
| Restricted for | |
| *Non-expendable* | |
| Scholarships and fellowships | 118,347,053 |
| Research | 17,129,137 |
| Library acquisitions | 27,785,904 |
| Endowed professorships | 272,397,658 |
| Departmental uses | 103,820,068 |
| Loans | 16,731,389 |
| Other | 29,963,465 |
| **Total non-expendable** | **586,174,674** |
| *Expendable* | |
| Scholarships and fellowships | 158,008,483 |
| Research | 27,324,887 |
| Library acquisitions | 43,315,889 |
| Endowed professorships | 256,813,161 |
| Departmental uses | 275,676,990 |
| Instruction and educational agreements | 15,559,111 |
| Plant improvements | 19,497,388 |
| Capital projects | 32,173,663 |
| Debt service | 8,785,000 |
| **Total expendable** | **837,154,572** |
| Unrestricted | 700,279,745 |
| **Total net assets** | **$3,462,441,568** |

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

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the fiscal year ended June 30, 2009

| | |
|---|---|
| **Revenues** | |
| *Operating Revenues* | |
| Student tuition and fees, net (Note 10) | $236,960,221 |
| Patient services, net (Note 10) | 237,966,115 |
| Federal grants and contracts | 471,680,201 |
| State and local grants and contracts | 29,091,332 |
| Non-governmental grants and contracts | 123,648,616 |
| Sales and services, net (Note 10) | 321,505,004 |
| Interest earnings on loans | 800,613 |
| Other operating revenues | 7,834,742 |
| **Total operating revenues** | **1,429,486,844** |
| **Expenses** | |
| *Operating Expenses* | |
| Salaries and benefits | 1,309,861,747 |
| Supplies and materials | 174,501,377 |
| Services | 533,022,475 |
| Scholarships and fellowships | 58,557,246 |
| Utilities | 77,635,759 |
| Depreciation | 70,747,110 |
| **Total operating expenses** | **2,224,325,714** |
| **Operating loss** | **(794,838,870)** |
| **Non-Operating Revenues (Expenses)** | |
| State appropriations | 518,276,506 |
| State aid — federal recovery funds | 20,050,854 |
| Non-capital grants — federal student financial aid | 10,169,434 |
| Other non-capital grants | 143,846,330 |
| Non-capital gifts, net (Note 10) | 87,226,074 |
| Investment loss (includes investment expense of $5,979,916) | (296,904,284) |
| Interest and fees on debt | (52,465,168) |
| Other non-operating revenues | 2,358,899 |
| **Net non-operating revenues** | **432,558,645** |
| **Loss before other revenues, expenses, gains or losses** | **(362,280,225)** |
| Capital appropriations | 12,539,260 |
| Refund of prior years capital appropriations | (3,317,088) |
| Capital grants | 27,123,666 |
| Capital gifts | 34,686,235 |
| Additions to endowments | 44,254,559 |
| **Decrease in net assets** | **(246,993,593)** |
| **Net Assets** | |
| **Net assets — July 1, 2008** | **3,709,435,161** |
| **Net assets — June 30, 2009** | **$3,462,441,568** |

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

## STATEMENT OF CASH FLOWS For the fiscal year ended June 30, 2009

| Cash Flows from Operating Activities | |
|---|---|
| Received from customers | $1,422,710,135 |
| Payments to employees and fringe benefits | (1,298,000,541) |
| Payments to vendors and suppliers | (751,496,170) |
| Payments for scholarships and fellowships | (58,557,246) |
| Loans issued | (5,186,410) |
| Collection of loans | 5,101,523 |
| Other receipts | 6,416,923 |
| **Net cash used by operating activities** | **(679,011,786)** |

| Cash Flows from Non-Capital Financing Activities | |
|---|---|
| State appropriations | 518,276,506 |
| State aid — federal recovery funds | 20,050,854 |
| Non-capital grants — federal student financial aid | 10,169,434 |
| Non-capital grants | 162,063,262 |
| Non-capital gifts | 96,695,368 |
| Additions to permanent endowments | 44,254,559 |
| Federal family education loans receipts | 123,877,274 |
| Federal family education loans disbursements | (124,342,802) |
| Related activity agency receipts | 1,050,009,944 |
| Related activity agency disbursements | (694,376,277) |
| **Cash provided by non-capital financing activities** | **1,206,678,122** |

| Cash Flows from Capital Financing and Related Financing Activities | |
|---|---|
| Proceeds from capital debt | 69,702,507 |
| Capital grants | 38,714,228 |
| Capital appropriations | 12,539,260 |
| Refund of prior years capital appropriations | (3,317,088) |
| Capital gifts | 3,345,989 |
| Acquisition and construction of capital assets | (287,565,273) |
| Principal paid on capital debt and leases | (56,988,407) |
| Interest and fees paid on capital debt and leases | (49,407,228) |
| **Net cash used by capital financing and related financing activities** | **(272,976,012)** |

| Cash Flows from Investing Activities | |
|---|---|
| Proceeds from sales and maturities of investments | 808,040,563 |
| Investment income | 48,583,965 |
| Purchase of investments and related fees | (1,039,722,010) |
| **Net cash used by investing activities** | **(183,097,482)** |
| **Net increase in cash and cash equivalents** | **71,592,842** |
| **Cash and cash equivalents, July 1, 2008** | **789,745,019** |
| **Cash and cash equivalents, June 30, 2009** | **$861,337,861** |

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

## Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities

| | |
|---|---|
| Operating loss | ($794,838,870) |
| **Adjustments to reconcile operating loss to net cash used by operating activities** | |
| Depreciation expense | 70,747,110 |
| Allowances, write-offs, and amortizations | 7,068,427 |
| *Changes in assets and liabilities* | |
| Receivables, net | 5,325,082 |
| Inventories | 408,616 |
| Notes receivable, net | (806,632) |
| Accounts payable and accrued liabilities | 33,358,709 |
| Due to primary government | (3,363,795) |
| U.S. government grants refundable | (807,764) |
| Unearned revenue | (4,290,099) |
| Compensated absences | 8,187,430 |
| **Net cash used by operating activities** | **($679,011,786)** |

## Non-Cash Investing, Capital, and Financing Activities

| | |
|---|---|
| Assets acquired through a gift | $31,340,246 |
| Assets acquired through the assumption of a capital lease | $84,205 |
| Change in fair value of investments | ($347,452,242) |
| Loss on disposal of capital assets | ($6,306,862) |

## Reconcilitation of Cash and Cash Equivalents

| | |
|---|---|
| *Current assets* | |
| Cash and cash equivalents | $386,531,355 |
| Restricted cash and cash equivalents | 330,973,825 |
| *Non-current assets* | |
| Restricted cash and cash equivalents | 143,832,681 |
| **Total cash and cash equivalents — June 30, 2009** | **$861,337,861** |

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

## STATEMENT OF FINANCIAL POSITION June 30, 2009

| COMPONENT UNITS | UNC-CH Arts and Sciences Foundation, Inc. | The Educational Foundation Scholarship Endowment Trust | The Medical Foundation of North Carolina, Inc. |
|---|---|---|---|
| **Assets** | | | |
| *Current assets* | | | |
| Cash and cash equivalents | $8,705,738 | $10,309,655 | $48,786,870 |
| Investments | | 149,483,378 | 63,357,920 |
| Unconditional promises to give, net | 10,103,523 | 8,121,291 | 3,081,097 |
| Contributions receivable from split-interest agreements | | 2,621,559 | |
| Accounts receivable | 131,040 | | |
| Funds held in trust | 1,055,479 | | |
| Accrued income receivable | 10,662 | | 68,622 |
| Prepaid expenses | | | 305,418 |
| Miscellaneous receivables | | | 176,877 |
| **Total current assets** | **20,006,442** | **170,535,883** | **115,776,804** |
| *Property and equipment* | | | |
| Building | | | 555,729 |
| Furniture and equipment | 595,729 | | 330,166 |
| Leasehold interest — building | 3,750,483 | | |
| Vehicle | 26,422 | | |
| Allowance for depreciation | (611,581) | | (344,500) |
| **Total property and equipment** | **3,761,053** | | **541,395** |
| *Other assets* | | | |
| Investments | 109,245,007 | | 63,511,749 |
| Unconditional promises to give, net | 9,153,573 | | 7,384,845 |
| Restricted cash | 4,030,929 | | 2,828,681 |
| Split-interest agreements | 1,409,000 | | 3,332,190 |
| Restricted investments | | | 373,343 |
| Cash surrender value of life insurance | | 1,999,269 | 250,885 |
| **Total other assets** | **123,838,509** | **1,999,269** | **77,681,693** |
| **Total non-current assets** | **127,599,562** | **1,999,269** | **78,223,088** |
| **Total assets** | **$147,606,004** | **$172,535,152** | **$193,999,892** |
| **Liabilities and Net Assets** | | | |
| *Current liabilites* | | | |
| Accounts payable | $18,445 | | $335,745 |
| Annuities payable | | $95,123 | |
| Accrued expenses | 182,800 | | 224,198 |
| **Total current liabilities** | **201,245** | **95,123** | **559,943** |
| Long-term debt | 1,400,000 | | |
| **Total liabilities** | **1,601,245** | **95,123** | **559,943** |
| *Net assets* | | | |
| Unrestricted | 14,735,793 | | 8,597,748 |
| Temporarily restricted | 54,416,312 | 70,058,589 | 113,391,928 |
| Permanently restricted | 76,852,654 | 102,381,440 | 71,450,273 |
| **Total net assets** | **146,004,759** | **172,440,029** | **193,439,949** |
| **Total liabilities and net assets** | **$147,606,004** | **$172,535,152** | **$193,999,892** |

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

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS For the fiscal year ended June 30, 2009

| COMPONENT UNITS | UNC-CH Arts and Sciences Foundation, Inc. | The Educational Foundation Scholarship Endowment Trust | The Medical Foundation of North Carolina, Inc. |
|---|---|---|---|
| **Support and Revenue** | | | |
| *Support* | | | |
| Contributions | $7,109,864 | $4,194,595 | $19,582,061 |
| Development assessment fee | 2,316,635 | | |
| Change in value of split-interest agreements | (1,024,558) | | (2,291,574) |
| Donated facilites | 82,675 | | |
| Actuarial adjustment of annuities payable | | 22,036 | |
| Endowment investment return designated for current operations | | 7,567,992 | |
| **Total support** | **8,484,616** | **11,784,623** | **17,290,487** |
| *Revenue* | | | |
| Interest and dividend income | | | 4,434,813 |
| Net unrealized and realized losses on investments | (28,598,291) | | (38,333,789) |
| Investment income | 1,580,589 | | |
| Other income | 78,144 | | 936,034 |
| **Total revenue** | **(26,939,558)** | | **(32,962,942)** |
| **Total support and revenue** | **(18,454,942)** | **11,784,623** | **(15,672,455)** |
| **Expenses** | | | |
| *Program services* | | | |
| Grants | 10,145,714 | | 20,435,129 |
| Scholarship expense distribution | | 7,556,100 | |
| Annuity payments | | 11,892 | |
| Other expenses | | 558,387 | |
| **Total program services** | **10,145,714** | **8,126,379** | **20,435,129** |
| *Supporting services* | | | |
| Fundraising expenses | 2,569,495 | | 1,175,686 |
| Management and general | 1,325,236 | | 1,048,884 |
| **Total supporting services** | **3,894,731** | | **2,224,570** |
| **Total expenses** | **14,040,445** | **8,126,379** | **22,659,699** |
| **Loss from bad debt** | **1,477,608** | | **2,728,982** |
| **Total expenses and bad debt** | **15,518,053** | **8,126,379** | **25,388,681** |
| **Changes in Nets Assets from Operations** | **(33,972,995)** | **3,658,244** | **(41,061,136)** |
| **Other Changes** | | | |
| Investment return in excess of amounts designated for current operations | | (44,607,148) | |
| **Changes in Net Assets** | | | |
| Unrestricted | (3,414,320) | | (5,838,272) |
| Temporarily restricted | (32,662,706) | (44,585,112) | (40,977,590) |
| Permanently restricted | 2,104,031 | 3,636,208 | 5,754,726 |
| **Total changes in net assets** | **(33,972,995)** | **(40,948,904)** | **(41,061,136)** |
| **Net Assets — Beginning of Year** | 179,977,754 | 213,388,933 | 234,501,085 |
| **Net Assets — End of Year** | **$146,004,759** | **$172,440,029** | **$193,439,949** |

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

# NOTES TO THE FINANCIAL STATEMENTS

June 30, 2009

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## NOTE 1 Significant Accounting Policies

### A Financial Reporting Entity

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

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

***Blended Component Units*** Although legally separate, The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Investment Fund), UNC Investment Fund, LLC (System Fund), UNC Management Company, Inc. (Management Company), The University of North Carolina at Chapel Hill Foundation, Inc. (UNC-Chapel Hill Foundation), The Kenan-Flagler Business School Foundation (Business School Foundation), U.N.C. Law Foundation, Inc. (Law Foundation), and The University of North Carolina at Chapel Hill School of Education Foundation, Inc. (School of Education Foundation), are reported as if they were part of the University.

The Investment Fund is governed by a board consisting of 11 ex-officio directors and four elected directors. Ex-officio directors include all of the members of the Board of Trustees of the Endowment Fund of the University, which includes the chairman of the University Board of Trustees and the chancellor, the vice chancellor for finance and administration, and the vice chancellor for university advancement. The UNC-Chapel Hill Foundation Board may, in its discretion, elect one or two of its at-large members to the Investment Fund Board. The Investment Fund supports the University by operating an investment fund for charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Because members of the Board of Directors of the Investment Fund are officials or appointed by officials of the University and the Investment Fund's primary purpose is to benefit the University and other organizations operated primarily to support the University, its financial statements have been blended with those of the University.

The System Fund was organized by the Investment Fund to allow the University, other constituent institutions of the University of North Carolina System (UNC System), affiliated foundations, associations, trusts, and endowments that support the University and the UNC System, to pool their resources and invest collectively in investment opportunities identified, structured and managed by the Management Company. The membership interests are offered only to government entities or tax-exempt organizations that are controlled by or support the University or UNC System. The Investment Fund contributed and assigned all of its assets to the System Fund effective January 1, 2003, in exchange for its membership interest in the System Fund. Upon such contribution and assignment, and in consideration thereof, the System Fund has assumed all liabilities and obligations of the Investment Fund in respect of such contributed assets. At June 30, 2009, the Investment Fund membership interest was approximately 79.1 percent of the System Fund total membership interests. Because the Investment Fund is the organizer and controlling member of the System Fund, the financial statements of the System Fund have been blended with those of the University.

The Management Company is a North Carolina non-profit corporation organized and operated exclusively to support the educational mission of the University. The Management Company provides investment management and administrative services to the University, UNC System, and institutions and affiliated tax-exempt organizations, and performs other functions for and generally carries out the purposes of the University. The Management Company is governed by five ex-officio directors and one to three additional directors as fixed or changed from time to time by the board, elected by the ex-officio directors. The ex-officio directors consist of the chancellor, the vice chancellor for finance and administration, the chairman of the University Board of Trustees, the chairman of the Board of Directors of the Investment Fund, and the president of the Management Company. Because members of the Board of Directors of the Management Company are officials or appointed by officials of the University and the Management Company's primary purpose is to benefit the

University and other organizations operated primarily to support the University, its financial statements have been blended with those of the University.

The UNC-Chapel Hill Foundation is governed by a 17-member board consisting of nine ex-officio directors and eight elected directors. Ex-officio directors include the chairman of the University Board of Trustees, the chancellor, the vice chancellor for finance and administration, and the vice chancellor for university advancement (non-voting). In addition, the Board of Trustees elects two ex-officio directors from among its own members as well as three ex-officio directors from the Board of Trustees of the Endowment Fund who have not otherwise been selected. The eight remaining directors are elected as members of the UNC-Chapel Hill Foundation Board of Directors by action of the ex-officio directors. The UNC-Chapel Hill Foundation aids, supports, and promotes teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because members of the Board of Directors of the UNC-Chapel Hill Foundation are officials or appointed by officials of the University and the UNC-Chapel Hill Foundation's sole purpose is to benefit the University, its financial statements have been blended with those of the University.

The Business School Foundation is governed by a board consisting of four ex-officio directors and four or more elected directors. Ex-officio directors include the dean of the Kenan-Flagler Business School (Business School), as well as the school's chief financial officer, associate dean of academic affairs, and associate dean for MBA Programs. The remaining directors are elected to the Business School Foundation Board of Directors by action of the ex-officio directors. The Business School Foundation aids, promotes, and supports the Kenan-Flagler Business School at the University. Because members of the Board of Directors of the Business School Foundation are officials or appointed by officials of the University, the financial statements of the Business School Foundation have been blended with those of the University.

The Law Foundation is governed by a board consisting of one ex-officio director, six appointed directors, and six elected directors. The ex-officio director is the dean of the School of Law of the University. The ex-officio director appoints six directors and the Board of Directors of the Law Alumni Association of the UNC, Inc. elects the other six directors. The Law Foundation provides support, fosters, and encourages the study and teaching of law at the University's Law School. Because a majority of the members of the Board of Directors of the Law Foundation are officials or appointed by officials of the University, the financial statements of the Law Foundation have been blended with those of the University.

The School of Education Foundation is governed by a board consisting of seven ex-officio directors and five elected directors. Ex-officio directors include the dean of the School of Education, as well as the school's associate dean for academic programs, assistant dean for external relations, assistant dean for administration and finance, director of alumni relations, president of the alumni council, and president-elect of the alumni council. The remaining directors are elected to the School of Education Foundation Board of Directors by action of the ex-officio directors. The School of Education Foundation aids, supports and promotes teaching, research, and service at the School of Education. Because members of the Board of Directors of the School of Education Foundation are officials or appointed by officials of the University, the financial statements of the School of Education Foundation have been blended with those of the University.

Separate financial statements for the Investment Fund, System Fund, the Management Company, and blended foundations may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

***Discretely Presented Component Units*** The Medical Foundation of North Carolina, Inc. (Medical Foundation), The Educational Foundation Scholarship Endowment Trust (Educational Foundation Trust), and the University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc. (Arts and Sciences Foundation) are legally separate, not for profit, tax-exempt organizations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Medical Foundation is governed by a board consisting of three ex-officio directors and 27 elected directors, which serve staggered terms. Its purpose is to support educational and research efforts of the University's medical school and UNC Hospitals. Historically, the University's medical school has been the major recipient of financial support from the Medical Foundation rather than UNC Hospitals. Although the University does not control the timing or amount of receipts from the Medical Foundation, the majority of resources or income that the Medical Foundation holds and invests is restricted to the University by the donors. Because these restricted resources held by the Medical Foundation can only be used by, or for the benefit of the University, the Medical Foundation is considered a component unit of the University.

The Arts and Sciences Foundation is governed by a board consisting of four ex-officio directors, 30 elected directors and such number of emeritus directors determined from time to time by the board of directors. The 30 elected directors are elected for staggered terms by the board of directors in office at the time of election. The purpose of the Arts and Sciences Foundation is to promote and support the University's College of Arts and Sciences. Although the University does not control the timing or amount of receipts from the Arts and Sciences Foundation, the majority of resources or income that the Arts and Sciences Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Arts and Sciences Foundation can only be used by, or for the benefit of the University, the Arts and Sciences Foundation is considered a component unit of the University.

The Educational Foundation Trust is governed by The Educational Foundation Scholarship Endowment Trust Agreement which designates the voting members of the Investment Committee of The Educational Foundation, Inc. as trustees. The Investment Committee consists of five members elected from the membership of the Educational Foundation, Inc. The Educational Foundation Trust operates solely to assist the University in providing financial assistance to students at the University. On an annual basis, the Board of Trustees of the Educational Foundation Trust appropriates a portion of the net appreciation on its assets to the Educational Foundation, Inc. in its capacity as agent for the Educational Foundation Trust. The distribution from the Educational Foundation Trust to the Educational Foundation, Inc. is then forwarded by the Educational Foundation, Inc. to the University to provide financial assistance to students at the University. Although the University does not control the timing or amount of receipts from the Educational Foundation Trust, the majority of resources or income that the Educational Foundation Trust holds and invests are restricted to the students of the University by the donors. Because these restricted resources held by the Educational Foundation Trust can only be used for the benefit of the students of the University, the Educational Foundation Trust is considered a component unit of the University.

The Medical Foundation, the Arts and Sciences Foundation, and the Educational Foundation Trust are private, non-profit organizations that report their financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2009, the Medical Foundation, Arts and Sciences Foundation, and the Educational Foundation Trust distributed in total $38,136,943 to the University for both restricted and unrestricted purposes. Complete financial statements for the Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust can be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

Other related foundations and similar non-profit 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.

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

## D Cash and Cash Equivalents

This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, 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. The fair values of all debt and equity securities with readily determinable fair market values are based on quoted market prices. Investments for which a readily determinable fair value does not exist include investments in certain commingled funds and limited partnerships. These investments are carried at estimated fair values as provided by the respective fund managers of these investments. The Management Company reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed. The net increase or decrease in the fair value of investments is recognized as a component of investment income.

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

Short-term investments include marketable securities representing the investment of cash that is available for current operations. A majority of this available cash is invested in the University's Temporary Pool, a governmental external investment pool.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity, 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 to patients for services provided by the UNC Physicians & Associates and the Dental Faculty Practices. 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 notes receivables from loans to students. Patients, pledges, and notes receivables are recorded net of the allowance for doubtful accounts. The accounts and other receivables are shown at book value with no provision for doubtful accounts considered necessary.

## G Inventories

Inventories held by the University are priced at cost or average cost except for the Student Stores inventory, which is valued at the lower of cost or market. Inventories consist of expendable supplies, postage, fuel held for consumption, textbooks, and other merchandise for resale.

## H Capital Assets

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for general infrastructure, 12 to 75 years for buildings, and 6 to 15 years for equipment.

The University's historic property, artworks, and literary collections are capitalized at cost or fair value at the date of donation. These properties and collections are considered inexhaustible and are therefore not depreciated.

## I Restricted Assets

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

## J 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. The assets associated with this liability are included in restricted investments for external pool participants, cash, and other similar asset accounts.

## K Funds Held in Trust by Others

Funds held in trust by others are resources neither in the possession nor the control of the University, but held and administered by an outside organization, with the University deriving income from such funds. Such funds established under irrevocable trusts where the University has legally enforceable rights or claims have not been recorded on the accompanying financial statements. The value of these assets at June 30, 2009 is approximately $22,238,815.

## L Non-current Long-term Liabilities

Non-current long-term liabilities include principal amounts of bonds payable, notes payable, capital lease obligations, annuity and life income payable, and compensated absences that are not scheduled to 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 straight-line method. The deferred losses on refunds are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs are expensed.

## M 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. 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.

When classifying compensated absences into current and non-current, leave is considered taken using a last-in, first-out (LIFO) method.

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.

## N 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 — Non-expendable*** Non-expendable 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.

## O 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 non-governmental programs, are recorded as either operating or non-operating 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.

### P Revenue and Expense Recognition

The University classifies its revenues and expenses as operating or non-operating 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 non-capital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Non-operating revenues include activities that have the characteristics of non-exchange transactions. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the University, as well as investment income, are considered non-operating since these are investing, capital or non-capital financing activities. Capital contributions are presented separately after non-operating revenues and expenses.

### Q 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 utility services, telecommunications, central stores, printing and copy centers, postal services, repairs, and maintenance 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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $664,095,473, which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a fund within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.8 years as of June 30, 2009. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2009 was $146,822. The carrying amount of the University's deposits not with the State Treasurer was $197,095,566 and the bank balance was $148,610,989. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2009, $145,701,143 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

## 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, UNC-Chapel Hill Foundation, Management Company, Investment Fund, System Fund, Business School Foundation, Law Foundation, School of Education Foundation, Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

Investments are subject to the following risks.

