Comprehensive Annual Financial Report 2010

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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, 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 Standards

Changes for June 30, 2011

- GASB Statement No. 59, *Financial Instruments Omnibus*, updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. Statement 59 removes the fair value exemption for unallocated insurance contracts and applies other reporting provisions for interest-earning investment contracts to unallocated insurance contracts, which improves consistency of investment measurements that are reported by pension and other postemployment benefit plans.

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, applies only to governments that report governmental funds.
Financial Reporting Practices

- **State Appropriations**
  Reported as a non-operating revenue although the source funds operating expenses.

- **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 endowments are reported in all categories of net assets on the balance sheet: ‘Restricted Non-expendable’ which includes the original donor contribution amounts, ‘Restricted Expendable’ which includes net appreciation and income that have not been distributed for expenditure, ‘Unrestricted’ which includes endowments without donor stipulations, and ‘Invested in Capital Assets’ for real estate used in operations.

- **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.
Comprehensive Annual Financial Report

Financial Points for Fiscal Year End June 30, 2010

- Unqualified audit opinion issued by State Auditor, no financial audit findings.
- Total assets increased 9.5 percent from $5.9 to $6.5 billion.
- Net assets increased 7.2 percent from $3.5 to $3.7 billion.
- Net assets change was +$249 million in 2010, -$247 million in 2009. [Return on long-term investment fund of +6.8 percent for 2010 compared to -19.8 percent for 2009].
- State appropriations and aid increased 0.6 percent from $538.3 to $541.8 million.
- Operating revenues increased 7.9 percent from $1.43 to $1.54 million. [Largest increase in contracts & grants operating revenues of 10.3 percent].
- Operating expenses increased 2.4 percent from $2.22 to $2.28 million. [Largest increase by ‘Function’ category in Student Financial Aid of 18 percent; largest increase by ‘Nature’ category in Depreciation of 28.4 percent].
- Private gifts and grants, with state matching funds, exceeded $268 million, including foundations.
- 15th GFOA Certificate of Achievement received for 2009 CAFR.
STATEMENT OF NET ASSETS
(dollars in thousands)

2010
Total Assets
3,711,598
Net Assets
2,791,887
Total Liabilities
6,503,485

2009
Total Assets
5,939,362
Net Assets
2,476,920
Total Liabilities
3,462,442
### Comprehensive Annual Financial Report

<table>
<thead>
<tr>
<th>Classification</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in Capital Assets, net of related debt</td>
<td>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.</td>
</tr>
<tr>
<td>Restricted Non-expendable</td>
<td>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.</td>
</tr>
<tr>
<td>Restricted Expendable</td>
<td>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.</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>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.</td>
</tr>
</tbody>
</table>

### 2010 Net Assets: $3,711,598

(dollars in thousands)

- **Investment in Capital Assets, net of related debt**: $1,420,104 (21%)
- **Restricted Non-expendable**: $621,873 (17%)
- **Restricted Expendable**: $891,182 (24%)
- **Unrestricted**: $778,439 (38%)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
(dollars in thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Revenues</th>
<th>Operating Expenses</th>
<th>Non-operating Revenues, net</th>
<th>Increase (Decrease) in Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,542,275</td>
<td>2,777,091</td>
<td>816,002</td>
<td>249,156</td>
</tr>
<tr>
<td>2009</td>
<td>1,429,487</td>
<td>1,429,487</td>
<td>432,559</td>
<td>115,287</td>
</tr>
</tbody>
</table>

Capital Gifts, Grants and Endowments
2010 TOTAL REVENUES BY SOURCE: $2,436,757 (dollars in thousands)

- Non-operating Revenues: $894,482
- Student Tuition and Fees, net: $249,083
- Federal Grants and Contracts: $530,368
- State and Local Grants and Contracts: $37,679
- Nongovernmental Grants: $120,674
- Patient Services, net: $242,757
- Sales and Services, net: $354,439
- Interest Earnings on Loans: $790 (0%)
- Other Operating Revenues: $6,485 (0%)

Total: 36%

- State Appropriations & State Aid: $541,753
- Noncapital Grants: $172,113
- Noncapital Gifts, net: $75,881
- Investment Income (net of Investment Expense): $103,605
- Federal Interest Subsidy on Debt: $1,130 (0%)

Total: 22%
2010 OPERATING EXPENSES $2,277,091
$ Thousands
BY NATURE

2010 OPERATING EXPENSES
BY NATURE: $2,277,091
(dollars in thousands)

- Salaries and Benefits: $1,340,749
- Supplies and Materials: $156,404
- Services: $538,784
- Scholarships and Fellowships: $69,083
- Utilities: $81,210
- Depreciation: $90,861

58% Salaries and Benefits
24% Supplies and Materials
7% Services
4% Scholarships and Fellowships
3% Utilities
4% Depreciation
2010 OPERATING EXPENSES $2,277,091
$ Thousands
BY FUNCTION

- Instruction: $684,836 (30%)
- Research: $431,317 (19%)
- Public Service: $138,044 (6%)
- Academic Support: $107,806 (5%)
- Student Services: $26,961 (1%)
- Institutional Support: $83,962 (4%)
- Operations and Maintenance of Plant: $136,008 (6%)
- Student Financial Aid: $69,083 (3%)
- Auxiliary Enterprises: $508,213 (22%)
- Depreciation: $90,861 (4%)

(dollars in thousands)
Board of Trustees

Audit and Finance Committee

January 26, 2011

Additional Questions and Discussion