Comprehensive Annual Financial Report 2009

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Financial Reporting Entity

Primary Entity (based on board control)

- The University
- Affiliated Foundations (UNC Chapel Hill Foundation and Schools for Business, Law, and Education)
- UNC Management Company
- Investment Funds (Chapel Hill Investment Fund, System Fund)

Other Component Units (based on benefit, access, and materiality criteria)

- Affiliated Foundations (Arts & Sciences, Medical School, Educational Foundation Scholarship Trust)
Financial Reporting Standards

Changes for June 30, 2009

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, requires endowments to report their land and other real estate investments at fair value, report the changes in fair value as investment income and to disclose the methods and significant assumptions utilized to determine fair value. This Statement does not apply to quasi-endowments and land used for operations.
Financial Reporting Standards

Changes for June 30, 2010

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, requires governments to classify all intangible assets not specifically excluded by its scope provisions as capital assets. The Statement provides guidance addressing the nature and recognition of intangible assets. The Statement also establishes guidance specific to intangible assets related to amortization.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments. A key provision in this Statement is that derivative instruments covered in its scope are reported at fair value.
Financial Reporting Practices

• **Investment Income or Loss**
  Reported as a non-operating revenue or expense and includes income and realized and unrealized gains and losses on investments. There is no segregation for earnings from current funds and endowment funds.

• **Net Assets of Endowment Funds**
  The net assets of restricted endowments are reported in two categories of net assets on the balance sheet: ‘Restricted Non-expendable’ which includes the original donor contribution amounts, and ‘Restricted Expendable’ which includes net appreciation and income that have not been distributed for expenditure.

• **Tuition and Fees**
  The income statement reflects operating revenues for tuition and fees net of scholarship discounts. Essentially, tuition and fee revenues and financial aid expenses are reduced by equal amounts based on revenues from gifts, grants, and other sources that are used to fund scholarships and fellowships.
Financial Points for Fiscal Year End June 30, 2009

- Unqualified ("clean") audit opinion issued by State Auditor.
- Total assets decreased 0.7 percent to $5.9 billion.
- Net assets decreased 6.7 percent to $3.5 billion.
- Return on long-term investment fund of (19.6) percent.
- State appropriations decreased 0.9 percent when including state aid.
- Operating revenues increased 1.8 percent and operating expenses increased 6.5 percent.
- Private gifts and grants, with state matching funds, exceeded $271 million, including foundations.

- GFOA Certificate of Achievement received for 2008 CAFR.
### Invested in Capital Assets, net of related debt

The University’s total investment in capital assets attributable to the acquisition, construction, or improvement of those assets, net of accumulated depreciation and outstanding debt obligations.

### Restricted Non-expendable

The historical value (corpus) of gifts to the University’s permanent endowment funds. The use of the funds is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity.

### Restricted Expendable

Spendable resources subject to externally imposed stipulations and other parameters governing their use. Includes net appreciation of permanent endowments, funds functioning as endowment, expendable gifts, contracts and grants, and other restricted net assets.

### Unrestricted

Spendable resources that are not subject to externally imposed stipulations. The resources are designated for various operating and capital uses. Includes resources derived from student tuition and fees, state appropriations, sales and services, unrestricted gifts, and other unrestricted funds.

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#### 2009 Net Assets: $3,462,442

- **Unrestricted**: $700,280 (20%)
- **Investment in Capital Assets, net of related debt**: $1,338,833 (39%)
- **Restricted Expendable**: $837,154 (24%)
- **Restricted Non-expendable**: $586,175 (17%)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

- Operating Revenues
- Non-Operating Revenues, net
- Capital Gifts, Grants, and Endowments
- Operating Expenses
- Increase (decrease) in Net Assets

$ Thousands

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,429,487</td>
<td>2,224,326</td>
</tr>
<tr>
<td>Expenses</td>
<td>432,559</td>
<td>853,508</td>
</tr>
<tr>
<td>Increase (decrease) in Net Assets</td>
<td>(246,993)</td>
<td>131,929</td>
</tr>
<tr>
<td>Capital Gifts, Grants, and Endowments</td>
<td>115,287</td>
<td>300,399</td>
</tr>
</tbody>
</table>
2009 TOTAL REVENUES BY SOURCE: $2,211,415

Non-operating Revenues Breakdown
- Other Non-operating Revenues $2,359
- Non-capital Gifts, net $87,225
- Non-capital Grants, net $154,016
- State Appropriations & State Aid $538,327

- Non-operating Revenues $781,928
- Federal Grants and Contracts $471,680
- Sales and Services, net $321,505
- Student Tuition and Fees, net $236,960
- Patient Services, net $237,966
- State and Local Grants and Contracts $29,091 (1%)
- Other Operating Revenues $7,835 (0%)
- Interest Earnings on Loans $801 (0%)
2009 OPERATING EXPENSES $2,224,326
$ Thousands

BY NATURE

BY FUNCTION
Comprehensive Annual Financial Report

Revenues and Expenses for Eight Years
(in Thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues (Operating, Nonoperating, Other)</th>
<th>Expenses (Operating, Nonoperating, Other)</th>
<th>Increase/Decrease in Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1,545,100</td>
<td>1,499,706</td>
<td>45,394</td>
</tr>
<tr>
<td>2003</td>
<td>1,622,065</td>
<td>1,561,297</td>
<td>60,768</td>
</tr>
<tr>
<td>2004</td>
<td>1,845,871</td>
<td>1,629,857</td>
<td>216,014</td>
</tr>
<tr>
<td>2005</td>
<td>2,070,404</td>
<td>1,703,724</td>
<td>366,680</td>
</tr>
<tr>
<td>2006</td>
<td>2,162,706</td>
<td>1,842,593</td>
<td>320,113</td>
</tr>
<tr>
<td>2007 (as restated)</td>
<td>2,477,976</td>
<td>1,991,206</td>
<td>486,758</td>
</tr>
<tr>
<td>2008</td>
<td>2,443,000</td>
<td>2,142,501</td>
<td>300,399</td>
</tr>
<tr>
<td>2009</td>
<td>2,326,702</td>
<td>2,573,995</td>
<td>(246,893)</td>
</tr>
</tbody>
</table>
Board of Trustees

Audit and Finance Committee

January 27, 2010

Additional Questions and Discussion