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

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

***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.

***Temporary Investment Pool (Temporary Pool)*** This is a fixed income portfolio managed by the UNC Management Company, Inc. (Management Company) and Novant Asset Management, LLC. It operates in conjunction with the University's Bank of America disbursing account for all special funds, funds received for services rendered by health care professionals, and endowment revenue funds (internal portion) and funds of affiliated foundations (external portion). Because of the participation in the Temporary Pool by affiliated foundations, it is considered a governmental external investment pool. The external portion of the Temporary Pool is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants. Fund ownership of the University's Temporary Pool is measured using the unit value method. Under this method, each participant's investment balance is determined on a market value basis. The Temporary Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the University Board of Trustees. The University has not provided legally binding guarantees during the period to support the value of the pool's investments. There are no involuntary participants in the Temporary Pool.

The Northern Trust Company (TNT) was the custodian for the Temporary Pool for the first half of the fiscal year. Effective January 1, 2009, the Bank of New York Mellon replaced TNT and provides the University with monthly statements defining income and market value information. Investments of the Temporary Pool are highly liquid and generally include U.S. government securities, collateralized mortgage obligations, corporate bonds, and mutual funds. The University has elected to invest a portion of the Temporary Pool assets in the University's Investment Fund.

By request to accounting services, participants may purchase and sell shares in the Temporary Pool at a fixed value of $1 per share. Generally, the purchase and sale of participation shares occur only at the beginning of the month. Income distribution is determined each quarter by multiplying the distribution rate by the average of the invested fund balance. Statements are provided via internet website to each participating account or group of accounts on a quarterly basis reflecting the participants' balance and income distribution. The rate earned by an account is dependent upon its account classification and investable fund balance. The rates are set in coordination between the Management Company and the vice chancellor for finance and administration.

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

## TEMPORARY POOL INVESTMENTS

| | | *Investment Maturities (in Years)* | | | |
|---|---|---|---|---|---|
| | Fair Value | Less Than 1 | 1 to 5 | 6 to 10 | More Than 10 |
| **Investment Type** | | | | | |
| *Debt Securities* | | | | | |
| U.S. Treasuries | $39,390,934 | | $39,390,934 | | |
| U.S. Agencies | 146,489,855 | $12,312,074 | 56,515,636 | $11,180,995 | $66,481,150 |
| Collateralized Mortgage Obligations | 49,862,939 | | | 421,518 | 49,441,421 |
| Asset-backed Securities | 4,783,196 | | | | 4,783,196 |
| Mutual Bond Funds | 14,412,763 | | 8,525,434 | 5,800,870 | 86,459 |
| Domestic Corporate Bonds | 2,260,655 | | | | 2,260,655 |
| **Total Debt Securities** | **257,200,342** | **$12,312,074** | **$104,432,004** | **$17,403,383** | **$123,052,881** |
| *Other Securities* | | | | | |
| Domestic Stocks | 30,000 | | | | |
| **Total Temporary Pool Investments** | **$257,230,342** | | | | |

At June 30, 2009, investments in the Temporary Pool had the following credit quality distribution for securities with credit exposure:

| | Fair Value | AAA, Aaa | AA, Aa | A | BBB, Baa | BB/Ba and below | Unrated |
|---|---|---|---|---|---|---|---|
| U.S. Agencies | $146,489,855 | | | | | | $146,489,855 |
| Collateralized Mortgage Obligations | 49,862,939 | $11,731,648 | $2,969,430 | $12,013,974 | $5,268,922 | $13,567,960 | 4,311,005 |
| Asset-backed Securities | 4,783,196 | | 2,471,550 | 436,441 | 153,085 | 1,722,120 | |
| Mutual Bond Funds | 14,412,763 | 9,162,079 | 1,532,514 | 3,718,170 | | | |
| Domestic Corporate Bonds | 2,260,655 | | | 267,438 | 500,000 | 1,493,217 | |
| **Total** | **$217,809,408** | **$20,893,727** | **$6,973,494** | **$16,436,023** | **$5,922,007** | **$16,783,297** | **$150,800,860** |

*Rating Agency: Moody's/Standard & Poor's/Fitch*

Since a separate annual financial report of the Temporary Investment Pool has not been and is not planned to be issued, the following additional disclosures are being provided in the University's financial statements.

The Temporary Investment Pool's Statement of Net Assets and Statement of Operations and Changes in Net Assets as of and for the period ended June 30, 2009, are as follows:

### STATEMENT OF NET ASSETS June 30, 2009

| | Amount |
|---|---|
| *Assets* | |
| Cash in Bank | $80,841,437 |
| State Treasurer Investment Fund | 85,000,000 |
| Accounts Receivable | 33 |
| Accrued Investment Income | 2,253,923 |
| Investment Fund | 38,078,963 |
| Investments | 257,230,342 |
| **Total Assets** | **$463,404,698** |
| *Liabilities* | |
| Deferred Income | $863,836 |
| Accounts Payable | 5,052,495 |
| **Total Liabilities** | 5,916,331 |
| *Net Assets* | |
| Internal Portion | 276,643,216 |
| External Portion | 180,845,151 |
| **Total Net Assets** | 457,488,367 |
| **Total Liabilities and Net Assets** | **$463,404,698** |

### STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS For the fiscal year ended June 30, 2009

| | Amount |
|---|---|
| *Increase in Net Assets from Operations* | |
| Revenues: Investment Income | $18,166,197 |
| Expenses: Investment Management | (769,900) |
| **Net Increase in Net Assets Resulting from Operations** | 17,396,297 |
| *Distributions to Participants* | |
| Distributions Paid and Payable | (17,396,297) |
| *Share Transactions* | |
| Net Share Purchases | 58,840,399 |
| **Total Increase in Net Assets** | 58,840,399 |
| *Net Assets* | |
| Beginning of Year | 398,647,968 |
| **End of Year** | **$457,488,367** |

***Intermediate Investment Pool*** Established in October 2007, this is a portfolio managed by the UNC Management Company, Inc. (Management Company) and is comprised of fixed income investments and investments with the University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. Participation in the Intermediate Pool is open to all participants that are eligible for the UNC Chapel Hill Temporary Investment Pool, however currently the University is the only member. Fund ownership of the University's Intermediate Pool is measured using the unit value method. Under this method, each participant's investment balance is determined on a market value basis. The Intermediate Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the University Board of Trustees. The University has not provided legally binding guarantees during the period to support the value of the pool's investments. There are no involuntary participants in the Intermediate Pool.

The Northern Trust Company (TNT) was the custodian for the Intermediate Pool for the first half of the fiscal year. Effective January 1, 2009, the Bank of New York Mellon replaced TNT and provides the University with monthly statements defining income and market value information. Generally a minimum of 45 percent and a maximum of 65 percent of the market value of the Intermediate Pool will be invested in the University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. The remaining assets of the Intermediate Pool will be invested primarily (at least 80 percent) in cash, money market instruments, high quality bonds, and other high quality fixed income instruments in accordance with the Investment Guidelines.

By written request to university accounting services, the purchase and sale of participation shares occur at the beginning of the month. As calculated by the Management Company, returns net of fees and expenses will be allocated 85 percent to the Intermediate Pool participants and 15 percent to the University. Statements are provided by the Management Company to each participant on a monthly basis reflecting the participants' balance and investment activity.

The following table presents the fair value of the fixed income segment of the Intermediate Pool investments by type and investments subject to interest rate risk at June 30, 2009.

## INTERMEDIATE POOL INVESTMENTS

| | | | *Investment Maturities (in Years)* | | |
|---|---|---|---|---|---|
| | Fair Value | Less Than 1 | 1 to 5 | 6 to 10 | More Than 10 |
| **Investment Type** | | | | | |
| *Debt Securities* | | | | | |
| Mutual Bond Funds | $6,771,203 | | | $6,771,203 | |
| Money Market Mutual Funds | 6,665,683 | $6,665,683 | | | |
| **Total Intermediate Pool Investments** | **$13,436,886** | **$6,665,683** | **$0** | **$6,771,203** | **$0** |

At June 30, 2009, investments in the Intermediate Pool had the following credit quality distribution for securities with credit exposure:

| | Fair Value | AAA, Aaa | AA, Aa |
|---|---|---|---|
| Mutual Bond Funds | $6,771,203 | | $6,771,203 |
| Money Market Mutual Funds | 6,665,683 | $6,665,683 | |
| **Total** | **$13,436,886** | **$6,665,683** | **$6,771,203** |

*Rating Agency: Moody's*

At June 30, 2009, the Intermediate Investment Pool had investments of $18,307,784 in the Investment Fund.

***UNC-Chapel Hill Foundation Investment Fund, Inc. (Investment Fund)*** This is a North Carolina non-profit corporation exempt from income tax pursuant to Section 501(c)(3). It was established in January 1997 and is classified as a governmental external investment pool. The pool is utilized to manage the investments for charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The University's Endowment, UNC-Chapel Hill Foundation, Business School Foundation, School of Education Foundation, Law Foundation, Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust are participants in the Investment Fund and are included in the University's reporting entity (internal portion). Other affiliated organizations (external portion) in the Investment Fund are not included in the University's reporting entity. Fund ownership of the University's Investment Fund is measured using the unit value method. Under this method, each participant's investment balance is determined on a market value basis. The external portion of the Investment Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants.

The Investment Fund is not registered with the SEC and is not subject to any formal oversight other than that provided by the Investment Fund Board of Directors (See Note 1A).

The Investment Fund is the primary participant of UNC Investment Fund, LLC (System Fund) and on a monthly basis receives a unitization report from the Management Company defining change in book and market value, applicable realized gains and losses and expenses. The Investment Fund uses a unit basis to determine each participant's market value and to distribute the fund's earnings according to the fund's spending policy. There are no involuntary participants in the Investment Fund. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Investment Fund. The audited financial statements for the Investment Fund may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The Investment Fund consists of an approximately 79.1 percent membership in the System Fund categorized on the next page.

***UNC Investment Fund, LLC (System Fund)*** This is a limited liability company organized under the laws of the State of North Carolina. It was established in December 2002 by the Investment Fund and is classified as a governmental external investment pool. The pool is utilized to manage the investments for The University of North Carolina, its constituent institutions, and affiliates of the constituent institutions. This includes charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support these institutions. The Investment Fund, with an approximately 79.1 percent membership interest as of June 30, 2009, is the predominant member of the System Fund. The University's reporting entity portion of the Investment Fund is characterized as the internal portion. Other affiliated organizations in the Investment Fund in addition to other members of the System Fund not included in the University's reporting entity are characterized as the external portion. The external portion of the System Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants. Membership interests of the System Fund are measured using the unit value method. Under this method, each member's investment balance is determined on a market value basis.

The System Fund is not registered with the SEC and is not subject to any formal oversight other than that provided by the Investment Fund as the controlling member and the Management Company (See Note 1A). Effective January 1, 2003, the Management Company entered into an investment management services agreement with the System Fund and will provide investment management and administrative services.

The Northern Trust Company (TNT) was the custodian for the System Fund for the first half of the fiscal year. Effective January 1, 2009, the Bank of New York Mellon replaced TNT and provides the University with monthly statements defining income and market value information. The System Fund uses a unit basis to determine each member's market value and to distribute the fund's earnings. There are no involuntary participants in the System Fund. The University has not provided or obtained any legally binding guarantees during the period to support the value for the System Fund investments. The audited financial statements for the System Fund may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

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

## SYSTEM FUND POOL INVESTMENTS

| | | *Investment Maturities (in Years)* | | | |
|---|---|---|---|---|---|
| | Fair Value | Less Than 1 | 1 to 5 | 6 to 10 | More Than 10 |
| **Investment Type** | | | | | |
| *Debt Securities* | | | | | |
| U.S. Treasuries | $70,567,005 | $8,693,534 | $36,928,486 | | $24,944,985 |
| U.S. Agencies | 14,096,021 | | | $48,377 | 14,047,644 |
| Collateralized Mortgage Obligations | 2,721,354 | | | | 2,721,354 |
| Mutual Bond Funds | 1,354,094 | | | 1,354,094 | |
| Domestic Corporate Bonds | 19,580,647 | | 468,880 | 2,612,015 | 16,499,752 |
| Foreign Government Bonds | 10,285,682 | | | 10,285,682 | |
| **Total Debt Securities** | **118,604,803** | **$8,693,534** | **$37,397,366** | **$14,300,168** | **$58,213,735** |
| *Other Securities* | | | | | |
| International Mutual Funds | 155,154,658 | | | | |
| Other Mutual Funds | 54,398,530 | | | | |
| Real Estate Investment Trust | 166,540 | | | | |
| Hedge Funds | 992,915,224 | | | | |
| Limited Partnerships | 783,862,879 | | | | |
| Domestic Stocks | 90,286,572 | | | | |
| Foreign Stocks | 588,737 | | | | |
| **Total System Fund Pool Investments** | **$2,195,977,943** | | | | |

The System Fund includes $189,973,311 in commingled securities and $28,182,194 in high-yield bonds. The commingled securities are subject to additional risk since they hold domestic corporate bonds, bonds issued from abroad, or mortgage-backed securities. Bonds issued from overseas carry additional risk due to currency fluctuations, interest rates of foreign countries, or political risks. Corporate bonds are also subject to interest rate risk as well as the financial risk inherent in any company. Mortgage-backed bonds are subject to the interest rate risk within the pools of collateralized securities. All of these factors may impact interest rates and therefore have a higher risk. The high-yield bonds have both long and short positions. These strategies carry additional risk since high-yield securities often have a higher rate of default to accompany their higher interest rates. These factors make the investments more sensitive to interest rate movements than investment grade domestic bonds.

At June 30, 2009, investments in the System Fund Pool had the following credit quality distribution for securities with credit exposure:

| | Fair Value | AAA, Aaa | AA, Aa | A | BBB, Baa | BB/Ba and below | Unrated |
|---|---|---|---|---|---|---|---|
| U.S. Agencies | $14,096,021 | | | | | | $14,096,021 |
| Collateralized Mortgage Obligations | 2,721,354 | $957,390 | | | | $1,763,964 | |
| Mutual Bond Funds | 1,354,094 | 1,354,094 | | | | | |
| Domestic Corporate Bonds | 19,580,647 | 653,860 | $2,519,685 | $9,070,015 | $7,337,087 | | |
| Foreign Government Bonds | 10,285,682 | | 10,285,682 | | | | |
| **Total** | **$48,037,798** | **$2,965,344** | **$12,805,367** | **$9,070,015** | **$7,337,087** | **$1,763,964** | **$14,096,021** |

*Rating Agency: Moody's/Standard & Poor's/Fitch*

***Foreign Currency Risk*** At June 30, 2009, the System Fund Pool's exposure to foreign currency risk is as follows:

| | Currency | Fair Value (U.S. Dollars) |
|---|---|---|
| Limited Partnerships | Euro | $52,516,467 |
| Limited Partnerships | British Pound Sterling | 4,996,110 |
| Limited Partnerships | Australian Dollar | 1,428,390 |
| Limited Partnerships | Canadian Dollar | 305,265 |
| Foreign Stock | Canadian Dollar | 175,051 |
| **Total** | | **$59,421,283** |

In addition to the foreign currency risk disclosed above, the System Fund invests in hedge funds containing securities with fair values that are highly sensitive interest rate changes.

***Non-Pooled Investments*** The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009.

## NON POOLED INVESTMENTS

| | | Investment Maturities (in Years) | | | |
|---|---|---|---|---|---|
| | Fair Value | Less Than 1 | 1 to 5 | 6 to 10 | More Than 10 |
| **Investment Type** | | | | | |
| *Debt Securities* | | | | | |
| U.S. Treasuries | $256,675 | $35,470 | $70,241 | $69,973 | $80,991 |
| U.S. Agencies | 318,564 | 39,775 | 223,226 | 55,563 | |
| Mortgage Pass Throughs | 227,714 | | | 129,479 | 98,235 |
| Collateralized Mortgage Obligations | 54,700 | | | | 54,700 |
| State and Local Government | 94,937 | | | | 94,937 |
| Asset-backed Securities | 35,000 | | | | 35,000 |
| Mutual Bond Funds | 5,556,900 | | 275,990 | 4,501,811 | 779,099 |
| Money Market Mutual Funds | 46,162,103 | 46,162,103 | | | |
| Domestic Corporate Bonds | 293,759 | | 23,054 | 270,705 | |
| Foreign Corporate Bonds | 108,865 | | 24,865 | 27,174 | 56,826 |
| Foreign Government Bonds | 28,581 | | | | 28,581 |
| **Total Debt Securities** | **53,137,798** | **$46,237,348** | **$617,376** | **$5,054,705** | **$1,228,369** |
| *Other Securities* | | | | | |
| International Mutual Funds | 7,418,513 | | | | |
| Other Mutual Funds | 6,832,662 | | | | |
| Investments in Real Estate | 1,783,303 | | | | |
| Real Estate Investment Trust | 135,898 | | | | |
| Limited Partnerships | 2,302,309 | | | | |
| Domestic Stocks | 12,062,147 | | | | |
| Foreign Stocks | 208,195 | | | | |
| Other | 17,753,776 | | | | |
| **Total Non-Pooled Investments** | **$101,634,601** | | | | |

At June 30, 2009, the University's Non-Pooled investments had the following credit quality distribution for securities with credit exposure:

| | Fair Value | AAA, Aaa | AA, Aa | A | BBB, Baa | BB/Ba and below | Unrated |
|---|---|---|---|---|---|---|---|
| U.S. Agencies | $318,564 | $164,273 | | | | | $154,291 |
| Mortgage Pass Throughs | 227,714 | 191,310 | | $36,404 | | | |
| Collateralized Mortgage Obligations | 54,700 | 42,702 | | 11,998 | | | |
| State and Local Government | 94,937 | | | 94,937 | | | |
| Asset-backed Securities | 35,000 | | | 35,000 | | | |
| Mutual Bond Funds | 5,556,900 | 198,548 | $4,410,514 | 309,520 | $240,480 | $397,838 | |
| Money Market Mutual Funds | 46,162,103 | 46,112,761 | | 49,342 | | | |
| Domestic Corporate Bonds | 293,759 | | 103,770 | 116,798 | | 73,191 | |
| Foreign Corporate Bonds | 108,865 | | 52,039 | | | 56,826 | |
| Foreign Government Bonds | 28,581 | | | 28,581 | | | |
| **Total** | **$52,881,123** | **$46,709,594** | **$4,566,323** | **$682,580** | **$240,480** | **$527,855** | **$154,291** |

*Rating Agency: Moody's/Standard & Poor's/Fitch*

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

**TOTAL INVESTMENTS**

| | Fair Value |
|---|---|
| **Investment Type** | |
| *Debt Securities* | |
| U.S. Treasuries | $110,214,614 |
| U.S. Agencies | 160,904,440 |
| Mortgage Pass Throughs | 227,714 |
| Collateralized Mortgage Obligations | 52,638,993 |
| State and Local Government | 94,937 |
| Asset-backed Securities | 4,818,196 |
| Mutual Bond Funds | 28,094,960 |
| Money Market Mutual Funds | 52,827,786 |
| Domestic Corporate Bonds | 22,135,061 |
| Foreign Corporate Bonds | 108,865 |
| Foreign Government Bonds | 10,314,263 |
| **Total Debt Securities** | **442,379,829** |
| *Other Securities* | |
| International Mutual Funds | 162,573,171 |
| Other Mutual Funds | 61,231,192 |
| Investments in Real Estate | 1,783,303 |
| Real Estate Investment Trust | 302,438 |
| Hedge Funds | 992,915,224 |
| Limited Partnerships | 786,165,188 |
| Domestic Stocks | 102,378,719 |
| Foreign Stocks | 796,932 |
| Other | 17,753,776 |
| **Total Investments** | **$2,568,279,772** |

Total investments include $307,019,389 held in the System Fund for the component units that are discretely presented in the accompanying financial statements. The University's reporting entity, including the three discretely presented component units, comprises 64.9 percent of the System Fund.

***Component Units*** Investments of the University's discretely presented component unit, the Medical Foundation of North Carolina, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Medical Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments not held by the University:

| Investment Type | Carrying Value |
|---|---|
| Certificates of Deposit | $508,738 |
| Mutual Funds | 60,280,228 |
| Private Equities | 17,120,201 |
| **Total Investments** | **$77,909,167** |

## NOTE 3 Endowment Investments

Substantially all of the investments of the University's endowment funds are pooled in the Investment Fund. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may appropriate expenditures from eligible non-expendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible non-expendable endowment funds. Investment return of the University's pooled endowment funds is predicated on the total return concept (yield plus appreciation). Annual distributions from the Investment Fund to the University's pooled endowment funds are generally based on an adopted distribution policy. Under this policy, the prior year distribution is increased by the rate of inflation as measured by the Consumer Price Index (CPI). Each year's distribution, however, is subject to a minimum of 4 percent and a maximum of 7 percent of the pooled endowment fund's average market value for the previous year.

To the extent that the total return for the current year exceeds the distribution, the excess is added to principal. If current year earnings do not meet the distribution requirements, the University uses accumulated income and appreciation to make up the difference. At June 30, 2009, accumulated income and appreciation of $396,370,072 was available in the University's pooled endowment funds of which $357,031,088 was restricted to specific purposes.

## NOTE 4 Receivables

Receivables at June 30, 2009, were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|---|---|---|---|
| *Current Receivables* | | | |
| Students | $3,797,016 | | $3,797,016 |
| Patients | 104,883,489 | $56,536,816 | 48,346,673 |
| Accounts | 61,992,013 | | 61,992,013 |
| Intergovernmental | 39,231,484 | | 39,231,484 |
| Pledges | 18,179,259 | 454,482 | 17,724,777 |
| Investment Earnings | 5,697,610 | | 5,697,610 |
| Interest on Loans | 654,938 | | 654,938 |
| Other | 29,215 | | 29,215 |
| **Total Current Receivables** | **$234,465,024** | **$56,991,298** | **$177,473,726** |
| *Non-current Receivables* | | | |
| **Pledges** | **$30,906,331** | **$772,658** | **$30,133,673** |
| *Notes Receivable* | | | |
| **Notes Receivable — Current** | | | |
| Federal Loan Programs | $3,289,281 | $214,520 | $3,074,761 |
| Institutional Student Loan Programs | 775,940 | 57,600 | 718,340 |
| **Total Notes Receivable — Current** | **$4,065,221** | **$272,120** | **$3,793,101** |
| **Notes Receivable — Non-current** | | | |
| Federal Loan Programs | $30,594,739 | $1,930,678 | $28,664,061 |
| Institutional Student Loan Programs | 5,520,268 | 145,078 | 5,375,190 |
| **Total Notes Receivable — Non-Current** | **$36,115,007** | **$2,075,756** | **$34,039,251** |

Pledges are receivable over varying time periods ranging from one to 10 years, and have been discounted based on a projected interest rate of 2.30 percent for the outstanding periods, and allowances are provided for the amounts estimated to be uncollectible.

Scheduled receipts, the discounted amount under these pledge commitments, and allowances for uncollectible pledges are as follows:

| Fiscal Year | Fair Value |
|---|---|
| 2010 | $18,179,259 |
| 2011 | 12,414,867 |
| 2012 | 10,806,143 |
| 2013 | 7,107,977 |
| 2014 | 760,575 |
| 2015–2019 | 1,965,042 |
| **Total Pledge Receipts Expected** | **51,233,863** |
| Less Discount Amount Representing Interest (2.30% Rate of Interest) | 2,148,273 |
| **Present Value of Pledge Receipts Expected** | **49,085,590** |
| Less Allowance for Uncollectible | 1,227,140 |
| **Pledges Receivable** | **$47,858,450** |

## NOTE 5 Capital Assets

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

| | Balance 07/01/08 | Increases | Decreases | Balance 06/30/09 |
|---|---|---|---|---|
| *Capital Assets, Non-depreciable* | | | | |
| Land | $28,452,957 | $10,706,840 | $727,859 | $38,431,938 |
| Art, Literature, and Artifacts | 70,094,973 | 4,074,700 | 6,322 | 74,163,351 |
| Construction in Progress | 665,936,094 | 160,927,191 | 212,554,807 | 614,308,478 |
| Intangible | 16,607,286 | 17,224,877 | | 33,832,163 |
| **Total Capital Assets, Non-depreciable** | **781,091,310** | **192,933,608** | **213,288,988** | **760,735,930** |
| *Capital Assets, Depreciable* | | | | |
| Buildings | 1,729,423,725 | 287,785,128 | 2,610,267 | 2,014,598,586 |
| Machinery and Equipment | 266,026,906 | 44,708,710 | 15,089,561 | 295,646,055 |
| General Infrastructure | 416,156,039 | 6,117,085 | | 422,273,124 |
| **Total Capital Assets, Depreciable** | **2,411,606,670** | **338,610,923** | **17,699,828** | **2,732,517,765** |
| *Less Accumulated Depreciation/Amortization for* | | | | |
| Buildings | 545,159,352 | 45,714,255 | 1,731,025 | 589,142,582 |
| Machinery and Equipment | 154,881,007 | 13,572,913 | 10,396,122 | 158,057,798 |
| General Infrastructure | 203,642,168 | 11,459,942 | | 215,102,110 |
| **Total Accumulated Depreciation** | **903,682,527** | **70,747,110** | **12,127,147** | **962,302,490** |
| **Total Capital Assets, Depreciable, Net** | **1,507,924,143** | **267,863,813** | **5,572,681** | **1,770,215,275** |
| **Capital Assets, Net** | **$2,289,015,453** | **$460,797,421** | **$218,861,669** | **$2,530,951,205** |

## NOTE 6 Accounts Payable and Accrued Liabilities

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

| | Amount |
|---|---|
| Accounts Payable | $69,158,469 |
| Accrued Payroll | 41,023,552 |
| Contract Retainage | 6,078,108 |
| Intergovernmental Payables | 103,393 |
| **Total Accounts Payable and Accrued Liabilities** | **$116,363,522** |

## NOTE 7 Short-term Debt

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

| | Balance 07/01/08 | Draws | Repayments | Balance 06/30/09 |
|---|---|---|---|---|
| Commercial Paper Program | $101,157,000 | $68,000,000 | $20,866,000 | $148,291,000 |
| Line of Credit | | 1,702,507 | 1,702,507 | |
| **Total Short-term Debt** | **$101,157,000** | **$69,702,507** | **$22,568,507** | **$148,291,000** |

The University's commercial paper program provides up to $400,000,000 in short-term financing for the University's capital improvement projects and is supported by a pledge of the University's available funds. The University will typically utilize the commercial paper program for construction financing and will periodically issue long-term bonds to refund the outstanding balances under this program in order to provide permanent financing for these capital improvement projects.

Commercial paper was redeemed with proceeds from The University of North Carolina General Revenue Bonds, Series 2007 and payments from campus entities with outstanding commercial paper.

Due to disruptions associated with the bankruptcy filing by Lehman Brothers, Lehman failed to remarket $1,702,507 in 2001B variable rate demand bonds on September 22, 2008, so the University drew on the Wachovia Line of Credit in the amount of $1,702,507 to facilitate the purchase of the bonds until they could be remarketed. When JP Morgan Chase became the remarketing agent for the 2001B bonds on September 29, 2008, the bonds purchased with the Wachovia Line of Credit were successfully remarketed, and the Wachovia Line of Credit was paid in full. Since that one-time draw under the Wachovia Line of Credit, there have been no subsequent failed remarketings associated with the 2001 B&C bonds and the commercial paper program.

## NOTE 8 Long-term Liabilities

### A Changes in Long-term Liabilities

A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

| | Balance 07/01/08 | Additions | Reductions | Balance 06/30/09 | Current Portion |
|---|---|---|---|---|---|
| Bonds Payable | $1,080,835,000 | | $24,055,000 | $1,056,780,000 | $97,675,014 |
| Add/Deduct Premium/Discount | (6,509,702) | | (3,200,598) | (3,309,104) | |
| Deduct Deferred Charge on Refunding | (3,436,415) | | (401,922) | (3,034,493) | |
| **Total Bonds Payable** | **1,070,888,883** | | **20,452,480** | **1,050,436,403** | **97,675,014** |
| Notes Payable | 1,037,000 | | 362,000 | 675,000 | 675,000 |
| Arbitrage Rebate Payable | 42,213 | | 42,213 | | |
| Capital Leases Payable | 2,804,533 | $84,205 | 1,178,596 | 1,710,142 | 737,464 |
| Compensated Absences | 117,154,685 | 68,725,878 | 60,538,448 | 125,342,115 | 7,056,048 |
| Annuity and Life Income Payable | 10,302,515 | 2,506,041 | 1,253,540 | 11,555,016 | 1,378,618 |
| **Total Long-Term Liabilities** | **$1,202,229,829** | **$71,316,124** | **$83,827,277** | **$1,189,718,676** | **$107,522,144** |

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

## B Bonds Payable

The University was indebted for bonds payable for the purposes shown in the following table:

| Purpose | Series | Interest Rate/ Ranges | Final Maturity Date | Original Amount of Issue plus Capital Appreciation | Principal Paid Through 06/30/09 | Discount on Capital Appreciation Bonds | Principal Outstanding plus Capital Appreciation 06/30/09 | See Table Below |
|---|---|---|---|---|---|---|---|---|
| *Housing System* | 1997B | 4.8%–5.0% | 11/01/11 | $7,210,000 | $4,725,000 | | $2,485,000 | (1) |
| *Parking System* | 1997B | 5.15% | 05/15/09 | 8,245,000 | 8,245,000 | | 0 | (2) |
| *General Revenue* | 2001A | 5.250%–5.375% | 12/01/25 | 89,930,000 | 51,090,000 | | 38,840,000 | |
| | 2001B | variable | 12/01/25 | 54,970,000 | 15,455,000 | | 39,515,000 | |
| | 2001C | variable | 12/01/25 | 54,970,000 | 15,455,000 | | 39,515,000 | |
| | 2002B | 5.0% | 12/01/11 | 66,555,000 | 41,500,000 | | 25,055,000 | |
| | 2003 | 3.00%–4.63% | 12/01/33 | 107,960,000 | 9,065,000 | | 98,895,000 | |
| | 2005 | 3.5%–5.0% | 12/01/34 | 404,960,000 | 1,670,000 | | 403,290,000 | |
| | 2007 | 4.45–5.00% | 12/01/36 | 298,475,000 | | | 298,475,000 | |
| **Total General Revenue** | | | | **1,077,820,000** | **134,235,000** | | **943,585,000** | |
| *Utilities System* | 1997 | 5.25%–5.50% | 08/01/21 | 84,135,000 | | ($27,470,806) | 56,664,194 | (4) |
| *Student Union* | 2000 | 5.0% | 06/01/10 | 12,465,000 | 11,965,000 | | 500,000 | (3) |
| *Student Recreation Center* | 1997 | 4.7%–5.0% | 06/01/11 | 3,545,000 | 2,745,000 | | 800,000 | (3) |
| *U.S. EPA Project* | 1991 | 9.05% | 02/15/15 | 58,125,000 | 32,850,000 | (5,989,243) | 19,285,757 | |
| **Total Bonds Payable (principal only)** | | | | **$1,251,545,000** | **$194,765,000** | **($33,460,049)** | **1,023,319,951** | |
| Less: Unamortized Loss on Refunding | | | | | | | (3,034,493) | |
| Plus: Unamortized Discount | | | | | | | 30,150,945 | |
| **Total Bonds Payable** | | | | | | | **$1,050,436,403** | |

*General Revenue Bonds were issued for various construction projects and refunding of bonds and commercial paper.*

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

| Ref | Revenue Source | Total Future Revenues Pledged | Current Year Revenues Net of Expenses | Current Year Principal, Interest & Accretion | Estimate of % of Revenues Pledged |
|---|---|---|---|---|---|
| (1) | Housing Revenues | $2,673,543 | $12,191,965 | $879,039 | 7% |
| (2) | Parking Revenues | $0 | $3,694,405 | $961,665 | 0% |
| (3) | Student Fees | $1,385,500 | $1,704,657 | $898,440 | 27% |
| (4) | Utilities Revenues | $84,135,000 | $29,030,417 | $2,947,590 | 22% |

## C Demand Bonds

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

With regards to the following demand bonds, the University has not entered into legal agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

### General Revenue, Series 2001B and 2001C

In 2001 the University issued two series of variable rate demand bonds in the amount of $54,970,000 (2001B) and $54,970,000 (2001C) that each has a final maturity date of December 1, 2025. The bonds are subject to mandatory sinking fund redemption on the interest payment date on or immediately preceding each December throughout the term of the bonds. The proceeds of these issuances were used to provide funds to refund in advance of their maturity the following issues: Ambulatory Care Clinic, Series 1990; Athletic Facilities, Series 1998; Carolina Inn, Series 1994; School of Dentistry, Series 1995; Kenan Stadium, Series 1996; and Parking System, Series 1997C. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days notice and delivery to the University's remarketing agents J.P. Morgan Chase (2001B) and Bank of America, LLC (2001C). Effective September 23, 2008, J.P. Morgan Chase replaced Lehman Brothers, Inc.

The University entered into a line of credit agreement in the amount of $300,000,000 with Wachovia Bank (or Bank) on September 21, 2006. Under the line of credit agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on Variable Rate Demand Bonds (or Commercial Paper Bonds) delivered for purchase. Under the new line of credit agreement, the University may request that the Bank increase the commitment by increments of $25,000,000 for a total commitment of up to $400,000,000. A request for increase is subject to the Bank's sole discretion, and the University cannot be in default under the agreement at the time of the request. During fiscal year 2009, Wells Fargo purchased Wachovia Bank, but the line of credit agreement remains in place under original terms and conditions.

The University is required to pay a quarterly facility fee for the line of credit in the amount of 0.08 percent per annum based on the size of the commitment. If a long-term debt rating assigned by S&P, Moody's, or Fitch is lowered, the facility fee assigned to the lowest rating in the table shall apply:

| S&P | Fitch | Moody's | Facility Fee |
|---|---|---|---|
| AA | AA | Aa2 | 0.10% |
| AA- | AA- | Aa3 | 0.11% |
| A+ | A+ | A1 | 0.14% |
| A | A | A2 | 0.18% |

In the event that the Bank increases the available commitment prior to the due date for payment of a facility fee, upon request by the University as referenced in the prior paragraph, the University must pay a supplemental fee based on the facility fee applied to the amount of the increase at the time of commitment to increase. The University will also pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the prime rate multiplied by the ratio of the number of days from the date of purchase of the bonds until the date of payment of the accrued interest to 365 days.

Under the line of credit agreement, draws to purchase bonds will accrue interest at the prime rate payable on the same interest date as provided in the trust agreement for the original bonds. The University is required to begin making a series of ten fully amortizing semi-annual principal payments on bonds held by the Bank six months after the date of purchase. Commercial paper bonds held by the Bank may be rolled over for a period of 180 days and must be reduced by 1/10th of the original amount of the commercial paper bonds for a period of up to ten rollovers. All outstanding principal and accrued but unpaid interest is due in full at the maturity of the line of credit.

The line of credit agreement expires on September 21, 2011 and is subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below a BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's.

### Interest Rate Swaps

#### LEHMAN BROTHERS SPECIAL FINANCING, INC.

***Objective*** In order to protect against the risk of interest rate changes, effective October 3, 2000, the University entered into an interest rate swap agreement with Lehman Brothers Special Financing, Inc. (Lehman Brothers) related to $22,000,000 of The University of North Carolina at Chapel Hill Variable Rate Housing System Revenue Bonds, Series 2000. This series of bonds was refunded in its entirety by the issuance of the University's Variable Rate General Revenue Demand Bonds, Series 2001B (2001B Bonds), and the interest rate swap agreement was amended to reflect the refunding.

***Terms*** Under this amended agreement, Lehman Brothers pays the University interest on the notional amount based on the Securities Industry and Financial Markets Association (SIFMA) index on a quarterly basis. On a semiannual basis, the University pays Lehman Brothers interest at the fixed rate of 5.24 percent. The notional amount of the swap reduces annually in conjunction with the 2001B Bonds; the reductions began in November 2002 and end in November 2025. The swap agreement matures November 1, 2025. As of June 30, 2009, rates were as follows:

| | Terms | Rate |
|---|---|---|
| Fixed payment to Lehman | Fixed | 5.24% |
| Variable payment from Lehman | SIFMA | 0.32% |
| Net interest rate swap payments | | 4.92% |
| Variable rate bond coupon payments | | 0.17% |
| **Synthetic interest rate on bonds** | | **5.09%** |

During fiscal year 2009, Lehman Brothers filed for bankruptcy and therefore no longer disburses the variable payment scheduled under the agreement to the University. To account for this consideration as allowed under the swap documents, the University reduced its scheduled fix payment by netting against this payment the amount that should have been received from Lehman Brothers based upon SIFMA.

***Fair value*** As of June 30, 2009, the swap had a fair value of negative $3,679,966. The fair value was provided by the University's financial advisor, Prager, Sealy, & Co. Their method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR (London Interbank Offered Rate) due on the date of each future net settlement on the swap.

***Credit risk*** As of June 30, 2009, the University was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's positive fair value. Should the swap have a positive fair value of more than $1,000,000, at that point Lehman Brothers would be required to collateralize 103 percent of their exposure. Lehman Brothers Holdings, guarantor of Lehman Brothers Special Financing, Inc., was rated A2 by Moody's, A by S&P, and AA+ by Fitch for unsecured long-term debt.

***Basis risk*** The University receives the SIFMA from Lehman Brothers and pays a floating rate to its bondholders set by the Remarketing Agent. The University incurs basis risk when its bonds begin to trade at a yield above the SIFMA index. Basis risk also exists since swap payments are made quarterly while bond payments are made monthly. With the alternative tax structure of the swap, a change in tax law would trigger the swap being converted from a SIFMA swap to a percentage of LIBOR swap. This would introduce basis risk. If the weekly reset interest rates on the University's bonds are in excess of 65 percent of LIBOR, the University will experience an increase in debt service above the fixed rate on the swap to the extent that the interest rates on the bonds exceed 65 percent of LIBOR.

***Termination risk*** The swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swap terminates if the University or Lehman Brothers fails to perform under terms of the contract.

### WACHOVIA

***Objective*** The University entered into an interest rate swap agreement with Wachovia on December 5, 2006, based on a notional amount of $100,000,000, effective December 1, 2007, maturing on December 1, 2036. This transaction serves as a hedge of variable interest rates on a portion of the General Revenue 2001 B&C bonds and the outstanding commercial paper bonds.

***Terms*** Under the agreement, Wachovia pays the University 67 percent of the one-month LIBOR index times the notional amount, payable monthly. The University pays Wachovia a fixed rate of 3.314 percent on the notional amount, payable monthly. The effective date of this swap was December 1, 2007. As of June 30, 2009 rates were as follows:

| | Terms | Rate |
|---|---|---|
| Fixed payment to Wachovia | Fixed | 3.314% |
| Variable payment from Wachovia | LIBOR | 0.213% |
| Net interest rate swap payments | | 3.101% |
| Weighted Average Variable Rates | | 0.003% |
| **Synthetic interest rate on bonds** | | **3.104%** |

***Fair value*** As of June 30, 2009, the swap had a fair negative value of $10,079,658. The fair value was developed by Wachovia. Market value represents the amount that would be paid to (or received from) another swap dealer to assume the payments under the swap.

***Credit risk*** As of June 30, 2009, the University was not exposed to credit risk because the swap had a negative fair value. In the event that the swap carried a positive fair value for the University and in the event of a specified ratings downgrade of Wachovia's unsecured long-term debt, Wachovia would be required to post collateral in the amount of the difference between the positive fair value of the swap and the thresholds in the below tables. The University is also subject to the same provisions. Wachovia was rated AA by S&P, AA- by Fitch and Aa2 by Moody's.

| Ratings Moody's/S&P/Fitch | Threshold |
|---|---|
| Aa3/AA- or above | $Infinity |
| A1/A+ | $15,000,000 |
| A2/A | $10,000,000 |
| A3/A- or below | $0 |

***Basis risk*** Changes in swap interest rates and tax-exempt bond interest rates may differ, introducing basis risk in the event the swap is unwound and traditional fixed-rate debt is issued. In the event that the University issues variable rate debt to create synthetic fixed rate debt, the University will be paying a rate on the bonds that may not correlate with 67 percent of the one-month LIBOR index, altering the "fixed" cost of synthetic debt.

***Termination risk*** The swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swap terminates if the University or Wachovia fails to perform under terms of the contract.

### Future Swaps

The University entered into an interest rate swap agreement with the Bank of New York Mellon for $150,000,000 to be effective December 1, 2009. The University has the option to (1) issue variable rate bonds in December 2009, thereby effectively creating synthetic fixed-rate debt, or (2) unwind the swap, capturing the value of the movement of interest rates from the issuance date and issuing traditional fixed rate bonds.

## D Capital Appreciation Bonds

The University's Series 1997 Utility System and the Series 1991 U.S. Environmental Protection Agency Project bond issues include capital appreciation bonds with an original issue amount of $30,379,142 and $3,828,921, respectively. These bonds are recorded in the amounts of $56,664,193 ($84,135,000 ultimate maturity less $27,470,807 discount) and $19,285,757 ($25,275,000 ultimate maturity less $5,989,243 discount), respectively, which is the accreted value at June 30, 2009. These bonds mature in the years 2015 to 2021.

## E Annual Requirements

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

*Annual Requirements*

| | *Bonds Payable* | | | *Notes Payable* | |
|---|---|---|---|---|---|
| Fiscal Year | Principal | Interest | Swaps, Net* | Principal | Interest |
| 2010 | $24,470,000 | $42,383,999 | $990,642 | $675,000 | $669 |
| 2011 | 24,905,000 | 41,635,415 | 976,005 | | |
| 2012 | 25,530,000 | 40,835,024 | 960,753 | | |
| 2013 | 25,860,000 | 40,231,159 | 933,816 | | |
| 2014 | 24,705,000 | 39,851,252 | 894,333 | | |
| 2015–2019 | 113,560,000 | 192,971,876 | 3,791,844 | | |
| 2020–2024 | 112,515,000 | 181,020,920 | 2,090,508 | | |
| 2025–2029 | 135,915,000 | 157,751,798 | 203,073 | | |
| 2030–2034 | 336,500,000 | 112,681,956 | | | |
| 2035–2039 | 232,820,000 | 14,207,125 | | | |
| Total Requirements | **$1,056,780,000** | **$863,570,524** | **$10,840,974** | **$675,000** | **$669** |

*Interest on the variable rate General Revenue Bonds 2001B is calculated at 0.17% at June 30, 2009.*
*Interest on the variable rate General Revenue Bonds 2001C is calculated at 0.15% at June 30, 2009.*
*Interest rates are reset each week by the remarketing agent based upon a combination of the University's credit rating and market conditions.*

*This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 8C.*
**Computed using (5.24%–0.32) X ($22,000,000 – annual swap reduction)*

## F Bond Defeasance

During the prior years, the University extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

***Student Union*** On August 30, 2005, the University defeased $8,750,000 of outstanding Student Fee Revenue Bonds, Series 2000. Securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the Statement of Net Assets. At June 30, 2009, the outstanding balance of the defeased Student Fee Revenue Bonds, Series 2000 bonds was $8,750,000.

***General Revenue Bonds, Series 2001A*** On August 30, 2005, the University defeased $33,310,000 of outstanding General Revenue Bonds, Series 2001A. Securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the Statement of Net Assets. At June 30, 2009, the outstanding balance of the defeased General Revenue Bonds, Series 2001A bonds was $33,310,000.

## G Notes Payable

The University was indebted for notes payable for the purposes shown in the following table:

| Purpose | Financial Institution | Interest Rate | Final Maturity Date | Beginning Balance 07/01/08 | Draws | Repayments | Principal Outstanding 06/30/09 |
|---|---|---|---|---|---|---|---|
| Real Property Purchases | Bank of America | 0.595% | 08/30/09 | **$1,037,000** | **$0** | **$362,000** | **$675,000** |

The UNC-Chapel Hill Foundation, part of the University's reporting entity, has a line of credit agreement issued by Bank of America, originally in the aggregate principal amount up to $10,000,000 to finance the costs of projects benefiting the foundation or the University. The line of credit had a maturity date of June 30, 2009 but subsequent to year end was extended to August 30, 2009. The aggregate principal amount remained at $6,000,000. Advances under the line of credit accrue interest at the variable rate of the LIBOR Market Index plus 0.275 percent. An unused commitment fee is due each quarter calculated as 0.25 percent of the difference between the commitment amount and the average balance outstanding for the quarter through June 30, 2005, and 0.215 percent thereafter. The University repays draws on the note with capital improvement funds designated for land acquisition.

## H Annuities Payable

The University participates in split-interest agreements with donors that require benefits payments for a specified period to a designated beneficiary out of assets held in trust for this purpose. At the end of the predetermined period (e.g., the lifetime of the beneficiary specified by the donor), the remaining assets of the trust revert to the University for its use or for a purpose specified by the donor. At the end of each fiscal year, annuities and life income payable to the beneficiaries is calculated using IRS issued 90CM table, taking into consideration beneficiary's age and the amount of the gift, and using IRS issued Life Table 90CM.

# NOTE 9 Lease Obligations

## A Capital Lease Obligations

Capital lease obligations relating to medical and research equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2009:

| Fiscal Year | |
|---|---|
| 2010 | $853,135 |
| 2011 | 541,528 |
| 2012 | 503,887 |
| 2013 | 42,559 |
| **Total Minimum Lease Payments** | **1,941,109** |
| Amount Representing Interest (0.14%–44.51% Rate of Interest) | 230,967 |
| **Present Value of Future Lease Payments** | **$1,710,142** |

Machinery and equipment acquired under capital lease amounted to $3,745,834 at June 30, 2009.

## B Operating Lease Obligations

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2009:

| Fiscal Year | Amount |
|---|---|
| 2010 | $7,153,693 |
| 2011 | 4,790,425 |
| 2012 | 1,784,616 |
| 2013 | 922,065 |
| 2014 | 71,455 |
| 2015–2019 | 68,615 |
| **Total Minimum Lease Payments** | **$14,790,869** |

Rental expense for all operating leases during the year was $12,608,769.

## C Other Lease Obligations

The UNC-Chapel Hill Foundation issued certificates of participation to provide for construction of alumni facilities. The University constructed the facilities as an agent for the UNC-Chapel Hill Foundation. In October 1989, the University entered into a 20-year lease agreement with the UNC-Chapel Hill Foundation and simultaneously entered into a sublease agreement with the General Alumni Association, an affiliated organization, for the same time period for the use of the alumni facilities. Legal interpretation of the sublease agreement assigned the debt obligation to the General Alumni Association.

Payments under the terms of the lease are a limited obligation of the University, payable solely from and secured by the annual rental income derived from the sublease of the alumni facilities. The University has no other obligations for repayment of the certificates of participation; therefore, the certificates are not reported as a liability in the accompanying financial statements. As of June 30, 2009, the aggregate principal amount of the certificates was $9,950,000.

If the University complies with all the terms of the lease agreement, title to the alumni facilities will be conveyed to the University.

# NOTE 10 Revenues

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

| | Gross Revenues | Internal Sales Eliminations | Less Scholarship Discounts | Less Change In Allowance For Uncollectibles | Less Indigent Care And Contractual Adjustments | Net Revenues |
|---|---|---|---|---|---|---|
| **Operating Revenues** | | | | | | |
| *Student Tuition and Fees* | **$300,427,637** | | **$63,467,416** | | | **$236,960,221** |
| *Patient Services* | **$571,360,106** | | | **($11,962,978)** | **$345,356,969** | **$237,966,115** |
| *Sales and Services* | | | | | | |
| Residential Life | $45,887,928 | | $9,226,654 | | | $36,661,274 |
| Dining | 24,902,746 | | | | | 24,902,746 |
| Student Union Services | 619,670 | $609,820 | | | | 9,850 |
| Health, Physical Education, and Recreation Services | 5,756,908 | 300 | 240,265 | | | 5,516,343 |
| Bookstore | 28,294,933 | 3,266,093 | 726,943 | | | 24,301,897 |
| Parking | 21,583,719 | 112 | | | | 21,583,607 |
| Athletic | 49,713,596 | 22,202 | | | | 49,691,394 |
| Utilities | 120,155,505 | 92,475,893 | 898 | | | 27,678,714 |
| Telecommunications | 18,755,464 | 14,587,368 | | | | 4,168,096 |
| Other Professional Income | 81,246,190 | 5,555,518 | | | | 75,690,672 |
| Printing/Carolina Copy | 7,986,151 | 4,948,916 | | | | 3,037,235 |
| Repairs & Maintenance | 33,625,115 | 32,346,630 | | | | 1,278,485 |
| Materials Management and Disbursements | 24,075,707 | 24,005,656 | | | | 70,051 |
| Rental Property | 6,177,187 | 525,124 | | | | 5,652,063 |
| Carolina Living & Learning Center | 2,877,152 | | | | | 2,877,152 |
| Performing Arts Series | 1,573,088 | 27,901 | | | | 1,545,187 |
| Snack Bars | 1,428,266 | 16,870 | | | | 1,411,396 |
| Other | 83,125,206 | 47,696,364 | | | | 35,428,842 |
| **Total Sales and Services** | **$557,784,531** | **$226,084,767** | **$10,194,760** | **$0** | **$0** | **$321,505,004** |
| **Non-operating — Non-capital Gifts** | **$87,482,393** | | | **$256,319** | | **$87,226,074** |

# NOTE 11 Operating Expenses by Function

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

| | Salaries and Benefits | Supplies and Materials | Services | Scholarships and Fellowships | Utilities | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Instruction | $526,040,031 | $24,713,324 | $124,037,046 | | $151,849 | | $674,942,250 |
| Research | 242,092,222 | 45,162,450 | 111,097,254 | | 401,537 | | 398,753,463 |
| Public Service | 57,577,974 | 9,598,629 | 59,143,720 | | 107,131 | | 126,427,454 |
| Academic Support | 81,878,852 | 9,375,144 | 15,995,185 | | 122,001 | | 107,371,182 |
| Student Services | 13,829,106 | 862,622 | 13,274,953 | | 521 | | 27,967,202 |
| Institutional Support | 62,132,287 | 5,195,700 | 22,597,166 | | 28,427 | | 89,953,580 |
| Operations and Maintenance of Plant | 46,995,796 | 12,594,854 | 19,394,062 | | 66,564,792 | | 145,549,504 |
| Student Financial Aid | | | | $58,557,246 | | | 58,557,246 |
| Auxiliary Enterprises | 279,315,479 | 66,998,654 | 167,483,089 | | 10,259,501 | | 524,056,723 |
| Depreciation | | | | | | $70,747,110 | 70,747,110 |
| **Total Operating Expenses** | **$1,309,861,747** | **$174,501,377** | **$533,022,475** | **$58,557,246** | **$77,635,759** | **$70,747,110** | **$2,224,325,714** |

## NOTE 12 Pension Plans

### A Retirement Plans

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

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

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

For the current fiscal year, the University had a total payroll of $1,121,986,960, of which $468,941,991 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $15,756,451 and $28,136,519, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05 percent and 2.66 percent, respectively, while employee contributions were 6 percent each year. The University made 100 percent of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were $15,756,451, $13,032,159, and $10,668,088, respectively.

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

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2009, these rates were set at 6.84 percent of covered payroll for employers and 6 percent 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 $1,121,986,960, of which $456,817,602 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $31,246,324 and $27,409,056, 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 $7,019,689 for the year ended June 30, 2009.

### IRC SECTION 401(K) PLAN

All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5 percent employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2009, were $138,675. The voluntary contributions by employees amounted to $3,609,663 for the year ended June 30, 2009.

### IRC SECTION 403(B) AND 403(B)(7) PLANS

Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to $24,632,827 for the year ended June 30, 2009.

# NOTE 13 Other Postemployment Benefits

## A Health Benefits

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

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

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

Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the University contributed 4.1 percent of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2008, and 2007, were 4.1 percent and 3.8 percent, respectively. The University made 100 percent of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were $37,956,143, $34,676,317, and $29,918,690, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

### B Disability Income

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the University made a statutory contribution of 0.52 percent of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2008, and 2007, were 0.52 percent and 0.52 percent, respectively. The University made 100 percent of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were $4,813,950, $4,397,972, and $4,094,137, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

## NOTE 14 Risk Management

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

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

***System Fund (blended component unit) Liability Insurance*** The System Fund is exposed to various risks of loss related to torts, theft of assets, and errors and omissions. The Management Company is a separate legal entity from The University of North Carolina System and the University. However, the Management Company's employees conduct System Fund's affairs. Therefore, exposures to loss are handled by the purchase of commercial insurance by the Management Company. This insurance is independent of the risk management programs of The University of North Carolina System and the University.

*Fire and Other Property Loss* 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. Fire and lightning losses covered by the Fund are subject to a $5,000 per occurrence deductible. The University also purchases through the Fund extended coverage for all campus buildings and contents with a $500,000 per occurrence deductible. This extended coverage provides insurance against an additional set of perils, most notably for windstorms.

*Automobile Liability Insurance* 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.

*Employee and Computer Fraud* 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 percent of each loss less a $75,000 deductible.

Other authorized coverage not handled by the North Carolina Department of Insurance is purchased through the state's insurance agent of record. Examples include, but are not limited to, fine arts, boiler and machinery, medical professional liability, athletic accident and revenues, and study abroad health insurance.

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

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

*Liability Insurance Trust Fund* The University participates in the Liability Insurance Trust Fund (Trust Fund), a claims-servicing public entity risk pool for healthcare professional liability protection. The Trust Fund services professional liability claims, managing separate accounts for each participant from which the losses of that participant are paid. Although participant assessments are determined on an actuarial basis, ultimate liability for claims remains with the participants and, accordingly, the insurance risks are not transferred to the Trust Fund.

The Trust Fund is an unincorporated entity created by Chapter 116, Article 26, of the *North Carolina General Statutes* and The University of North Carolina Board of Governors Resolution of June 9, 1978. The Trust Fund is a self-insurance program established to provide professional medical malpractice liability covering The University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) and The University of North Carolina at Chapel Hill Physicians and Associates (UNC P&A), the program participants. The Trust Fund provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of program participants. The Trust Fund is exempt from federal and state income taxes, and is not subject to regulation by the North Carolina Department of Insurance.

Participation in the Trust Fund is open to the University of North Carolina, any constituent institution of the University of North Carolina, the UNC Hospitals, and any health-care institution, agency or entity that has an affiliation agreement with the University of North Carolina, with a constituent institution of the University of North Carolina, or with the UNC Hospitals. Only the UNC P&A and the UNC Hospitals have participated in the Trust Fund to date. Participants provide management and administrative services to the Trust Fund at no cost.

The Trust Fund is governed by the Liability Insurance Trust Fund Council (the Council). The Council consists of 13 members as follows: one member each appointed by the State Attorney General, the State Auditor, the State Insurance Commissioner, the Director of the Office of State Budget and Management, the State Treasurer, (each serving at the pleasure of the appointer); and eight members appointed to three-year terms (with no limit on the number of terms) by the UNC System's Board of Governors.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future expenses and claim adjustment expenses) that have been reported but not settled and of claims incurred but not reported. Claim liabilities are recomputed annually based on an independent actuary's study to produce current estimates that reflect recent settlements, claims frequency, inflation, and other factors. Participant assessments are determined at a level to fund claim liabilities, discounted for future investment earnings. Each participant is required by statute to maintain a fund balance of $100,000 at all times. Participants are subject to additional premium assessments in the event of deficiencies.

For the period July 1, 2008 through June 30, 2009, the Trust Fund provided coverage on an occurrence basis of $3,000,000 per individual and $7,000,000 in the aggregate per claim. The Trust Fund entered into an excess of loss agreement with an unaffiliated reinsurer in prior years. However, excess reinsurance coverage was not purchased for the policy year ended June 30, 2007, as the Trust Fund chose to retain 100 percent of the liability. In lieu of reinsurance, the participants contributed $10,000,000 in the aggregate toward the Reimbursement Fund for future losses.

For the fiscal year ending June 30, 2009, the Trust Fund purchased a direct insurance policy to cover the first $1,000,000 per occurrence and $3,000,000 in the aggregate for dental residents. North Carolina General Statutes Chapter 116 was amended during 1987 to authorize the Trust Fund to borrow necessary amounts up to $30,000,000, in the event that the Trust Fund may have insufficient funds to pay existing and future claims. Any such borrowing would be repaid from the assets and revenues of program participants. No line of credit or borrowing has been established pursuant to this authorization. The Council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

The Trust Fund has purchased annuity contracts to settle claims for which the claimant has signed an agreement releasing the Fund from further obligation. The related claim liabilities have been removed from estimated malpractice costs.

The Council may choose to terminate the Trust Fund, or the respective participants may choose to terminate their participation. In the event of such termination by either the Council or a participant, an updated actuarial study will be performed to determine amounts due to or from the participants based on loss experience up to the date of termination.

At June 30, 2009, University assets in the Trust Fund totaled $36,212,736 while University liabilities totaled $25,542,882 resulting in net assets of $10,669,854.

Additional disclosures about the funding status and obligations of the Trust Fund are set forth in the Audited Financial Statements of the Liability Insurance Trust Fund for the years ended June 30, 2009 and 2008. Copies of this report may be obtained from The University of North Carolina Liability Insurance Trust Fund, 4030 Bondurant Hall, CB# 7000, Chapel Hill, North Carolina 27599-7000, or by calling (919) 966-1712.

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 0.16 percent for the current fiscal year.

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

## NOTE 15 Commitments and Contingencies

### A Commitments

The University has commitments of $146,124,122 for various capital improvements projects that include construction and completion of new buildings, and renovations of existing buildings.

The UNC Investment Fund, LLC (System Fund) has entered into agreements with limited partnerships where the fund agrees to commit capital to these investments. As of June 30, 2009, the System Fund has $495,000,000 committed capital not yet called.

### B Pending Litigation and Claims

The Supreme Court of North Carolina issued a ruling on July 1, 2005 regarding litigation between North Carolina School Boards Association, et. al. v. Richard H. Moore, State Treasurer, et. al. which involves various state officials in their official capacity seeking a judicial determination as to whether the state constitution requires certain monetary payments collected by state agencies to be paid to the local county school funds rather than statutorily designated recipients. The complaint alleged in part that the monetary payments collected pursuant to statutory authority by the University for violations of parking and traffic regulations and library fines are "civil penalties" which the state constitution requires to be paid to the school fund in the county where they are collected. The lawsuit sought declaratory judgment that the State Civil Penalty and Forfeiture Fund, the State School Technology Fund, and the Public Settlement Reserve Fund are unconstitutional. The North Carolina Supreme Court affirmed the Court of Appeals ruling that library fines are not civil penalties. The North Carolina Supreme Court reversed the ruling that fines for parking and traffic regulations are not civil penalties. The University of North Carolina at Chapel Hill, a constituent university of the UNC System, has collected $10,097,719 representing net fines from the Department of Public Safety from January 1, 1996 through June 30, 2005. Of that amount 10 percent may be retained by the University to fund related operating expenses. Therefore, approximately $9,087,947 may be payable by the University. Collected fines of $3,587,768 remain unexpended. Annual fines are approximately $850,000. Fines net of approved operating expenses have been remitted to the State Treasurer on a monthly basis beginning July 1, 2005. On August 8, 2008 a ruling was made by the Superior Court Division resulting in a judgment entered against the UNC System for $42,368,982 to be paid into the Civil Penalty and Forfeiture Fund for distribution to the public schools pursuant to G.S. 115C-457.1 and Article IX, Section 7 of the North Carolina Constitution. Settlement of the obligation is being facilitated by the General Assembly. In January of 2009, the plaintiffs filed a Motion for Additional Relief with the court requesting that the plaintiffs be paid $18,183,251 that the various University campuses have placed in escrow from 2001 through 2005. The University of North Carolina at Chapel Hill's share of that $18,183,251 is $3,907,525. The plaintiff's motion was heard and denied. The plaintiffs appealed the denial before the Court of Appeals. On August 7, 2009, the General Assembly of North Carolina enacted Session Law 2009-451, Section 5.1.(b) requiring that all University of North Carolina campuses remit all parking fines held in escrow in the amount of $18,183,251 to the Civil Penalty and Forfeiture Fund for appropriation. The University recorded a liability of $3,907,525 at June 30, 2009 for its share of the total amount.

The University is undertaking environmental remediation efforts on the Old Sanitary Landfill. The amount of the liability associated with this site cannot reasonably be estimated at this time.

The University is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management believes 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 permanent endowments | $32,822,490 |

## NOTE 16 Related Parties

There are 13 separately incorporated non-profit foundations associated with the University. These foundations are the Botanical Garden Foundation, Inc., The Dental Alumni Association, Inc., The Dental Foundation of North Carolina, Inc., The Educational Foundation, Inc., The General Alumni Association, The School of Government Foundation, Inc., The Morehead Scholarship Foundation, Inc., The Pharmacy Foundation of North Carolina, Inc., The School of Journalism and Mass Communication Foundation of North Carolina, Inc., The University of North Carolina at Chapel Hill Public Health Foundation, Inc., The University of North Carolina at Chapel Hill School of Nursing Foundation, Inc., The School of Social Work Foundation, Inc., and Carolina for Kibera, Inc. Some of these organizations serve, in conjunction with the University's component units (See Note 1A), as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The alumni associations provide educational opportunities or other services to alumni. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of these organizations, except for support from each organization to the University. This support totaled $15,002,149 for the year ended June 30, 2009.

## NOTE 17 Changes In Financial Accounting and Reporting

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

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.*
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments.*

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

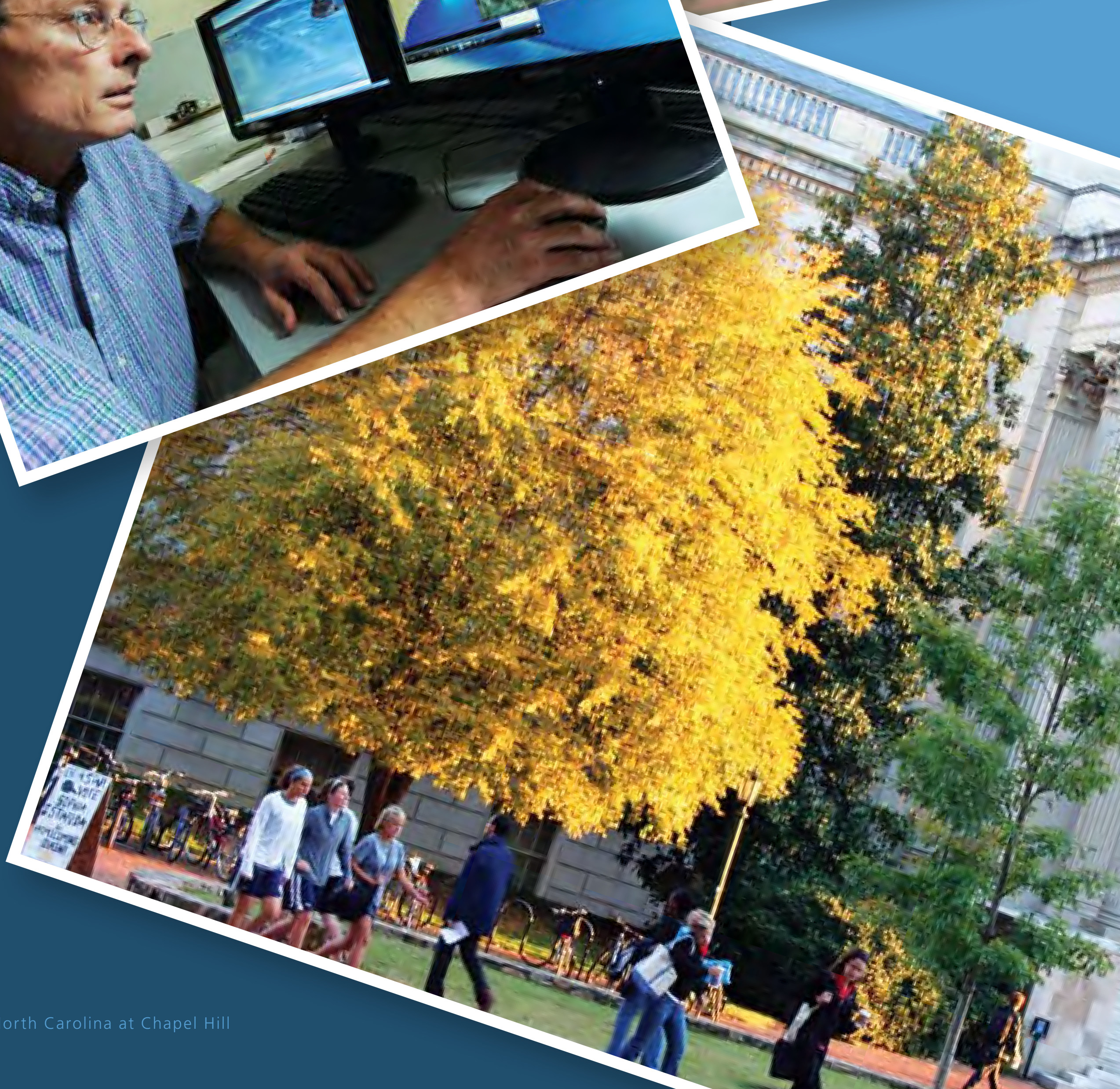
GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement 31 which required endowments to report land and other real estate investments at historical cost.

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

## NOTE 18 Subsequent Events

On July 1, 2009, The University of North Carolina at Chapel Hill Foundation, Inc. and Chapel Hill Foundation Real Estate Holdings, Inc. signed a promissory note with Bank of America, N.A., for $45,750,000 to purchase University Square and Granville Towers. These properties, formerly privately owned, consist of student residence halls, leased retail space, leased office space, and surface parking lots and are located in close proximity to the University campus in downtown Chapel Hill.

On December 2, 2009, the Board of Governors of the University of North Carolina System issued $210,540,000 of General Revenue Bonds. The bonds refunded $104,857,588 of outstanding commercial paper.



# Statistical Section

# NARRATIVE TO THE STATISTICAL SECTION

June 30, 2009

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## NET ASSETS BY COMPONENT Last Eight Fiscal Years

*in thousands*

| Fiscal Year Ended June 30, | 2009 | 2008 (as restated) | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Invested in Capital Assets | $1,338,833 | $1,290,034 | $1,211,805 | $1,119,040 | $1,017,383 | $855,740 | $771,281 | $668,386 |
| Restricted, Non-expendable | 586,175 | 548,151 | 493,305 | 430,316 | 378,234 | 328,735 | 323,961 | 304,097 |
| Restricted, Expendable | 837,154 | 1,199,280 | 1,086,353 | 853,133 | 736,631 | 648,019 | 559,128 | 645,390 |
| Unrestricted | 700,280 | 671,970 | 617,573 | 525,513 | 475,631 | 408,705 | 370,816 | 346,546 |
| **Total Net Assets** | **$3,462,442** | **$3,709,435** | **$3,409,036** | **$2,928,002** | **$2,607,879** | **$2,241,199** | **$2,025,186** | **$1,964,419** |

## NET ASSETS BY COMPONENT

*expressed as a percent of the total*

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Invested in Capital Assets | 38.7 | 34.8 | 35.5 | 38.2 | 39.0 | 38.2 | 38.1 | 34.0 |
| Restricted, Non-expendable | 16.9 | 14.8 | 14.5 | 14.7 | 14.5 | 14.7 | 16.0 | 15.5 |
| Restricted, Expendable | 24.2 | 32.3 | 31.9 | 29.2 | 28.2 | 28.9 | 27.6 | 32.9 |
| Unrestricted | 20.2 | 18.1 | 18.1 | 17.9 | 18.3 | 18.2 | 18.3 | 17.6 |
| **Total Net Assets** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

## NET ASSETS BY COMPONENT

*percentage increase (decrease) from prior year*

| Fiscal Year Ended June 30, | 2009 % | 2008 % | 2007 % | 2006 % | 2005 % | 2004 % | 2003 % | 2002 % |
|---|---|---|---|---|---|---|---|---|
| Invested in Capital Assets | 3.8 | 6.5 | 8.3 | 10.0 | 18.9 | 11.0 | 15.4 | n/a |
| Restricted, Non-expendable | 6.9 | 11.1 | 14.6 | 13.8 | 15.1 | 1.5 | 6.5 | n/a |
| Restricted, Expendable | (30.2) | 10.4 | 27.3 | 15.8 | 13.7 | 15.9 | (13.4) | n/a |
| Unrestricted | 4.2 | 8.8 | 17.5 | 10.5 | 16.4 | 10.2 | 7.0 | n/a |
| **Total Net Assets** | **(6.7)** | **8.8** | **16.4** | **12.3** | **16.4** | **10.7** | **3.1** | **n/a** |

## CHANGES IN NET ASSETS Last Eight Fiscal Years

*in thousands*

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 (as restated) | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | |
| *Operating Revenues* | | | | | | | | |
| Student tuition and fees, net | $236,960 | $218,763 | $210,651 | $195,882 | $164,457 | $153,943 | $146,961 | $124,661 |
| Patient services, net | 237,966 | 214,706 | 197,221 | 184,324 | 172,063 | 172,877 | 131,256 | 137,035 |
| Federal grants and contracts | 471,680 | 447,793 | 429,059 | 422,229 | 403,100 | 384,618 | 356,845 | 330,403 |
| State and local grants and contracts | 29,091 | 51,207 | 45,256 | 41,842 | 39,816 | 39,793 | 34,289 | 38,512 |
| Non-governmental grants and contracts | 123,649 | 115,513 | 92,572 | 89,976 | 81,560 | 75,388 | 64,547 | 75,536 |
| Sales and services, net | 321,505 | 349,372 | 324,432 | 301,303 | 290,397 | 270,351 | 262,106 | 246,568 |
| Interest earnings on loans | 801 | 666 | 679 | 672 | 1,441 | 435 | 281 | 121 |
| Other operating revenues | 7,835 | 6,232 | 4,574 | 5,283 | 4,167 | 5,233 | 7,283 | 14,629 |
| **Total operating revenues** | **1,429,487** | **1,404,252** | **1,304,444** | **1,241,511** | **1,157,001** | **1,102,638** | **1,003,568** | **967,465** |
| **EXPENSES** | | | | | | | | |
| *Operating Expenses* | | | | | | | | |
| Salaries and benefits | 1,309,862 | 1,210,757 | 1,122,269 | 1,042,452 | 966,629 | 917,840 | 876,266 | 829,473 |
| Supplies and materials | 174,501 | 161,219 | 165,704 | 152,911 | 148,440 | 151,196 | 146,986 | 148,324 |
| Services | 533,023 | 526,646 | 462,093 | 432,212 | 407,690 | 380,126 | 377,856 | 364,832 |
| Scholarships and fellowships | 58,557 | 58,058 | 56,662 | 54,105 | 51,170 | 47,427 | 45,618 | 40,415 |
| Utilities | 77,636 | 66,197 | 60,727 | 56,277 | 47,870 | 46,208 | 43,915 | 45,452 |
| Depreciation | 70,747 | 66,413 | 80,827 | 64,475 | 60,102 | 60,589 | 53,076 | 48,517 |
| **Total operating expenses** | **2,224,326** | **2,089,290** | **1,948,282** | **1,802,432** | **1,681,901** | **1,603,386** | **1,543,717** | **1,477,013** |
| **Operating loss** | **(794,839)** | **(685,038)** | **(643,838)** | **(560,921)** | **(524,900)** | **(500,748)** | **(540,149)** | **(509,548)** |
| **NON-OPERATING REVENUES (EXPENSES)** | | | | | | | | |
| State appropriations | 518,276 | 543,292 | 492,471 | 440,070 | 406,673 | 380,446 | 368,024 | 368,504 |
| State aid — federal recovery funds | 20,051 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-capital grants — federal student financial aid | 10,170 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-capital grants | 143,846 | 102,932 | 62,669 | 67,388 | 62,544 | 53,154 | 40,995 | 34,769 |
| Non-capital gifts, net | 87,226 | 113,094 | 73,637 | 68,824 | 73,693 | 68,517 | 60,888 | 62,404 |
| Investment income (loss), net | (296,904) | 146,650 | 317,767 | 207,423 | 154,900 | 135,369 | 47,398 | 52,957 |
| Interest and fees on debt | (52,465) | (53,311) | (42,926) | (39,921) | (21,823) | (18,339) | (15,681) | (15,031) |
| Other non-operating revenues (expenses) | 2,359 | 851 | 146 | (230) | 8,374 | (8,132) | (1,899) | (7,662) |
| **Net non-operating revenues** | **432,559** | **853,508** | **903,764** | **743,554** | **684,361** | **611,015** | **499,725** | **495,941** |
| **Income before other revenues** | **(362,280)** | **168,470** | **259,926** | **182,633** | **159,461** | **110,267** | **(40,424)** | **(13,607)** |
| Capital appropriations | 12,539 | 47,206 | 52,888 | 15,776 | 5,166 | 898 | 0 | 0 |
| Refund of prior years capital appropriations | (3,317) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital grants | 27,124 | 12,885 | 118,850 | 52,277 | 152,844 | 74,392 | 72,486 | 27,480 |
| Capital gifts | 34,686 | 11,596 | 15,662 | 13,368 | 11,521 | 6,359 | 7,553 | 8,238 |
| Additions to endowments | 44,255 | 60,242 | 39,442 | 56,069 | 37,688 | 24,098 | 21,153 | 23,283 |
| **Increase (Decrease) in Net Assets** | **($246,993)** | **$300,399** | **$486,768** | **$320,123** | **$366,680** | **$216,014** | **$60,768** | **$45,394** |

## CHANGES IN NET ASSETS (CONTINUED) Last Eight Fiscal Years

*in thousands*

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| | | | *(as restated)* | | | | | |
| **Total Revenues** | $2,326,702 | $2,443,000 | $2,477,976 | $2,162,706 | $2,070,404 | $1,845,871 | $1,622,065 | $1,545,100 |
| ***Total Expenses*** | *2,573,695* | *2,142,601* | *1,991,208* | *1,842,583* | *1,703,724* | *1,629,857* | *1,561,297* | *1,499,706* |
| **Increase (Decrease) in Net Assets** | **($246,993)** | **$300,399** | **$486,768** | **$320,123** | **$366,680** | **$216,014** | **$60,768** | **$45,394** |

*expressed as a percent of* Total Revenues / *Total Expenses*

| | % | % | % | % | % | % | % | % |
|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | |
| *Operating Revenues* | | | | | | | | |
| Student tuition and fees, net | 10.1 | 9.0 | 8.5 | 9.1 | 7.9 | 8.3 | 9.1 | 8.1 |
| Patient services, net | 10.2 | 8.8 | 8.0 | 8.5 | 8.3 | 9.4 | 8.1 | 8.9 |
| Federal grants and contracts | 20.2 | 18.3 | 17.3 | 19.6 | 19.6 | 20.8 | 22.0 | 21.3 |
| State and local grants and contracts | 1.3 | 2.1 | 1.8 | 1.9 | 1.9 | 2.2 | 2.1 | 2.5 |
| Non-governmental grants and contracts | 5.3 | 4.7 | 3.7 | 4.2 | 3.9 | 4.1 | 4.0 | 4.9 |
| Sales and services, net | 13.8 | 14.3 | 13.1 | 13.9 | 14.0 | 14.6 | 16.2 | 16.0 |
| Interest earnings on loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Other operating revenues | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.3 | 0.4 | 0.9 |
| **Total operating revenues** | **61.4** | **57.5** | **52.6** | **57.4** | **55.9** | **59.7** | **61.9** | **62.6** |
| **EXPENSES** | | | | | | | | |
| *Operating Expenses* | | | | | | | | |
| *Salaries and benefits* | *50.9* | *56.5* | *56.4* | *56.6* | *56.7* | *56.3* | *56.1* | *55.3* |
| *Supplies and materials* | *6.8* | *7.5* | *8.3* | *8.3* | *8.7* | *9.3* | *9.4* | *9.9* |
| *Services* | *20.7* | *24.6* | *23.2* | *23.5* | *23.9* | *23.3* | *24.2* | *24.3* |
| *Scholarships and fellowships* | *2.3* | *2.7* | *2.8* | *2.9* | *3.0* | *2.9* | *2.9* | *2.7* |
| *Utilities* | *3.0* | *3.1* | *3.0* | *3.1* | *2.8* | *2.8* | *2.8* | *3.0* |
| *Depreciation* | *2.7* | *3.1* | *4.1* | *3.5* | *3.5* | *3.7* | *3.4* | *3.2* |
| **Total operating expenses** | **95.6** | **85.5** | **78.6** | **83.3** | **81.3** | **86.8** | **95.2** | **95.6** |
| **Operating loss** | **(34.2)** | **(28.0)** | **(26.0)** | **(25.9)** | **(25.4)** | **(27.1)** | **(33.3)** | **(33.0)** |
| **NON-OPERATING REVENUES (EXPENSES)** | | | | | | | | |
| *Operating Expenses* | | | | | | | | |
| State appropriations | 22.3 | 22.4 | 19.9 | 20.3 | 19.6 | 20.6 | 22.7 | 23.8 |
| State aid — federal recovery funds | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-capital grants — federal student financial aid | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-capital grants | 6.2 | 4.2 | 2.5 | 3.1 | 3.0 | 2.9 | 2.5 | 2.3 |
| Non-capital gifts, net | 3.7 | 4.6 | 3.0 | 3.2 | 3.6 | 3.7 | 3.8 | 4.0 |
| Investment income (loss), net | *(11.5)* | 6.0 | 12.8 | 9.6 | 7.5 | 7.3 | 2.9 | 3.4 |
| *Interest and fees on debt* | *(2.0)* | *(2.5)* | *(2.2)* | *(2.2)* | *(1.3)* | *(1.1)* | *(1.0)* | *(1.0)* |
| Other non-operating revenues (expenses) | 0.1 | 0.0 | 0.0 | *0.0* | 0.4 | *(0.5)* | *(0.1)* | *(0.5)* |
| **Net non-operating revenues** | **18.6** | **34.9** | **36.5** | **34.3** | **33.1** | **33.1** | **30.8** | **32.1** |
| **Income before other revenues** | **(15.6)** | **6.9** | **10.5** | **8.4** | **7.7** | **6.0** | **(2.5)** | **(0.9)** |
| Capital appropriations | 0.5 | 1.9 | 2.1 | 0.7 | 0.2 | 0.0 | 0.0 | 0.0 |
| Refund of prior years capital appropriations | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital grants | 1.0 | 0.4 | 4.8 | 2.5 | 7.4 | 4.1 | 4.4 | 1.8 |
| Capital gifts | 1.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.3 | 0.5 | 0.5 |
| Additions to endowments | 1.9 | 2.5 | 1.6 | 2.6 | 1.8 | 1.3 | 1.3 | 1.5 |
| **Increase (Decrease) in Net Assets** | **(10.6)** | **12.3** | **19.6** | **14.8** | **17.7** | **11.7** | **3.7** | **2.9** |

*Note: Percent of total expenses is italicized*

## CHANGES IN NET ASSETS (CONTINUED) Last Eight Fiscal Years

*percentage increase (decrease) from prior year*

| Fiscal Year Ended June 30, | 2009 % | 2008 % | 2007 % (as restated) | 2006 % | 2005 % | 2004 % | 2003 % | 2002 % |
|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | |
| *Operating Revenues* | | | | | | | | |
| Student tuition and fees, net | 8.3 | 3.9 | 7.5 | 19.1 | 6.8 | 4.8 | 17.9 | n/a |
| Patient services, net | 10.8 | 8.9 | 7.0 | 7.1 | (0.5) | 31.7 | (4.2) | n/a |
| Federal grants and contracts | 5.3 | 4.4 | 1.6 | 4.7 | 4.8 | 7.8 | 8.0 | n/a |
| State and local grants and contracts | (43.2) | 13.1 | 8.2 | 5.1 | 0.1 | 16.1 | (11.0) | n/a |
| Non-governmental grants and contracts | 7.0 | 24.8 | 2.9 | 10.3 | 8.2 | 16.8 | (14.5) | n/a |
| Sales and services, net | (8.0) | 7.7 | 7.7 | 3.8 | 7.4 | 3.1 | 6.3 | n/a |
| Interest earnings on loans | 20.3 | (1.9) | 1.0 | (53.4) | 231.3 | 54.8 | 132.2 | n/a |
| Other operating revenues | 25.7 | 36.2 | (13.4) | 26.8 | (20.4) | (28.1) | (50.2) | n/a |
| **Total operating revenues** | **1.8** | **7.7** | **5.1** | **7.3** | **4.9** | **9.9** | **3.7** | **n/a** |
| **EXPENSES** | | | | | | | | |
| *Operating Expenses* | | | | | | | | |
| Salaries and benefits | 8.2 | 7.9 | 7.7 | 7.8 | 5.3 | 4.7 | 5.6 | n/a |
| Supplies and materials | 8.2 | (2.7) | 8.4 | 3.0 | (1.8) | 2.9 | (0.9) | n/a |
| Services | 1.2 | 14.0 | 6.9 | 6.0 | 7.3 | 0.6 | 3.6 | n/a |
| Scholarships and fellowships | 0.9 | 2.5 | 4.7 | 5.7 | 7.9 | 4.0 | 12.9 | n/a |
| Utilities | 17.3 | 9.0 | 7.9 | 17.6 | 3.6 | 5.2 | (3.4) | n/a |
| Depreciation | 6.5 | (17.8) | 25.4 | 7.3 | (0.8) | 14.2 | 9.4 | n/a |
| **Total operating expenses** | **6.5** | **7.2** | **8.1** | **7.2** | **4.9** | **3.9** | **4.5** | **n/a** |
| **Operating loss** | **16.0** | **6.4** | **14.8** | **6.9** | **4.8** | **(7.3)** | **6.0** | **n/a** |
| **NON-OPERATING REVENUES (EXPENSES)** | | | | | | | | |
| State appropriations | (4.6) | 10.3 | 11.9 | 8.2 | 6.9 | 3.4 | (0.1) | n/a |
| State aid — federal recovery funds | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Non-capital grants — federal student financial aid | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Non-capital grants | 39.7 | 64.2 | (7.0) | 7.7 | 17.7 | 29.7 | 17.9 | n/a |
| Non-capital gifts, net | (22.9) | 53.6 | 7.0 | (6.6) | 7.6 | 12.5 | (2.4) | n/a |
| Investment income (loss), net | (302.5) | (53.8) | 53.2 | 33.9 | 14.4 | 185.6 | (10.5) | n/a |
| Interest and fees on debt | (1.6) | 24.2 | 7.5 | 82.9 | 19.0 | 17.0 | 4.3 | n/a |
| Other non-operating revenues (expenses) | 177.2 | 482.9 | 163.5 | (102.7) | 203.0 | (328.2) | 75.2 | n/a |
| **Net non-operating revenues** | **(49.3)** | **(5.6)** | **21.5** | **8.6** | **12.0** | **22.3** | **0.8** | **n/a** |
| **Income before other revenues** | **(315.0)** | **(35.2)** | **42.3** | **14.5** | **44.6** | **372.8** | **(197.1)** | **n/a** |
| Capital appropriations | (73.4) | (10.7) | 235.2 | 205.4 | 475.3 | n/a | n/a | n/a |
| Refund of prior years capital appropriations | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Capital grants | 110.5 | (89.2) | 127.3 | (65.8) | 105.5 | 2.6 | 163.8 | n/a |
| Capital gifts | 199.1 | (26.0) | 17.2 | 16.1 | 81.2 | (15.8) | (8.3) | n/a |
| Additions to endowments | (26.5) | 52.7 | (29.7) | 48.8 | 56.4 | 13.9 | (9.1) | n/a |
| **Increase (Decrease) in Net Assets** | **(182.2)** | **(38.3)** | **52.1** | **(12.7)** | **69.7** | **255.5** | **33.9** | **n/a** |

## CHANGES IN NET ASSETS ADJUSTED FOR INFLATION Last Eight Fiscal Years (2002 Dollars)

*in thousands*

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 (as restated) | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | |
| *Operating Revenues* | | | | | | | | |
| Student tuition and fees, net | $177,112 | $167,333 | $169,936 | $163,271 | $144,436 | $141,073 | $139,428 | $124,661 |
| Patient services, net | 177,864 | 164,230 | 159,101 | 153,637 | 151,116 | 158,424 | 124,528 | 137,035 |
| Federal grants and contracts | 352,550 | 342,519 | 346,129 | 351,935 | 354,026 | 352,462 | 338,553 | 330,403 |
| State and local grants and contracts | 21,744 | 39,168 | 36,509 | 34,876 | 34,969 | 36,466 | 32,531 | 38,512 |
| Non-governmental grants and contracts | 92,420 | 88,356 | 74,679 | 74,997 | 71,631 | 69,085 | 61,238 | 75,536 |
| Sales and services, net | 240,304 | 267,236 | 261,725 | 251,141 | 255,043 | 247,749 | 248,670 | 246,568 |
| Interest earnings on loans | 599 | 509 | 548 | 560 | 1,266 | 399 | 267 | 121 |
| Other operating revenues | 5,856 | 4,767 | 3,690 | 4,403 | 3,660 | 4,796 | 6,910 | 14,629 |
| **Total operating revenues** | **1,068,449** | **1,074,118** | **1,052,317** | **1,034,820** | **1,016,147** | **1,010,454** | **952,125** | **967,465** |
| **EXPENSES** | | | | | | | | |
| *Operating Expenses* | | | | | | | | |
| Salaries and benefits | 979,036 | 926,114 | 905,353 | 868,902 | 848,949 | 841,105 | 831,348 | 829,473 |
| Supplies and materials | 130,428 | 123,317 | 133,676 | 127,454 | 130,369 | 138,555 | 139,451 | 148,324 |
| Services | 398,400 | 402,834 | 372,778 | 360,256 | 358,057 | 348,346 | 358,487 | 364,832 |
| Scholarships and fellowships | 43,768 | 44,409 | 45,710 | 45,097 | 44,940 | 43,462 | 43,280 | 40,415 |
| Utilities | 58,028 | 50,634 | 48,989 | 46,908 | 42,042 | 42,345 | 41,664 | 45,452 |
| Depreciation | 52,879 | 50,800 | 65,204 | 53,741 | 52,785 | 55,524 | 50,355 | 48,517 |
| **Total operating expenses** | **1,662,539** | **1,598,108** | **1,571,710** | **1,502,358** | **1,477,142** | **1,469,337** | **1,464,585** | **1,477,013** |
| **Operating loss** | **(594,090)** | **(523,990)** | **(519,393)** | **(467,538)** | **(460,995)** | **(458,883)** | **(512,460)** | **(509,548)** |
| **NON-OPERATING REVENUES (EXPENSES)** | | | | | | | | |
| State appropriations | 387,377 | 415,567 | 397,285 | 366,806 | 357,164 | 348,639 | 349,159 | 368,504 |
| State aid — federal recovery funds | 14,987 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-capital grants — federal student financial aid | 7,601 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-capital grants | 107,515 | 78,733 | 50,556 | 56,169 | 54,930 | 48,710 | 38,894 | 34,769 |
| Non-capital gifts, net | 65,196 | 86,506 | 59,404 | 57,366 | 64,721 | 62,789 | 57,767 | 62,404 |
| Investment income (loss), net | (221,916) | 112,173 | 256,348 | 172,891 | 136,042 | 124,052 | 44,968 | 52,957 |
| Interest and fees on debt | (39,214) | (40,778) | (34,629) | (33,275) | (19,166) | (16,806) | (14,877) | (15,031) |
| Other non-operating revenues (expenses) | 1,763 | 651 | 118 | (192) | 7,355 | (7,452) | (1,802) | (7,662) |
| **Net non-operating revenues** | **323,309** | **652,852** | **729,082** | **619,765** | **601,046** | **559,932** | **474,109** | **495,941** |
| **Income before other revenues** | **(270,781)** | **128,862** | **209,689** | **152,227** | **140,051** | **101,049** | **(38,351)** | **(13,607)** |
| Capital appropriations | 9,372 | 36,108 | 42,666 | 13,150 | 4,537 | 823 | 0 | 0 |
| Refund of prior years capital appropriations | (2,479) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital grants | 20,273 | 9,856 | 95,878 | 43,574 | 134,236 | 68,173 | 68,770 | 27,480 |
| Capital gifts | 25,926 | 8,870 | 12,635 | 11,142 | 10,118 | 5,827 | 7,166 | 8,238 |
| Additions to endowments | 33,078 | 46,079 | 31,819 | 46,735 | 33,100 | 22,083 | 20,069 | 23,283 |
| **Increase (Decrease) in Net Assets** | **($184,611)** | **$229,775** | **$392,687** | **$266,828** | **$322,042** | **$197,955** | **$57,654** | **$45,394** |
| Higher Education Price Index (HEPI) | 302.1 | 295.2 | 279.9 | 270.9 | 257.1 | 246.4 | 238.0 | 225.8 |

*HEPI is calculated using data series that are entirely aligned with the July–June academic fiscal year. In prior CAFR's, the index had been calculated using data series with various monthly endpoints. The resulting timing differences sometimes led HEPI to appear too high or low as compared with the Consumer Price Index.*

## CHANGES IN NET ASSETS ADJUSTED FOR INFLATION (CONTINUED) Last Eight Fiscal Years (2002 Dollars)

*percentage increase (decrease) from prior year*

| Fiscal Year Ended June 30, | 2009 % | 2008 % | 2007 % (as restated) | 2006 % | 2005 % | 2004 % | 2003 % | 2002 % |
|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | |
| *Operating Revenues* | | | | | | | | |
| Student tuition and fees, net | 5.8 | (1.5) | 4.1 | 13.0 | 2.4 | 1.2 | 11.8 | n/a |
| Patient services, net | 8.3 | 3.2 | 3.6 | 1.7 | (4.6) | 27.2 | (9.1) | n/a |
| Federal grants and contracts | 2.9 | (1.0) | (1.6) | (0.6) | 0.4 | 4.1 | 2.5 | n/a |
| State and local grants and contracts | (44.5) | 7.3 | 4.7 | (0.3) | (4.1) | 12.1 | (15.5) | n/a |
| Non-governmental grants and contracts | 4.6 | 18.3 | (0.4) | 4.7 | 3.7 | 12.8 | (18.9) | n/a |
| Sales and services, net | (10.1) | 2.1 | 4.2 | (1.5) | 2.9 | (0.4) | 0.9 | n/a |
| Interest earnings on loans | 17.7 | (7.1) | (2.1) | (55.8) | 217.3 | 49.4 | 120.7 | n/a |
| Other operating revenues | 22.8 | 29.2 | (16.2) | 20.3 | (23.7) | (30.6) | (52.8) | n/a |
| **Total operating revenues** | **(0.5)** | **2.1** | **1.7** | **1.8** | **0.6** | **6.1** | **(1.6)** | **n/a** |
| **EXPENSES** | | | | | | | | |
| *Operating Expenses* | | | | | | | | |
| Salaries and benefits | 5.7 | 2.3 | 4.2 | 2.4 | 0.9 | 1.2 | 0.2 | n/a |
| Supplies and materials | 5.8 | (7.7) | 4.9 | (2.2) | (5.9) | (0.6) | (6.0) | n/a |
| Services | (1.1) | 8.1 | 3.5 | 0.6 | 2.8 | (2.8) | (1.7) | n/a |
| Scholarships and fellowships | (1.4) | (2.8) | 1.4 | 0.3 | 3.4 | 0.4 | 7.1 | n/a |
| Utilities | 14.6 | 3.4 | 4.4 | 11.6 | (0.7) | 1.6 | (8.3) | n/a |
| Depreciation | 4.1 | (22.1) | 21.3 | 1.8 | (4.9) | 10.3 | 3.8 | n/a |
| **Total operating expenses** | **4.0** | **1.7** | **4.6** | **1.7** | **0.5** | **0.3** | **(0.8)** | **n/a** |
| **Operating loss** | **13.4** | **0.9** | **11.1** | **1.4** | **0.5** | **(10.5)** | **0.6** | **n/a** |
| **NON-OPERATING REVENUES (EXPENSES)** | | | | | | | | |
| State appropriations | (6.8) | 4.6 | 8.3 | 2.7 | 2.4 | (0.1) | (5.2) | n/a |
| State aid — federal recovery funds | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Non-capital grants — federal student financial aid | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Non-capital grants | 36.6 | 55.7 | (10.0) | 2.3 | 12.8 | 25.2 | 11.9 | n/a |
| Non-capital gifts, net | (24.6) | 45.6 | 3.6 | (11.4) | 3.1 | 8.7 | (7.4) | n/a |
| Investment income (loss), net | (297.8) | (56.2) | 48.3 | 27.1 | 9.7 | 175.9 | (15.1) | n/a |
| Interest and fees on debt | (3.8) | 17.8 | 4.1 | 73.6 | 14.0 | 13.0 | (1.0) | n/a |
| Other non-operating revenues (expenses) | 170.8 | 451.7 | (161.5) | (102.6) | (198.7) | 313.5 | (76.5) | n/a |
| **Net non-operating revenues** | **(50.5)** | **(10.5)** | **17.6** | **3.1** | **7.3** | **18.1** | **(4.4)** | **n/a** |
| **Income before other revenues** | **(310.1)** | **(38.5)** | **37.7** | **8.7** | **38.6** | **(363.5)** | **181.8** | **n/a** |
| Capital appropriations | (74.0) | (15.4) | 224.5 | 189.8 | 451.3 | n/a | n/a | n/a |
| Refund of prior years capital appropriations | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Capital grants | 105.7 | (89.7) | 120.0 | (67.5) | 96.9 | (0.9) | 150.3 | n/a |
| Capital gifts | 192.3 | (29.8) | 13.4 | 10.1 | 73.6 | (18.7) | (13.0) | n/a |
| Additions to endowments | (28.2) | 44.8 | (31.9) | 41.2 | 49.9 | 10.0 | (13.8) | n/a |
| **Increase (Decrease) in Net Assets** | **(180.3)** | **(41.5)** | **47.2** | **(17.1)** | **62.7** | **243.3** | **27.0** | **n/a** |

## OPERATING EXPENSES BY FUNCTION Last Eight Fiscal Years

*in thousands*

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| **OPERATING EXPENSES BY FUNCTION** | | | | | | | | |
| Instruction | $674,942 | $662,228 | $624,128 | $595,319 | $575,951 | $532,927 | $531,123 | $497,771 |
| Research | 398,754 | 358,199 | 312,160 | 285,646 | 271,208 | 257,945 | 247,434 | 237,275 |
| Public Service | 126,427 | 95,618 | 90,025 | 85,330 | 83,005 | 78,276 | 75,410 | 76,896 |
| Academic Support | 107,371 | 106,613 | 97,776 | 86,229 | 75,384 | 75,693 | 70,888 | 67,618 |
| Student Services | 27,967 | 28,434 | 25,865 | 23,957 | 21,653 | 20,488 | 19,491 | 18,225 |
| Institutional Support | 89,954 | 86,549 | 76,188 | 71,609 | 67,426 | 64,732 | 63,461 | 58,560 |
| Operations and Maintenance of Plant | 145,550 | 133,031 | 124,991 | 111,720 | 92,860 | 87,891 | 86,451 | 90,942 |
| Student Financial Aid | 58,557 | 58,058 | 56,662 | 54,105 | 51,170 | 47,427 | 45,618 | 40,415 |
| Auxiliary Enterprises | 524,057 | 494,147 | 459,660 | 424,042 | 383,142 | 377,418 | 350,765 | 340,794 |
| Depreciation | 70,747 | 66,413 | 80,827 | 64,475 | 60,102 | 60,589 | 53,076 | 48,517 |
| **Total Operating Expenses by Function** | **$2,224,326** | **$2,089,290** | **$1,948,282** | **$1,802,432** | **$1,681,901** | **$1,603,386** | **$1,543,717** | **$1,477,013** |

*expressed as a percent of the total*

| | % | % | % | % | % | % | % | % |
|---|---|---|---|---|---|---|---|---|
| **OPERATING EXPENSES BY FUNCTION** | | | | | | | | |
| Instruction | 30.4 | 31.7 | 32.2 | 33.1 | 34.3 | 33.2 | 34.4 | 33.7 |
| Research | 17.9 | 17.2 | 16.0 | 15.8 | 16.1 | 16.1 | 16.0 | 16.0 |
| Public Service | 5.7 | 4.6 | 4.6 | 4.7 | 4.9 | 4.9 | 4.9 | 5.2 |
| Academic Support | 4.8 | 5.1 | 5.0 | 4.8 | 4.5 | 4.7 | 4.6 | 4.6 |
| Student Services | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 |
| Institutional Support | 4.0 | 4.1 | 3.9 | 4.0 | 4.0 | 4.0 | 4.1 | 4.0 |
| Operations and Maintenance of Plant | 6.5 | 6.4 | 6.4 | 6.2 | 5.5 | 5.5 | 5.6 | 6.2 |
| Student Financial Aid | 2.6 | 2.8 | 2.9 | 3.0 | 3.0 | 3.0 | 3.0 | 2.7 |
| Auxiliary Enterprises | 23.6 | 23.6 | 23.6 | 23.5 | 22.8 | 23.5 | 22.7 | 23.1 |
| Depreciation | 3.2 | 3.2 | 4.1 | 3.6 | 3.6 | 3.8 | 3.4 | 3.3 |
| **Total Operating Expenses by Function** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

*percentage increase (decrease) from prior year*

| | % | % | % | % | % | % | % | % |
|---|---|---|---|---|---|---|---|---|
| **OPERATING EXPENSES BY FUNCTION** | | | | | | | | |
| Instruction | 1.9 | 6.1 | 4.8 | 3.4 | 8.1 | 0.3 | 6.7 | n/a |
| Research | 11.3 | 14.7 | 9.3 | 5.3 | 5.1 | 4.2 | 4.3 | n/a |
| Public Service | 32.2 | 6.2 | 5.5 | 2.8 | 6.0 | 3.8 | (1.9) | n/a |
| Academic Support | 0.7 | 9.0 | 13.4 | 14.4 | (0.4) | 6.8 | 4.8 | n/a |
| Student Services | (1.6) | 9.9 | 8.0 | 10.6 | 5.7 | 5.1 | 6.9 | n/a |
| Institutional Support | 3.9 | 13.6 | 6.4 | 6.2 | 4.2 | 2.0 | 8.4 | n/a |
| Operations and Maintenance of Plant | 9.4 | 6.4 | 11.9 | 20.3 | 5.7 | 1.7 | (4.9) | n/a |
| Student Financial Aid | 0.9 | 2.5 | 4.7 | 5.7 | 7.9 | 4.0 | 12.9 | n/a |
| Auxiliary Enterprises | 6.1 | 7.5 | 8.4 | 10.7 | 1.5 | 7.6 | 2.9 | n/a |
| Depreciation | 6.5 | (17.8) | 25.4 | 7.3 | (0.8) | 14.2 | 9.4 | n/a |
| **Total Operating Expenses by Function** | **6.5** | **7.2** | **8.1** | **7.2** | **4.9** | **3.9** | **4.5** | **n/a** |

## REVENUE BASE Last Eight Fiscal Years

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| North Carolina Population | 9,386,573 | 9,222,414 | 9,061,032 | 8,856,505 | 8,683,242 | 8,541,221 | 8,407,248 | 8,320,146 |
| North Carolina Population — 18 year olds | 142,644 | 131,240 | 126,722 | 122,281 | 120,352 | 119,691 | 118,653 | 114,518 |
| North Carolina Per Capita Income | $35,501 | $34,439 | $33,663 | $32,338 | $30,553 | $29,246 | $28,235 | $27,566 |
| North Carolina Unemployment rate | 11.02% | 5.95% | 4.94% | 4.56% | 5.33% | 5.49% | 6.51% | 6.27% |
| *National Institutes of Health* | | | | | | | | |
| Total Appropriations *(000's)* | $30,553,298 | $29,465,000 | $28,626,000 | $28,586,617 | $28,495,157 | $27,887,512 | $27,066,782 | $23,296,382 |
| *percent increase from prior year* | *3.69%* | *2.93%* | *0.14%* | *0.32%* | *2.18%* | *3.03%* | *16.18%* | *n/a* |
| *National Science Foundation* | | | | | | | | |
| Total Appropriations *(000's)* | $6,490,400 | $6,064,900 | $5,917,160 | $5,580,000 | $5,472,820 | $5,577,830 | $5,309,995 | $4,789,240 |
| *percent increase from prior year* | *7.02%* | *2.50%* | *6.04%* | *1.96%* | *(1.88%)* | *5.04%* | *10.87%* | *n/a* |

*Sources: Office of the State Controller, North Carolina State Data Center, National Institute of Health, and National Science Foundation.*

## ACADEMIC YEAR TUITION AND REQUIRED FEES Last Eight Fiscal Years

### UNC-CHAPEL HILL VS ASSOCIATION OF AMERICAN UNIVERSITIES (AAU)

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Resident Undergraduate — UNC-CH | $5,397 | $5,340 | $5,033 | $4,613 | $4,451 | $4,072 | $3,856 | $3,277 |
| *percent increase from prior year* | *1.07%* | *6.10%* | *9.11%* | *3.64%* | *9.31%* | *5.60%* | *17.67%* | *n/a* |
| AAU Public Universities (mean) | $8,283 | $7,771 | $7,321 | $6,906 | $6,458 | $5,980 | $5,160 | $4,656 |
| *percent increase from prior year* | *6.59%* | *6.15%* | *6.01%* | *6.94%* | *7.99%* | *15.89%* | *10.82%* | *n/a* |
| Non-Resident Undergraduate — UNC-CH | $22,295 | $20,988 | $19,681 | $18,411 | $17,549 | $15,920 | $15,140 | $13,269 |
| *percent increase from prior year* | *6.23%* | *6.64%* | *6.90%* | *4.91%* | *10.23%* | *5.15%* | *14.10%* | *n/a* |
| AAU Public Universities (mean) | $23,104 | $21,821 | $20,652 | $19,579 | $18,471 | $16,849 | $15,089 | $13,656 |
| *percent increase from prior year* | *5.88%* | *5.66%* | *5.48%* | *6.00%* | *9.63%* | *11.66%* | *10.49%* | *n/a* |
| Resident Graduate — UNC-CH | $6,693 | $6,236 | $5,680 | $5,014 | $4,651 | $4,269 | $4,043 | $3,449 |
| *percent increase from prior year* | *7.33%* | *9.79%* | *13.27%* | *7.80%* | *8.95%* | *5.59%* | *17.22%* | *n/a* |
| AAU Public Universities (mean) | $10,133 | $9,432 | $8,913 | $8,379 | $7,812 | $7,260 | $6,315 | $5,750 |
| *percent increase from prior year* | *7.43%* | *5.82%* | *6.37%* | *7.26%* | *7.60%* | *14.96%* | *9.83%* | *n/a* |
| Non-Resident Graduate — UNC-CH | $21,091 | $20,234 | $19,678 | $19,012 | $17,899 | $16,267 | $15,692 | $13,760 |
| *percent increase from prior year* | *4.23%* | *2.83%* | *3.50%* | *6.22%* | *10.03%* | *3.66%* | *14.04%* | *n/a* |
| AAU Public Universities (mean) | $21,912 | $20,618 | $20,067 | $19,295 | $18,367 | $16,488 | $14,898 | $13,729 |
| *percent increase from prior year* | *6.28%* | *2.75%* | *4.00%* | *5.05%* | *11.40%* | *10.67%* | *8.51%* | *n/a* |

*Source: "Academic Year Tuition and Required Fees, AAU Public Universities," Univ. of Missouri System, Sept. 2008; The University of North Carolina at Chapel Hill Fact Book.*

## PRINCIPAL REVENUE PAYERS Last Eight Fiscal Years

*in thousands*

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| State and local grants and contracts | $29,091 | $51,207 | $45,256 | $41,842 | $39,816 | $39,793 | $34,289 | $38,512 |
| State appropriations and state aid | 538,327 | 543,292 | 492,471 | 440,070 | 406,673 | 380,446 | 368,024 | 368,504 |
| Capital appropriations | 12,539 | 47,206 | 52,888 | 15,776 | 5,166 | 898 | 0 | 0 |
| Capital grants | 27,124 | 12,885 | 118,850 | 52,277 | 152,844 | 74,392 | 72,486 | 27,480 |
| **NC State Government** | **$607,081** | **$654,590** | **$709,465** | **$549,965** | **$604,499** | **$495,529** | **$474,799** | **$434,496** |
| *percent increase from prior year* | *(7.26%)* | *(7.73%)* | *29.00%* | *(9.02%)* | *21.99%* | *4.37%* | *9.28%* | *n/a* |
| Federal grants and contracts | $471,680 | $447,793 | $429,059 | $422,229 | $403,100 | $384,618 | $356,845 | $330,403 |
| Non-capital grants | 154,016 | 102,932 | 62,669 | 67,388 | 62,544 | 53,154 | 40,995 | 34,769 |
| **Federal Government** | **$625,696** | **$550,725** | **$491,728** | **$489,617** | **$465,644** | **$437,772** | **$397,840** | **$365,172** |
| *percent increase from prior year* | *13.61%* | *12.00%* | *0.43%* | *5.15%* | *6.37%* | *10.04%* | *8.95%* | *n/a* |

## LONG TERM DEBT Last Eight Fiscal Years

*in thousands*

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| General Revenue Debt | $943,585 | $961,280 | $678,980 | $694,575 | $338,210 | $351,430 | $190,255 | $195,810 |
| Plus Unamortized Disc/Premium | 30,438 | 31,898 | 26,821 | 28,050 | 8,098 | 8,662 | 5,409 | 5,867 |
| Less Unamortized Loss on Refunding | (3,034) | (3,436) | (3,838) | (4,240) | (2,280) | (2,606) | (2,932) | (3,257) |
| **Net General Revenue Debt** | **970,989** | **989,742** | **701,963** | **718,385** | **344,028** | **357,486** | **192,732** | **198,420** |
| Revenue Bonds | 79,734 | 81,480 | 83,502 | 85,642 | 112,395 | 114,553 | 181,531 | 186,438 |
| Plus Unamortized Disc/Premium | (287) | (333) | (158) | (181) | (330) | (356) | (716) | (903) |
| **Net Revenue Bonds** | **79,447** | **81,147** | **83,344** | **85,461** | **112,065** | **114,197** | **180,815** | **185,535** |
| Total Bonds Payble | 1,050,436 | 1,070,889 | 785,307 | 803,846 | 456,093 | 471,683 | 373,547 | 383,955 |
| Notes Payable | 675 | 1,037 | 1,362 | 21,054 | 33,519 | 35,000 | 39,333 | 3,800 |
| Capital Leases Payable | 1,710 | 2,804 | 2,404 | 379 | 970 | 1,320 | 927 | 606 |
| **Total** | **$1,052,821** | **$1,074,730** | **$789,073** | **$825,279** | **$490,582** | **$508,003** | **$413,807** | **$388,361** |
| *Long-term Debt (whole dollars)* | | | | | | | | |
| per Student FTE | $39,946 | $41,503 | $30,966 | $32,954 | $19,835 | $20,893 | $17,213 | $16,514 |
| per Dollar of Total Grants | $1.35 | $1.50 | $1.25 | $1.33 | $0.84 | $0.92 | $0.83 | $0.81 |
| per Dollar of State Appropriations and State Aid | $1.96 | $1.98 | $1.60 | $1.88 | $1.21 | $1.34 | $1.12 | $1.05 |

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Net General Revenue Debt | $970,989 | $989,742 | $701,963 | $718,385 | $344,028 | $357,486 | $192,732 | $198,420 |
| Commercial Paper Program | 148,291 | 101,157 | 192,414 | 117,414 | 141,141 | 8,841 | 19,000 | 1,000 |
| **Total General Revenue Debt** | **$1,119,280** | **$1,090,899** | **$894,377** | **$835,799** | **$485,169** | **$366,327** | **$211,732** | **$199,420** |
| *General Revenue Debt (whole dollars)* | | | | | | | | |
| per Student FTE | $42,468 | $42,128 | $35,098 | $33,375 | $19,616 | $15,067 | $8,807 | $8,480 |
| per Dollar of Total Grants | $1.44 | $1.52 | $1.42 | $1.34 | $0.83 | $0.66 | $0.43 | $0.42 |
| per Dollar of State Appropriations and State Aid | $2.08 | $2.01 | $1.82 | $1.90 | $1.19 | $0.96 | $0.58 | $0.54 |

| Data used in the above calculations | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total Student FTE | 26,356 | 25,895 | 25,482 | 25,043 | 24,733 | 24,314 | 24,041 | 23,517 |
| State appropriations and state aid | $538,327 | $543,292 | $492,471 | $440,070 | $406,673 | $380,446 | $368,024 | $368,504 |
| Federal grants and contracts | $471,680 | $447,793 | $429,059 | $422,229 | $403,100 | $384,618 | $356,845 | $330,403 |
| State and local grants and contracts | 29,091 | 51,207 | 45,256 | 41,842 | 39,816 | 39,793 | 34,289 | 38,512 |
| Non-governmental grants and contracts | 123,649 | 115,513 | 92,572 | 89,976 | 81,560 | 75,388 | 64,547 | 75,536 |
| Non-capital grants | 154,016 | 102,932 | 62,669 | 67,388 | 62,544 | 53,154 | 40,995 | 34,769 |
| **Total Grants** | **$778,436** | **$717,445** | **$629,556** | **$621,435** | **$587,020** | **$552,953** | **$496,676** | **$479,220** |

# SUMMARY OF RATIOS Last Eight Fiscal Years

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| | | | *(as restated)* | | | | | |
| **COMPOSITE FINANCIAL INDEX** | | | | | | | | |
| **+ Primary Reserve Ratio** | 0.79 x | 1.06 x | 1.05 x | 0.92 x | 0.86 x | 0.79 x | 0.60 x | 0.66 x |
| / Strength Factor | 0.133 | 0.133 | 0.133 | 0.133 | 0.133 | 0.133 | 0.133 | 0.133 |
| = Ratio / Strength Factor | 5.94 | 7.97 | 7.89 | 6.92 | 6.47 | 5.94 | 4.51 | 4.96 |
| * Weighting Factor | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% |
| = Ratio Subtotal | 2.08 | 2.79 | 2.76 | 2.42 | 2.26 | 2.08 | 1.58 | 1.74 |
| = Ratio 10.00 Cap Subtotal | 2.08 | 2.79 | 2.76 | 2.42 | 2.26 | 2.08 | 1.58 | 1.74 |
| **+ Return on Net Assets Ratio** | (6.7%) | 8.8% | 16.7% | 12.3% | 16.4% | 10.7% | 3.1% | 2.4% |
| / Strength Factor | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| = Ratio / Strength Factor | (3.35) | 4.40 | 8.35 | 6.15 | 8.20 | 5.35 | 1.55 | 1.20 |
| * Weighting Factor | 20% | 20% | 20% | 20% | 20% | 20% | 20% | 20% |
| = Ratio Subtotal | (0.67) | 0.88 | 1.67 | 1.23 | 1.64 | 1.07 | 0.31 | 0.24 |
| = Ratio 10.00 Cap Subtotal | (0.67) | 0.88 | 1.67 | 1.23 | 1.64 | 1.07 | 0.31 | 0.24 |
| **+ Net Operating Revenues Ratio** | (18.9%) | 7.3% | 11.5% | 9.0% | 8.6% | 6.3% | (2.7%) | (0.9%) |
| / Strength Factor | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% |
| = Ratio / Strength Factor | (27.00) | 10.43 | 16.43 | 12.86 | 12.29 | 9.00 | (3.86) | (1.29) |
| * Weighting Factor | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% |
| = Ratio Subtotal | (2.70) | 1.04 | 1.64 | 1.29 | 1.23 | 0.90 | (0.39) | (0.13) |
| = Ratio 10.00 Cap Subtotal | (2.70) | 1.00 | 1.00 | 1.00 | 1.00 | 0.90 | (0.39) | (0.13) |
| **+ Viability Ratio** | 1.5 x | 1.9 x | 2.1 x | 1.8 x | 2.3 x | 2.5 x | 2.1 x | 2.5 x |
| / Strength Factor | 0.417 | 0.417 | 0.417 | 0.417 | 0.417 | 0.417 | 0.417 | 0.417 |
| = Ratio / Strength Factor | 3.60 | 4.56 | 5.04 | 4.32 | 5.52 | 6.00 | 5.04 | 6.00 |
| * Weighting Factor | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% |
| = Ratio Subtotal | 1.26 | 1.60 | 1.76 | 1.51 | 1.93 | 2.10 | 1.76 | 2.10 |
| = Ratio 10.00 Cap Subtotal | 1.26 | 1.60 | 1.76 | 1.51 | 1.93 | 2.10 | 1.76 | 2.10 |
| **Composite Financial Index** | **(0.03)** | **6.31** | **7.83** | **6.45** | **7.06** | **6.15** | **3.26** | **3.95** |
| **Composite Financial Index with 10.00 Cap** | **(0.03)** | **6.27** | **7.19** | **6.16** | **6.83** | **6.15** | **3.26** | **3.95** |

*The Composite Financial Index (CFI) provides a methodology for a single overall financial measurement of the institution's health based on the four core ratios. The CFI uses a reasonable weighting plan and allows a weakness or strength in a specific ratio to be offset by another ratio result, which provides a more balanced measure. The CFI provides a more holistic approach to understanding the financial health of the institution. The CFI scores are not intended to be precise measures; they are indicators of ranges of financial health that can be indicators of overall institutional well-being when combined with non-financial indicators. Ratio/Strength Factors are capped at a maximum of 10 before the weighing factors are applied so that a higher CFI does not unduly mask a weakness in a component ratio.*

## SUMMARY OF RATIOS (CONTINUED) Last Eight Fiscal Years

*in thousands*

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 (as restated) | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| **PRIMARY RESERVE RATIO** | | | | | | | | |
| Unrestricted Net Assets | $700,280 | $671,970 | $617,573 | $525,513 | $475,631 | $408,705 | $370,816 | $346,546 |
| Unrestricted Net Assets — Component Units* | 23,334 | 28,897 | 28,627 | 23,709 | 20,653 | 17,724 | n/a | n/a |
| Expendable Restricted Net Assets | 837,154 | 1,199,280 | 1,086,353 | 853,133 | 736,632 | 648,019 | 559,128 | 645,390 |
| Temporarily Restricted Net Assets — Component Units* | 237,867 | 363,803 | 361,559 | 284,351 | 238,745 | 209,030 | n/a | n/a |
| Expendable Net Assets | $1,798,635 | $2,263,950 | $2,094,112 | $1,686,706 | $1,471,661 | $1,283,478 | $929,944 | $991,936 |
| Operating Expenses | $2,224,326 | $2,089,290 | $1,948,282 | $1,802,432 | $1,681,901 | $1,603,386 | $1,543,717 | $1,477,013 |
| Interest and Fees on Debt | 52,465 | 53,311 | 42,926 | 39,921 | 21,823 | 18,339 | 15,681 | 15,031 |
| Total Expenses | $2,276,791 | $2,142,601 | $1,991,208 | $1,842,353 | $1,703,724 | $1,621,725 | $1,559,398 | $1,492,044 |
| Expendable Net Assets | $1,798,635 | $2,263,950 | $2,094,112 | $1,686,706 | $1,471,661 | $1,283,478 | $929,944 | $991,936 |
| Total Expenses | $2,276,791 | $2,142,601 | $1,991,208 | $1,842,353 | $1,703,724 | $1,621,725 | $1,559,398 | $1,492,044 |
| **Ratio** | **0.79 x** | **1.06 x** | **1.05 x** | **0.92 x** | **0.86 x** | **0.79 x** | **0.60 x** | **0.66 x** |

*Measures the financial strength of the institution by indicating how long the institution could function using its expendable reserves to cover operations should additional net assets not be available. A positive ratio and an increasing amount over time denotes strength.*

**For the fiscal year ended June 30, 2004, the University implemented Governmental Accounting Standards Board Statement No. 39,* Determining Whether Certain Organizations are Component Units. *This Statement amends GASB Statement No. 14,* The Financial Reporting Entity, *to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship to the University. The component units of the University are discretely presented in the Financial Section.*

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 (as restated) | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| **RETURN ON NET ASSETS RATIO** | | | | | | | | |
| Change in Net assets | ($246,993) | $300,399 | $486,768 | $320,123 | $366,680 | $216,014 | $60,768 | $45,394 |
| Total Net Assets | $3,709,435 | $3,409,036 | $2,922,268 | $2,607,879 | $2,241,199 | $2,025,186 | $1,964,418 | $1,919,024 |
| **Ratio** | **(6.7%)** | **8.8%** | **16.7%** | **12.3%** | **16.4%** | **10.7%** | **3.1%** | **2.4%** |

*Measures total economic return. While an increasing trend reflects strength, a decline may be appropriate and even warranted if it represents a strategy on the part of the institution to fulfill its mission.*

## SUMMARY OF RATIOS (CONTINUED) Last Eight Fiscal Years

*in thousands*

### NET OPERATING REVENUES RATIO

| Fiscal Year Ended June 30, | 2009 | 2008 (as restated) | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Total Operating Revenues | $1,429,487 | $1,404,252 | $1,304,444 | $1,241,511 | $1,157,001 | $1,102,637 | $1,003,568 | $967,465 |
| State Appropriations and State Aid | 538,327 | 543,292 | 492,471 | 440,070 | 406,673 | 380,446 | 368,024 | 368,505 |
| Non-capital Gifts and Grants, net | 241,242 | 216,026 | 136,306 | 136,212 | 136,237 | 121,671 | 101,882 | 97,173 |
| Investment Income (Loss), net | (296,904) | 146,650 | 317,767 | 207,423 | 154,900 | 135,369 | 47,398 | 52,957 |
| Adjusted Net Operating Revenues | $1,912,152 | $2,310,220 | $2,250,988 | $2,025,216 | $1,854,811 | $1,740,123 | $1,520,872 | $1,486,100 |
| Income (Loss) Before Other Revenues, Expenses, Gains, or Losses | ($362,280) | $168,470 | $259,926 | $182,633 | $159,462 | $110,267 | ($40,424) | ($13,607) |
| Adjusted Net Operating Revenues | $1,912,152 | $2,310,220 | $2,250,988 | $2,025,216 | $1,854,811 | $1,740,123 | $1,520,872 | $1,486,100 |
| **Ratio** | **(18.9%)** | **7.3%** | **11.5%** | **9.0%** | **8.6%** | **6.3%** | **(2.7%)** | **(0.9%)** |

*Measures whether the institution is living within available resources. A positive ratio and an increasing amount over time, generally reflects strength.*

### VIABILITY RATIO

| Fiscal Year Ended June 30, | 2009 | 2008 (as restated) | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Unrestricted Net Assets | $700,280 | $671,970 | $617,573 | $525,513 | $475,631 | $408,705 | $370,816 | $346,546 |
| Unrestricted Net Assets — Component Units* | 23,334 | 28,897 | 28,627 | 23,709 | 20,653 | 17,724 | n/a | n/a |
| Expendable Restricted Net Assets | 837,154 | 1,199,280 | 1,086,353 | 853,133 | 736,632 | 648,019 | 559,128 | 645,390 |
| Temporarily Restricted Net Assets — Component Units* | 237,867 | 363,803 | 361,559 | 284,351 | 238,745 | 209,030 | n/a | n/a |
| Expendable Net Assets | $1,798,635 | $2,263,950 | $2,094,112 | $1,686,706 | $1,471,661 | $1,283,478 | $929,944 | $991,936 |
| Bonds | $1,050,436 | $1,070,889 | $785,307 | $803,846 | $456,093 | $471,684 | $373,548 | $383,955 |
| Commercial Paper | 148,291 | 101,157 | 192,414 | 117,414 | 141,141 | 8,841 | 19,000 | 1,000 |
| Capital Leases | 1,710 | 2,804 | 2,404 | 379 | 970 | 1,320 | 927 | 606 |
| Notes | 675 | 1,037 | 1,362 | 21,054 | 33,519 | 35,000 | 39,332 | 3,800 |
| Notes — Component Units* | 1,400 | 1,500 | 2,100 | 3,000 | 263 | 255 | n/a | n/a |
| Total Adjusted University Debt | $1,202,512 | $1,177,387 | $983,587 | $945,693 | $631,986 | $517,100 | $432,807 | $389,361 |
| Expendable Net Assets | $1,798,635 | $2,263,950 | $2,094,112 | $1,686,706 | $1,471,661 | $1,283,478 | $929,944 | $991,936 |
| Total Adjusted University Debt | $1,202,512 | $1,177,387 | $983,587 | $945,693 | $631,986 | $517,100 | $432,807 | $389,361 |
| **Ratio** | **1.5 x** | **1.9 x** | **2.1 x** | **1.8 x** | **2.3 x** | **2.5 x** | **2.1 x** | **2.5 x** |

*Measures the ability of the institution to cover its debt as of the balance sheet date, should the institution need to do so. A positive ratio of greater than 1:1 generally denotes strength.*

**For the fiscal year ended June 30, 2004, the University implemented Governmental Accounting Standards Board Statement No. 39,* Determining Whether Certain Organizations are Component Units. *This Statement amends GASB Statement No. 14,* The Financial Reporting Entity, *to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship to the University. The component units of the University are discretely presented in the Financial Section.*

*in thousands*

| Fiscal Year Ended June 30, | 2009 | 2008 (as restated) | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| **OPERATING MARGIN EXCLUDING GIFTS** | | | | | | | | |
| Income (Loss) Before Other Revenues, Expenses, Gains, or Losses | ($362,280) | $168,470 | $259,926 | $182,632 | $159,462 | $110,267 | ($40,424) | ($13,607) |
| Less: Non-capital Gifts and Grants, net | (241,242) | (216,026) | (136,306) | (136,212) | (136,237) | (121,671) | (101,882) | (97,173) |
| Adjusted Income (Loss) Before Other Revenues, Expenses, Gains or Losses | ($603,522) | ($47,556) | $123,620 | $46,420 | $23,225 | ($11,404) | ($142,306) | ($110,780) |
| Total Operating Revenues | $1,429,487 | $1,404,252 | $1,304,444 | $1,241,511 | $1,157,001 | $1,102,637 | $1,003,568 | $967,465 |
| State Appropriations and State Aid | 538,327 | 543,292 | 492,471 | 440,070 | 406,673 | 380,446 | 368,024 | 368,505 |
| Investment Income (Loss), net | (296,904) | 146,650 | 317,767 | 207,423 | 154,900 | 135,369 | 47,398 | 52,957 |
| Adjusted Net Operating Revenues less Gifts | $1,670,910 | $2,094,194 | $2,114,682 | $1,889,004 | $1,718,574 | $1,618,452 | $1,418,990 | $1,388,927 |
| Adjusted Income (Loss) Before Other Revenues, Expenses, Gains or Losses | ($603,522) | ($47,556) | $123,620 | $46,420 | $23,225 | ($11,404) | ($142,306) | ($110,780) |
| Adjusted Net Operating Revenues less Gifts | $1,670,910 | $2,094,194 | $2,114,682 | $1,889,004 | $1,718,574 | $1,618,452 | $1,418,990 | $1,388,927 |
| **Ratio** | **(36.1%)** | **(2.3%)** | **5.8%** | **2.5%** | **1.4%** | **(0.7%)** | **(10.0%)** | **(8.0%)** |

*A more restrictive measure of whether the institution is living within available resources. A positive ratio and an increasing amount over time generally reflects strength.*

| Fiscal Year Ended June 30, | 2009 | 2008 (as restated) | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| **EXPENDABLE RESOURCES TO DEBT** | | | | | | | | |
| Unrestricted Net Assets | $700,280 | $671,970 | $617,573 | $525,513 | $475,631 | $408,705 | $370,816 | $346,546 |
| Unrestricted Net Assets — Component Units* | 23,334 | 28,897 | 28,627 | 23,709 | 20,653 | 17,724 | n/a | n/a |
| Expendable Restricted Net Assets | 837,154 | 1,199,280 | 1,086,353 | 853,133 | 736,632 | 648,019 | 559,128 | 645,390 |
| Temporarily Restricted Net Assets — Component Units* | 237,867 | 363,803 | 361,559 | 284,351 | 238,745 | 209,030 | n/a | n/a |
| Expendable Net Assets | $1,798,635 | $2,263,950 | $2,094,112 | $1,686,706 | $1,471,661 | $1,283,478 | $929,944 | $991,936 |
| Total Notes, Bonds, Capital Leases and Commercial Paper | $1,201,112 | $1,175,887 | $981,487 | $942,693 | $631,723 | $516,845 | $432,807 | $389,361 |
| Long-term Debt — Component Units* | 1,400 | 1,500 | 2,100 | 3,000 | 263 | 255 | n/a | n/a |
| Less: U.S. EPA Project Bonds** | (19,286) | (21,478) | (23,495) | (25,349) | (27,317) | (29,221) | (30,975) | (32,591) |
| Total Adjusted University Debt | $1,183,226 | $1,155,909 | $960,092 | $920,344 | $604,669 | $487,879 | $401,832 | $356,770 |
| Expendable Net Assets | $1,798,635 | $2,263,950 | $2,094,112 | $1,686,706 | $1,471,661 | $1,283,478 | $929,944 | $991,936 |
| Total Adjusted University Debt | $1,183,226 | $1,155,909 | $960,092 | $920,344 | $604,669 | $487,879 | $401,832 | $356,770 |
| **Ratio** | **1.5 x** | **2.0 x** | **2.2 x** | **1.8 x** | **2.4 x** | **2.6 x** | **2.3 x** | **2.8 x** |

*A broader measure of the ability of the institution to cover its debt as of the balance sheet date.*

**For the fiscal year ended June 30, 2004, the University implemented Governmental Accounting Standards Board Statement No. 39,* Determining Whether Certain Organizations are Component Units. *This Statement amends GASB Statement No. 14,* The Financial Reporting Entity, *to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship to the University. The component units of the University are discretely presented in the Financial Section.*

***U.S. EPA Project Bonds are secured by an irrevocable lease from the U.S. government. This lease covers the debt service requirements for the term of the Bonds.*

*in thousands*

## TOTAL FINANCIAL RESOURCES TO DIRECT DEBT

| Fiscal Year Ended June 30, | 2009 | 2008 (as restated) | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Unrestricted Net Assets | $700,280 | $671,970 | $617,573 | $525,513 | $475,631 | $408,705 | $370,816 | $346,546 |
| Non-expendable Restricted Net Assets | 586,175 | 548,151 | 493,305 | 430,316 | 378,234 | 328,735 | 323,961 | 304,097 |
| Expendable Restricted Net Assets | 837,154 | 1,199,280 | 1,086,353 | 853,133 | 736,632 | 648,019 | 559,128 | 645,390 |
| Total Financial Resources | $2,123,609 | $2,419,401 | $2,197,231 | $1,808,962 | $1,590,497 | $1,385,459 | $1,253,905 | $1,296,033 |
| Total Financial Resources | $2,123,609 | $2,419,401 | $2,197,231 | $1,808,962 | $1,590,497 | $1,385,459 | $1,253,905 | $1,296,033 |
| Total Notes, Bonds, Capital Leases and Commercial Paper | $1,201,112 | $1,175,887 | $981,487 | $942,693 | $631,723 | $516,845 | $432,807 | $389,361 |
| **Ratio** | **1.8 x** | **2.1 x** | **2.2 x** | **1.9 x** | **2.5 x** | **2.7 x** | **2.9 x** | **3.3 x** |

*A broader measure of the ability of the institution to cover its debt as of the balance sheet date.*

## DIRECT DEBT TO ADJUSTED CASH FLOW

| Fiscal Year Ended June 30, | 2009 | 2008 (as restated) | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Net Cash Used by Operating Activities | ($679,012) | ($641,134) | ($570,342) | ($492,016) | ($460,046) | ($348,742) | ($382,265) | ($440,099) |
| State Appropriations and State Aid | 538,327 | 543,292 | 492,471 | 440,070 | 406,673 | 380,446 | 368,024 | 368,505 |
| Grants for Other than Capital Purposes | 154,016 | 102,932 | 62,669 | 67,388 | 62,544 | 53,154 | 40,995 | 34,769 |
| Non-capital Gifts | 87,226 | 113,094 | 73,637 | 68,824 | 73,693 | 68,517 | 60,888 | 62,404 |
| Adjusted Cash Flow from Operations | $100,557 | $118,184 | $58,435 | $84,266 | $82,864 | $153,375 | $87,642 | $25,579 |
| Total Notes, Bonds, Capital Leases and Commercial Paper | $1,201,112 | $1,175,887 | $981,487 | $942,693 | $631,723 | $516,845 | $432,807 | $389,361 |
| Adjusted Cash Flow from Operations | $100,557 | $118,184 | $58,435 | $84,266 | $82,864 | $153,375 | $87,642 | $25,579 |
| **Ratio** | **11.9 x** | **9.9 x** | **16.8 x** | **11.2 x** | **7.6 x** | **3.4 x** | **4.9 x** | **15.2 x** |

*Measures the financial strength of the institution by indicating how long the institution would take to repay the debt using the cash provided by its operations. A decreasing ratio over time denotes strength.*

## SUMMARY OF RATIOS (CONTINUED) Last Eight Fiscal Years

*in thousands*

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| | | *(as restated)* | | | | | | |
| **DEBT BURDEN RATIO** | | | | | | | | |
| Interest and Fees Paid on Debt and Leases | $53,010 | $52,779 | $43,676 | $40,390 | $22,644 | $20,438 | $18,303 | $21,117 |
| Principal Paid on Debt and Leases | 46,462 | 238,672 | 43,344 | 228,037 | 39,608 | 21,900 | 14,044 | 14,130 |
| Less: Principal Paid from Gifts and Excess Funds | (20,866) | (15,732) | 0 | 0 | 0 | 0 | 0 | 0 |
| Less: Principal Paid from Refinancing Activities | 0 | (198,244) | (19,719) | (206,539) | (19,910) | (4,333) | 0 | 0 |
| Debt Service | $78,606 | $77,475 | $67,301 | $61,888 | $42,342 | $38,005 | $32,347 | $35,247 |
| Operating Expenses | $2,224,326 | $2,089,290 | $1,948,282 | $1,802,432 | $1,681,901 | $1,603,386 | $1,543,717 | $1,477,013 |
| Interest and Fees on Debt | 52,465 | 53,311 | 42,926 | 39,921 | 21,823 | 18,339 | 15,681 | 15,031 |
| Fixed Asset Writedowns (if not included in Operating Expenses) | 0 | 0 | 0 | 0 | 2,635 | 8,132 | 1,899 | 7,661 |
| Less: Depreciation Expense | (70,747) | (66,413) | (80,827) | (64,475) | (60,102) | (60,589) | (53,076) | (48,517) |
| Plus: Principal Paid on Debt and Leases | 46,462 | 238,672 | 43,344 | 228,037 | 39,608 | 21,900 | 14,044 | 14,130 |
| Less: Principal Paid from Gifts and Excess Funds | (20,866) | (15,732) | 0 | 0 | 0 | 0 | 0 | 0 |
| Less: Principal Paid from Refinancing Activities | 0 | (198,244) | (19,719) | (206,539) | (19,910) | (4,333) | 0 | 0 |
| Total Expenditures | $2,231,640 | $2,100,884 | $1,934,006 | $1,799,376 | $1,665,955 | $1,586,835 | $1,522,265 | $1,465,318 |
| Debt Service | $78,606 | $77,475 | $67,301 | $61,888 | $42,342 | $38,005 | $32,347 | $35,247 |
| Total Expenditures | $2,231,640 | $2,100,884 | $1,934,006 | $1,799,376 | $1,665,955 | $1,586,835 | $1,522,265 | $1,465,318 |
| **Ratio** | **3.5%** | **3.7%** | **3.5%** | **3.4%** | **2.5%** | **2.4%** | **2.1%** | **2.4%** |

*Measures the financial strength of the institution by indicating how long the institution could function using its expendable reserves to cover operations should additional net assets not be available. A positive ratio and an increasing amount over time denotes strength.*

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| | | *(as restated)* | | | | | | |
| **DEBT SERVICE TO OPERATIONS** | | | | | | | | |
| Interest and Fees Paid on Debt and Leases | $53,010 | $52,779 | $43,676 | $40,390 | $22,644 | $20,438 | $18,303 | $21,117 |
| Less: Interest and Fees Paid — U.S. EPA Project Bonds* | (360) | (683) | (977) | (1,264) | (1,534) | (1,781) | (2,013) | (2,210) |
| Principal Paid on Debt and Leases | 46,462 | 238,672 | 43,344 | 228,037 | 39,608 | 21,900 | 14,044 | 14,130 |
| Less: Non-contractual Principal Paid from Gifts and Excess Funds | (20,866) | (15,732) | 0 | 0 | 0 | 0 | 0 | 0 |
| Less: Principal Paid from Refinancing Activities | 0 | (198,244) | (19,719) | (206,539) | (19,910) | (4,333) | 0 | 0 |
| Less: Principal Paid — U.S. EPA Project Bonds* | (3,860) | (3,540) | (3,245) | (3,240) | (3,065) | (2,815) | (2,585) | (2,385) |
| Debt Service | $74,386 | $73,252 | $63,079 | $57,384 | $37,743 | $33,409 | $27,749 | $30,652 |
| Operating Expenses | $2,224,326 | $2,089,290 | $1,948,282 | $1,802,432 | $1,681,901 | $1,603,386 | $1,543,717 | $1,477,013 |
| Debt Service | $74,386 | $73,252 | $63,079 | $57,384 | $37,743 | $33,409 | $27,749 | $30,652 |
| Operating Expenses | $2,224,326 | $2,089,290 | $1,948,282 | $1,802,432 | $1,681,901 | $1,603,386 | $1,543,717 | $1,477,013 |
| **Ratio** | **3.3%** | **3.5%** | **3.2%** | **3.2%** | **2.2%** | **2.1%** | **1.8%** | **2.1%** |

*Measures the financial strength of the institution.*

**U.S. EPA Project Bonds are secured by an irrevocable lease from the U.S. government. This lease covers the debt service requirements for the term of the Bonds.*

*in thousands*

## RESEARCH EXPENSES TO TOTAL OPERATING EXPENSES

| Fiscal Year Ended June 30, | 2009 | 2008 (as restated) | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Operating Expenses | $2,224,326 | $2,089,290 | $1,948,282 | $1,802,432 | $1,681,901 | $1,603,386 | $1,543,717 | $1,477,013 |
| Interest and Fees on Debt | 52,465 | 53,311 | 42,926 | 39,921 | 21,823 | 18,339 | 15,681 | 15,031 |
| Fixed Asset Writedowns (if not included in Operating Expenses) | 0 | 0 | 0 | 0 | 2,635 | 8,132 | 1,899 | 7,661 |
| Total Adjusted Operating Expenses | $2,276,791 | $2,142,601 | $1,991,208 | $1,842,353 | $1,706,359 | $1,629,857 | $1,561,297 | $1,499,705 |
| Research Expenses | $398,753 | $358,199 | $312,160 | $285,646 | $271,208 | $257,945 | $247,434 | $237,275 |
| Total Adjusted Operating Expenses | $2,276,791 | $2,142,601 | $1,991,208 | $1,842,353 | $1,706,359 | $1,629,857 | $1,561,297 | $1,499,705 |
| **Ratio** | **17.5%** | **16.7%** | **15.7%** | **15.5%** | **15.9%** | **15.8%** | **15.8%** | **15.8%** |

*Measures the institution's research expense to the total operating expenses.*

## NET TUITION PER STUDENT

| Fiscal Year Ended June 30, | 2009 | 2008 (as restated) | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Student Tuition and Fees, net | $236,960 | $218,763 | $210,651 | $195,882 | $164,457 | $153,943 | $146,961 | $124,661 |
| Less: Scholarships and Fellowships | (58,557) | (58,059) | (56,662) | (54,105) | (51,170) | (47,427) | (45,618) | (40,415) |
| Net Tuition and Fees | $178,403 | $160,704 | $153,989 | $141,777 | $113,287 | $106,516 | $101,343 | $84,246 |
| Net Tuition and Fees | $178,403 | $160,704 | $153,989 | $141,777 | $113,287 | $106,516 | $101,343 | $84,246 |
| Undergraduate, Graduate and Professional FTE | 26,356 | 25,895 | 25,482 | 25,043 | 24,733 | 24,314 | 24,041 | 23,517 |
| **Net Tuition per Student (whole dollars)** | **$6,769** | **$6,206** | **$6,043** | **$5,661** | **$4,580** | **$4,381** | **$4,215** | **$3,582** |

*Measures the institution's net student tution and fees received per student.*

## STATE APPROPRIATION AND STATE AID PER STUDENT

| Fiscal Year Ended June 30, | 2009 | 2008 (as restated) | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| State Appropriations and State Aid | $538,327 | $543,292 | $492,471 | $440,070 | $406,673 | $380,446 | $368,024 | $368,505 |
| Undergraduate, Graduate and Professional FTE | 26,356 | 25,895 | 25,482 | 25,043 | 24,733 | 24,314 | 24,041 | 23,517 |
| Undergraduate, Graduate and Professional FTE | 26,356 | 25,895 | 25,482 | 25,043 | 24,733 | 24,314 | 24,041 | 23,517 |
| **State Appropriation per Student (whole dollars)** | **$20,425** | **$20,981** | **$19,326** | **$17,573** | **$16,443** | **$15,647** | **$15,308** | **$15,670** |

*Measures institution's dependency on state appropriations.*

## SPECIFIC REVENUE AND GENERAL REVENUE BOND COVERAGE Last Ten Fiscal Years

*The University of North Carolina at Chapel Hill has issued General Revenue Bonds, which are repaid from Available Funds. Available Funds are defined as any unrestricted Net Assets remaining after satisfying obligations of the University under trust indentures, trust agreements or bond resolutions (Specific Revenue Bonds), but excluding State Appropriations, Tuition, and certain special facilities revenues. Specific Revenue Bonds have a pledged revenue stream as the repayment source.*

*in thousands*

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **SPECIFIC REVENUE BOND COVERAGE** | | | | | |
| Gross Operating Revenues | $195,265 | $177,705 | $160,112 | $143,900 | $125,968 |
| Direct Operating Expenses | 144,364 | 114,352 | 115,450 | 105,885 | 90,218 |
| **Net Revenue Available for Debt Service** | **$50,901** | **$63,353** | **$44,662** | **$38,015** | **$35,750** |
| Principal | $5,515 | $6,340 | $6,180 | $5,635 | $5,700 |
| Interest | 588 | 1,090 | 1,527 | 2,325 | 3,669 |
| **Specific Revenue Debt Service Requirements** | **$6,103** | **$7,430** | **$7,707** | **$7,960** | **$9,369** |
| **Coverage** | **8.34** | **8.53** | **5.79** | **4.78** | **3.82** |

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **AVAILABLE FUNDS GENERAL REVENUE BONDS** | | | | | |
| Total Unrestricted Revenue | $1,483,607 | $1,539,517 | $1,447,939 | $1,316,160 | $1,191,976 |
| Less: | | | | | |
| State Appropriations and State Aid | (538,327) | (543,292) | (492,471) | (440,070) | (406,673) |
| Tuition and Fees | (236,960) | (218,763) | (210,652) | (195,882) | (164,457) |
| Specific Revenue Debt Service Requirements | (6,103) | (7,430) | (7,707) | (7,960) | (9,369) |
| Plus: | | | | | |
| Adjusted Beginning Unrestricted Net Assets | 671,970 | 617,573 | 525,513 | 475,631 | 410,110 |
| **Total Available Funds** | **$1,374,187** | **$1,387,605** | **$1,262,622** | **$1,147,879** | **$1,021,587** |
| **Annual Increase (Decrease)** | **($13,418)** | **$124,983** | **$114,743** | **$126,292** | **$46,232** |
| **% Increase (Decrease)** | **(1.0%)** | **9.9%** | **10.0%** | **12.4%** | **4.7%** |

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **GENERAL REVENUE BOND COVERAGE** | | | | | |
| Total Available Funds | $1,374,188 | $1,387,605 | $1,262,622 | $1,147,879 | $1,021,587 |
| Principal | $17,695 | $16,175 | $15,595 | $15,285 | $13,220 |
| Interest | 44,876 | 38,970 | 32,814 | 28,373 | 14,459 |
| **General Revenue Debt Service Requirements** | **$62,571** | **$55,145** | **$48,409** | **$43,658** | **$27,679** |
| **Coverage** | **21.96** | **25.16** | **26.08** | **26.29** | **36.91** |

*General Revenue Bond Debt Service includes debt service for specific revenue bonds refunded or defeased by issuance of general revenue debt during the year of refunding.*

*in thousands*

| Fiscal Year Ended June 30, | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **SPECIFIC REVENUE BOND COVERAGE** | | | | | |
| Gross Operating Revenues | $121,470 | $116,985 | $102,042 | $92,977 | $250,316 |
| Direct Operating Expenses | 90,057 | 90,731 | 73,720 | 64,808 | 214,212 |
| **Net Revenue Available for Debt Service** | **$31,413** | **$26,254** | **$28,322** | **$28,169** | **$36,104** |
| Principal | $5,335 | $6,420 | $10,090 | $9,195 | $11,601 |
| Interest | 4,034 | 4,414 | 8,433 | 10,203 | 11,351 |
| **Specific Revenue Debt Service Requirements** | **$9,369** | **$10,834** | **$18,523** | **$19,398** | **$22,952** |
| **Coverage** | **3.35** | **2.42** | **1.53** | **1.45** | **1.57** |

| Fiscal Year Ended June 30, | 2004 | 2003 | 2002 (1) | 2001 | 2000 |
|---|---|---|---|---|---|
| **AVAILABLE FUNDS GENERAL REVENUE BONDS** | | | | | |
| Total Unrestricted Revenue | $1,148,297 | $1,055,273 | $987,708 | $1,009,353 | $924,667 |
| Less: | | | | | |
| State Appropriations and State Aid | (380,446) | (368,024) | (368,505) | (402,205) | (383,189) |
| Tuition and Fees | (153,943) | (146,961) | (124,661) | (139,319) | (121,507) |
| Specific Revenue Debt Service Requirements | (9,369) | (10,834) | (18,523) | (19,398) | (22,952) |
| Plus: | | | | | |
| Adjusted Beginning Unrestricted Net Assets | 370,816 | 346,546 | 392,613 | 354,936 | 347,359 |
| **Total Available Funds** | **$975,355** | **$876,000** | **$868,632** | **$803,367** | **$744,378** |
| **Annual Increase** | **$99,355** | **$7,368** | **$65,265** | **$58,989** | **$69,898** |
| **% Increase** | **11.3%** | **0.8%** | **8.1%** | **7.9%** | **10.4%** |

| Fiscal Year Ended June 30, | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **GENERAL REVENUE BOND COVERAGE** | | | | | |
| Total Available Funds | $975,355 | $876,000 | $868,632 | $803,367 | $744,378 |
| Principal | $11,745 | $7,150 | $4,060 | $2,840 | |
| Interest | 10,017 | 8,332 | 7,094 | 5,012 | |
| **General Revenue Debt Service Requirements** | **$21,762** | **$15,482** | **$11,154** | **$7,852** | **n/a** |
| **Coverage** | **44.82** | **56.58** | **77.88** | **102.31** | |

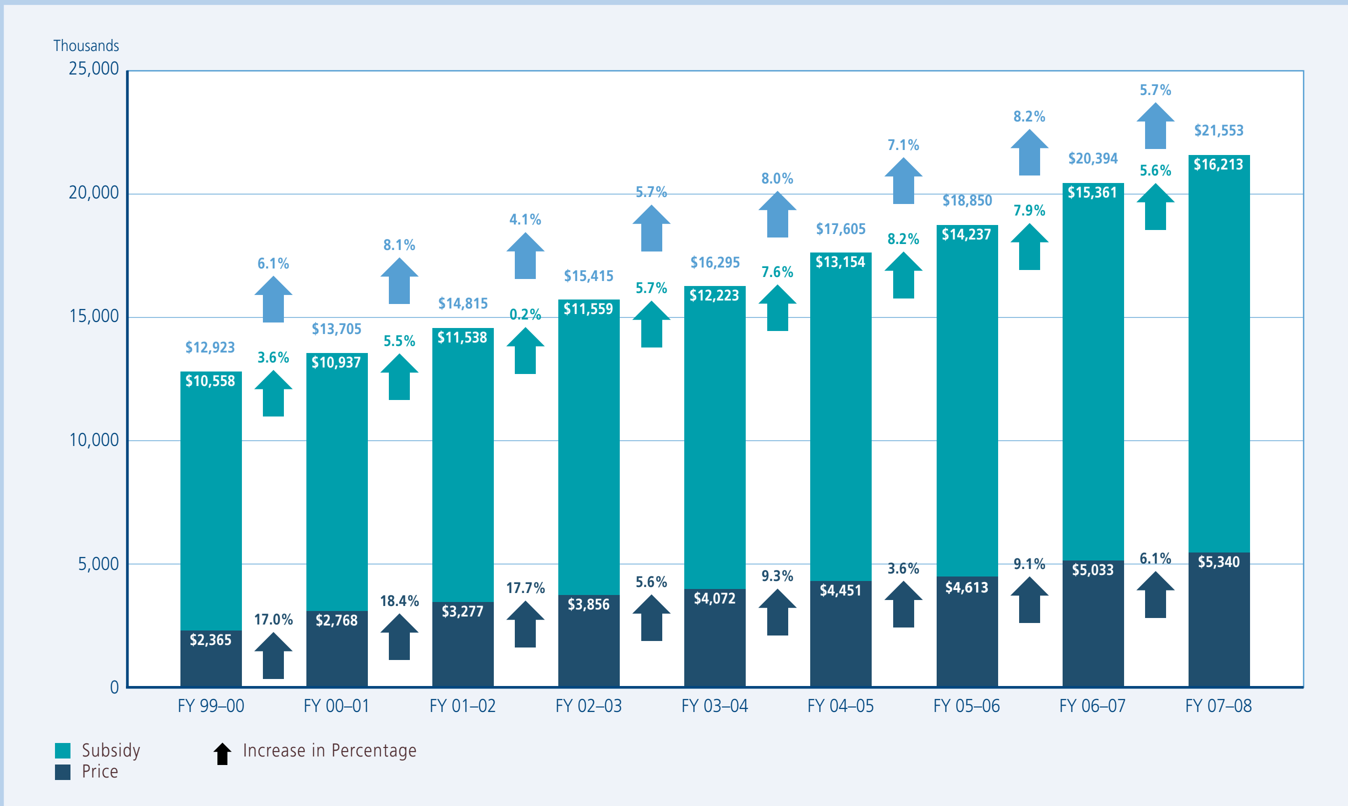
*(1) For fiscal year ended June 30, 2002, the University implemented GASB Statement No. 34,* Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments *as amended by GASB Statement No. 35,* Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities. *In addition, the University implemented GASB Statement No. 38,* Certain Financial Statement Note Disclosures. The definition of available funds has not changed as a result of implementing these GASB Statements.

## ANNUAL UNDERGRADUATE EDUCATIONAL COSTS PER STUDENT

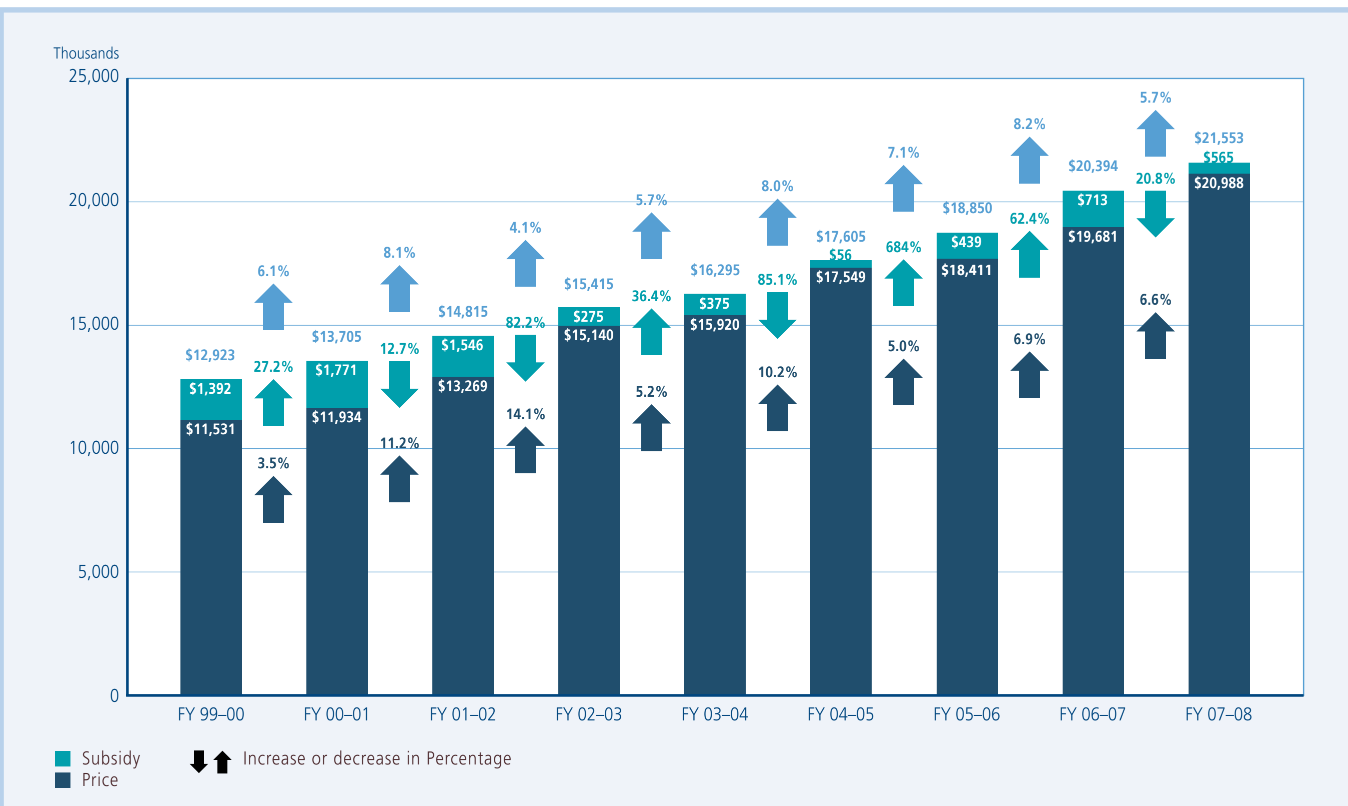
Public concern over tuition prices at colleges and universities led in 1997 to the establishment by Congress of the National Commission on the Cost of Higher Education. The task of the commission was to investigate the college cost-price conundrum and recommend ways to address it. In response, the National Association of College and University Business Officers (NACUBO) developed the Cost of College Project. The goal was to create a uniform methodology that any college or university could use to explain and present how much it costs to provide one year of undergraduate education and related services. The criteria governing the project include: simplicity of use and understanding; basis should be on existing data from annual financial statements; should be applicable to all types of colleges and universities; and should produce reasonable results when compared with more detailed cost data derived from the institution's internal accounting methods.

After more than two years in development and testing by almost 150 colleges and universities, the final project report was delivered in November 2002. Carolina was one of those testing sites. A single-page template was developed by NACUBO to be used to record the necessary information. The template shows annual costs per resident undergraduate student at the University. The graphs displayed on the next page show historical trends in the total annual costs per resident and non-resident undergraduate student at the University, and the difference between the price the student pays (i.e., tuition and fees) and state support (i.e., "subsidy"). The methodology was created to help individual institutions calculate and report the annual cost of providing an undergraduate education. It was not designed to be a mechanism for collecting national data on college costs or creating industry benchmarks. It is also not a measure of the value or quality of the education provided by the institution.

## COST OF COLLEGE FOR RESIDENT UNDERGRADUATE STUDENTS




## COST OF COLLEGE FOR NON-RESIDENT UNDERGRADUATE STUDENTS



## ADMISSIONS, ENROLLMENT, AND DEGREES EARNED Last Ten Fiscal Years (Fall Enrollment)

### ADMISSIONS — FRESHMEN

| Fiscal Year Ended June 30, | 2008 09 | 2007 08 | 2006 07 | 2005 06 | 2004 05 | 2003 04 | 2002 03 | 2001 02 | 2000 01 | 1999 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Applications | 21,543 | 20,090 | 19,728 | 18,414 | 18,850 | 17,591 | 17,141 | 15,946 | 16,569 | 16,021 |
| Accepted | 7,315 | 6,999 | 6,737 | 6,736 | 6,741 | 6,441 | 6,073 | 6,339 | 6,088 | 6,176 |
| Enrolled | 3,852 | 3,893 | 3,807 | 3,751 | 3,589 | 3,516 | 3,460 | 3,687 | 3,415 | 3,396 |
| Accepted as a Percentage of Applications | 34.0% | 34.8% | 34.1% | 36.6% | 35.8% | 36.6% | 35.4% | 39.8% | 36.7% | 38.5% |
| Enrolled as a Percentage of Accepted | 52.7% | 55.6% | 56.5% | 55.7% | 53.2% | 54.6% | 57.0% | 58.2% | 56.1% | 55.0% |
| Average SAT Scores — Total | 1,301 | 1,302 | 1,292 | 1,299 | 1,287 | 1,283 | 1,267 | 1,257 | 1,251 | 1,245 |
| Verbal | 643 | 646 | 638 | 643 | 638 | 634 | 625 | 623 | 622 | 620 |
| Math | 658 | 656 | 654 | 656 | 649 | 649 | 642 | 634 | 629 | 625 |

### ENROLLMENT

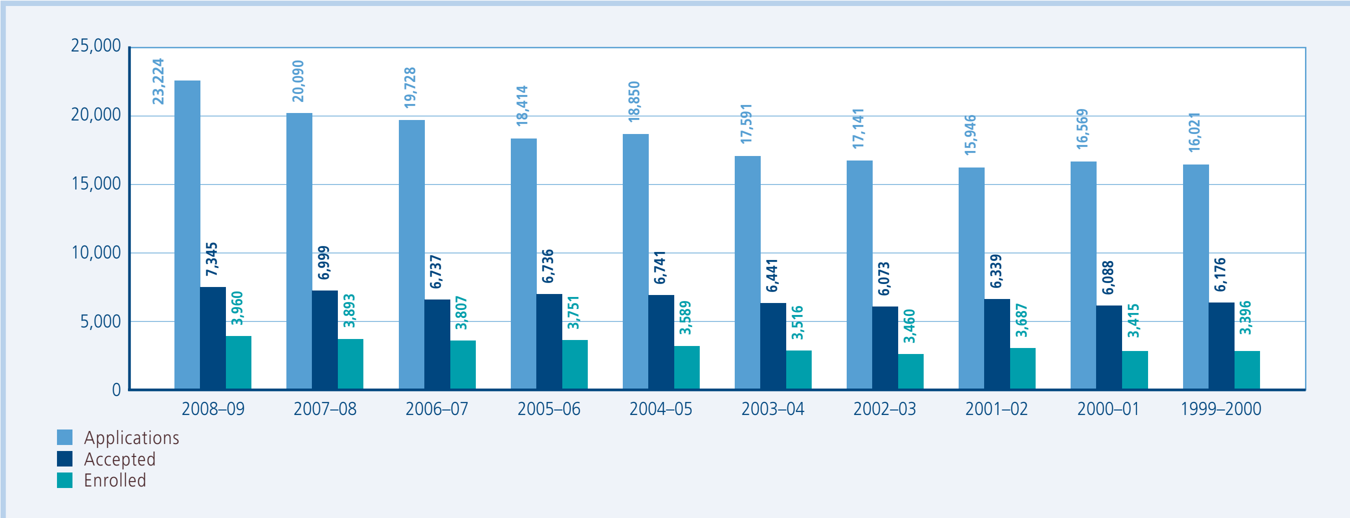
| Fiscal Year Ended June 30, | 2008 09 | 2007 08 | 2006 07 | 2005 06 | 2004 05 | 2003 04 | 2002 03 | 2001 02 | 2000 01 | 1999 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Undergraduate, Graduate and Professional FTE | 26,356 | 25,895 | 25,482 | 25,043 | 24,733 | 24,314 | 24,041 | 23,517 | 23,000 | 22,761 |
| Undergraduate, Graduate and Professional Headcount | 28,567 | 28,136 | 27,717 | 27,276 | 26,878 | 26,359 | 26,028 | 25,464 | 24,872 | 24,635 |
| Men (Headcount) | 11,825 | 11,635 | 11,563 | 11,403 | 11,288 | 10,941 | 10,661 | 10,344 | 10,090 | 10,028 |
| Percentage of Total | 41.4% | 41.4% | 41.7% | 41.8% | 42.0% | 41.5% | 41.0% | 40.6% | 40.6% | 40.7% |
| Women (Headcount) | 16,742 | 16,501 | 16,154 | 15,873 | 15,590 | 15,418 | 15,367 | 15,120 | 14,782 | 14,607 |
| Percentage of Total | 58.6% | 58.6% | 58.3% | 58.2% | 58.0% | 58.5% | 59.0% | 59.4% | 59.4% | 59.3% |
| African American (Headcount) | 2,820 | 2,813 | 2,756 | 2,692 | 2,686 | 2,658 | 2,574 | 2,490 | 2,398 | 2,419 |
| Percentage of Total | 9.9% | 10.0% | 9.9% | 9.9% | 10.0% | 10.1% | 9.9% | 9.7% | 9.6% | 9.8% |
| White (Headcount) | 19,788 | 19,860 | 19,819 | 19,695 | 19,665 | 19,635 | 19,779 | 19,720 | 19,547 | 19,515 |
| Percentage of Total | 69.3% | 70.6% | 71.5% | 72.2% | 73.2% | 74.4% | 76.0% | 77.3% | 78.5% | 79.2% |
| Other (Headcount) | 5,959 | 5,463 | 5,142 | 4,889 | 4,527 | 4,066 | 3,675 | 3,254 | 2,927 | 2,701 |
| Percentage of Total | 20.8% | 19.4% | 18.6% | 17.9% | 16.8% | 15.5% | 14.1% | 12.9% | 11.9% | 11.0% |

### DEGREES EARNED

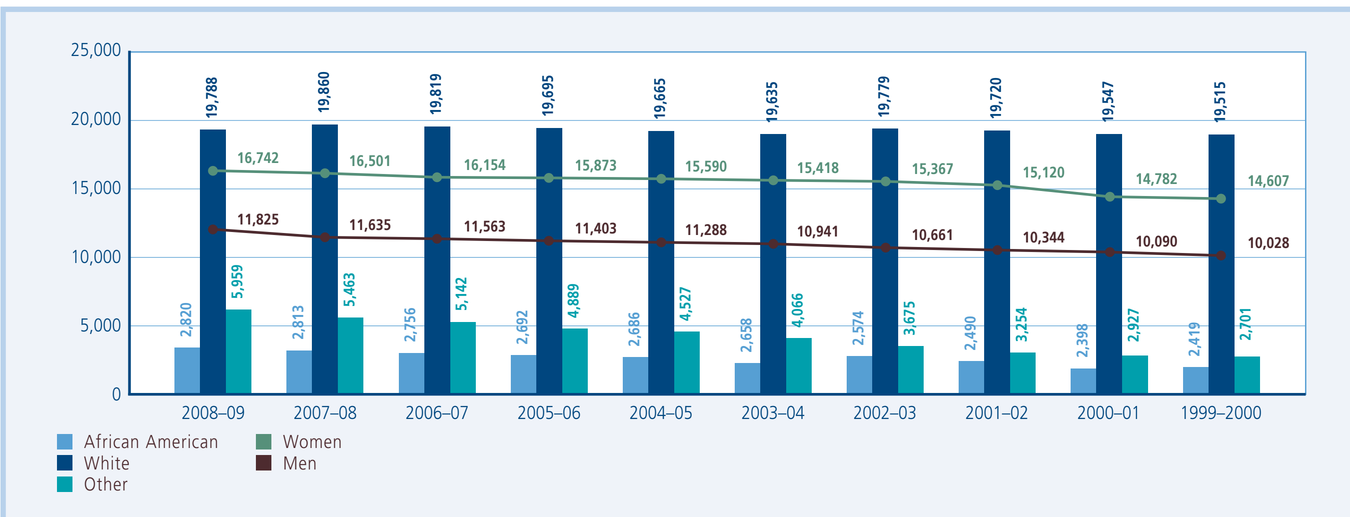
| Fiscal Year Ended June 30, | 2008 09 | 2007 08 | 2006 07 | 2005 06 | 2004 05 | 2003 04 | 2002 03 | 2001 02 | 2000 01 | 1999 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Bachelor's | 4,302 | 4,131 | 3,787 | 3,773 | 3,888 | 3,715 | 3,741 | 3,560 | 3,477 | 3,444 |
| Master's | 1,832 | 1,836 | 1,871 | 1,914 | 1,847 | 1,872 | 1,739 | 1,638 | 1,679 | 1,726 |
| Doctoral | 485 | 600 | 512 | 490 | 459 | 439 | 412 | 390 | 398 | 425 |
| Professional | 618 | 604 | 601 | 608 | 610 | 587 | 672 | 589 | 599 | 588 |

*Source: The University of North Carolina at Chapel Hill Fact Book.*

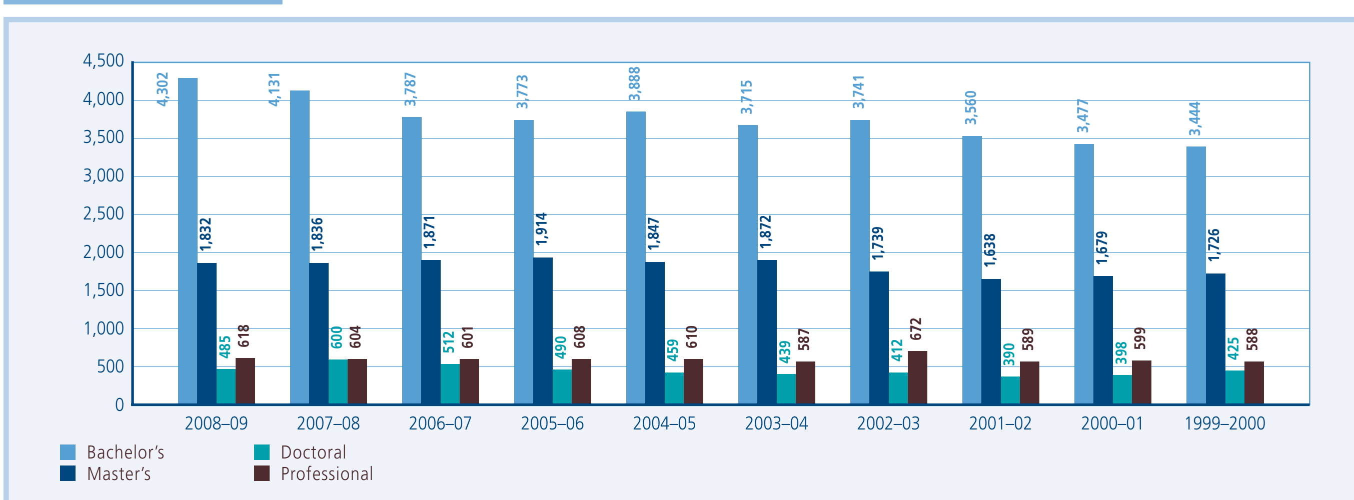
## FRESHMAN APPLIED, ACCEPTED, AND ENROLLED




## HEADCOUNT TOTAL




## DEGREES EARNED



## FACULTY AND STAFF Last Ten Fiscal Years

| Fall Employment of Fiscal Year | 2008 09 | 2007 08 | 2006 07 | 2005 06 | 2004 05 |
|---|---|---|---|---|---|
| **FACULTY** | | | | | |
| Full-time | 3,147 | 3,000 | 2,919 | 2,885 | 2,844 |
| Part-time | 303 | 295 | 303 | 323 | 330 |
| **Total Faculty** | **3,450** | **3,295** | **3,222** | **3,208** | **3,174** |
| **Percentage Tenured** | **54.4%** | **46.1%** | **46.9%** | **48.1%** | **48.7%** |
| **STAFF AND EPA NON-FACULTY** | | | | | |
| Full-time | 1,710 | 1,610 | 1,501 | 1,374 | 1,307 |
| Part-time | 146 | 146 | 155 | 131 | 132 |
| **EPA Non-Faculty** | 1,856 | 1,756 | 1,656 | 1,505 | 1,439 |
| Full-time | 6,453 | 6,174 | 6,104 | 6,005 | 6,004 |
| Part-time | 323 | 308 | 317 | 318 | 321 |
| **SPA** | 6,776 | 6,482 | 6,421 | 6,323 | 6,325 |
| Total Full-time | 8,163 | 7,784 | 7,605 | 7,379 | 7,311 |
| Total Part-time | 469 | 454 | 472 | 449 | 453 |
| **Total Staff and EPA Non-Faculty** | **8,632** | **8,238** | **8,077** | **7,828** | **7,764** |
| **Total Faculty, Staff, and EPA Non-Faculty** | **12,082** | **11,533** | **11,299** | **11,036** | **10,938** |

*Note: SPA denotes employees subject to the State Personnel Act.*
*EPA denotes employees exempt from the State Personnel Act.*

*Source: The University of North Carolina at Chapel Hill Fact Book.*

| Fall Employment of Fiscal Year | 2003 04 | 2002 03 | 2001 02 | 2000 01 | 1999 2000 |
|---|---|---|---|---|---|
| **FACULTY** | | | | | |
| Full-time | 2,744 | 2,701 | 2,598 | 2,488 | 2,601 |
| Part-time | 313 | 307 | 322 | 294 | 260 |
| **Total Faculty** | **3,057** | **3,008** | **2,920** | **2,782** | **2,861** |
| **Percentage Tenured** | **45.9%** | **50.5%** | **52.1%** | **53.9%** | **51.9%** |
| **STAFF AND EPA NON-FACULTY** | | | | | |
| Full-time | 1,227 | 1,157 | 1,034 | 993 | 784 |
| Part-time | 128 | 111 | 97 | 92 | 63 |
| **EPA Non-Faculty** | 1,355 | 1,268 | 1,131 | 1,085 | 847 |
| Full-time | 5,947 | 5,915 | 5,782 | 5,574 | 5,996 |
| Part-time | 317 | 290 | 278 | 284 | 307 |
| **SPA** | 6,264 | 6,205 | 6,060 | 5,858 | 6,303 |
| Total Full-time | 7,174 | 7,072 | 6,816 | 6,567 | 6,780 |
| Total Part-time | 445 | 401 | 375 | 376 | 370 |
| **Total Staff and EPA Non-Faculty** | **7,619** | **7,473** | **7,191** | **6,943** | **7,150** |
| **Total Faculty, Staff, and EPA Non-Faculty** | **10,676** | **10,481** | **10,111** | **9,725** | **10,011** |

*Note: SPA denotes employees subject to the State Personnel Act.*
*EPA denotes employees exempt from the State Personnel Act.*

*Source: The University of North Carolina at Chapel Hill Fact Book.*

## CAPITAL ASSETS Last Eight Fiscal Years

| Fiscal Year Ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Academic/Administrative buildings | 129 | 127 | 125 | 122 | 122 | 122 | 120 | 120 |
| Dormitories/ Auxiliary buildings | 90 | 90 | 90 | 88 | 83 | 83 | 79 | 79 |
| Art/Library collections | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |

*Photo credits*
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**Steve Exum:** Page 15
**Matthew Koester:** Page 74 bottom
**Will Owen:** Pages 14 bottom, 18 right
**Dan Sears:** Front cover top and second from bottom, pages 2, 4 top and middle, 6, 7, 11, 12, 13, 14 top, 16, 17, 18 left, 22 middle and bottom, 74 top and middle, back cover top
**Justin Smith:** Front cover second and third photos from top, pages 4 bottom, 22 top, back cover bottom

*Design*
**UNC Design Services**

FISCAL YEAR ENDED JUNE 30, 2009

Chapel Hill, North Carolina

# 2009 Comprehensive Annual Financial Report

THE UNIVERSITY
*of* NORTH CAROLINA
*at* CHAPEL HILL