

# Comprehensive Annual Financial Report 2012



Photo credit: Sam Kittner '85

January 23, 2013



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## Financial Points for Fiscal Year End June 30, 2012

- Unqualified audit opinion issued by State Auditor, no financial audit findings, and no audit adjustments.
- Total assets increased 7.5 percent to \$7.6 billion.
- Net assets increased 3.2 percent to \$4.2 billion.
- Net assets change was \$131 million in 2012, and \$391 million in 2011. [*Return on long-term investment fund was 2.1 percent in 2012 and 15.3 percent for 2011*].
- State appropriations and aid decreased 9 percent to \$486.5 million.
- Operating revenues increased 1.9 percent to \$1.74 billion.
- Operating expenses increased 0.7 percent to \$2.45 billion.
- Private gifts and grants, with state matching funds, exceeded \$287 million, including foundations.
- 17<sup>th</sup> GFOA *Certificate of Achievement* received for 2011 CAFR.



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## Financial Reporting Standards

### GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, (an amendment of GASB Statement No. 53)

Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Statement lists criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. Effective for FYE 2012.

### GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

- Deferred outflows and inflows of resources are reported in a statement of financial position in a separate section following assets and liabilities respectively
- Net Assets are renamed as Net Position
- Effective for FYE June 30, 2013



## Financial Reporting Standards for FYE June 30, 2013

### GASB Statement No. 61, *The Financial Reporting Entity Omnibus*

- Amends standards for including component units (CU's) in CAFR
- Additional focus on financial benefit or burden relationship as criteria
- Authority to appoint board no longer single factor in determining a CU
- Currently 7 CU's blended and 3 presented discretely (separately) in CAFR



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# University Financial Reporting Entity 2012

## Included In CAFR (Blended Presentation)

1. The UNC Law Foundation of North Carolina, Inc.
2. The School of Education Foundation, Inc.
3. The Kenan-Flagler Business School Foundation
4. The University of North Carolina at Chapel Hill Foundation, Inc.
5. The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.
6. UNC Management Company, Inc.
7. UNC Investment Fund, LLC

**WHY? University controls a majority of the Board appointments for the entity.**



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# University Financial Reporting Entity 2012

## Included In Separate Financial Statements In CAFR (Discrete Presentation)

1. The Educational Foundation Scholarship Endowment Trust
2. The University of North Carolina at Chapel Hill Arts & Sciences Foundation, Inc.
3. The Medical Foundation of North Carolina, Inc.

**WHY? University does not control a majority of the Board appointments for the entity; however, the entity exists for the direct benefit of the University,**

## Not Included In CAFR

- The Dental Foundation of North Carolina, Inc.
- The Educational Foundation, Inc.
- The School of Government Foundation, Inc.
- 8 Other Foundations

**WHY NOT? The entity's net assets are less than 5% of the University's net assets.**



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

[i.e. INCOME STATEMENT]

	FYE 2012	FYE 2011	Change
<b>Operating Revenues (Slide 8)</b>	\$1,736,529,068	\$1,704,935,707	1.9%
<b>LESS: Operating Expenses (Slide 9)</b>	2,449,478,732	2,432,439,775	0.7%
<b>Operating Loss</b>	(712,949,664)	(727,504,068)	-2.0%
<b>Non-Operating Revenues/Expenses (Slide 10)</b>	732,310,321	973,412,474	-24.8%
<b>Income before Other Changes</b>	19,360,657	245,908,406	-92.1%
<b>Capital Additions (Slide 11)</b>	111,326,821	145,452,432	-23.5%
<b>Increase in Net Assets</b>	130,687,478	391,360,838	-66.6%
<b>Net Assets - July 1</b>	4,102,958,532	3,711,597,694	10.5%
<b>Net Assets - June 30</b>	<u>\$4,233,646,010</u>	<u>\$4,102,958,532</u>	3.2%



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# INCOME STATEMENT

## OPERATING REVENUES

	FYE 2012	FYE 2011	Change
<b>Operating Revenues:</b>			
Student tuition and fees, net	\$320,535,342	\$289,896,547	10.6%
Patient services, net	280,670,917	280,034,935	0.2%
Federal grants and contracts	578,701,477	571,287,523	1.3%
State and local grants and contracts	41,953,253	38,251,452	9.7%
Non-governmental grants and contracts	105,191,402	146,081,345	-28.0%
Sales and services, net	400,479,549	373,705,560	7.2%
Interest earnings on loans	849,473	842,582	0.8%
Other operating revenues	<u>8,147,655</u>	<u>4,835,763</u>	68.5%
<b>Total operating revenues</b>	<u><u>\$1,736,529,068</u></u>	<u><u>\$1,704,935,707</u></u>	1.9%



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# INCOME STATEMENT

## OPERATING EXPENSES

	FYE 2012	FYE 2011	Change
<b>Operating Expenses:</b>			
Salaries and benefits	\$1,375,757,987	\$1,379,177,952	-0.2%
Supplies and materials	164,899,338	162,998,866	1.2%
Services	617,589,458	614,928,151	0.4%
Scholarships and fellowships	96,870,511	91,139,491	6.3%
Utilities	80,831,565	81,471,033	-0.8%
Depreciation and amortization	<u>113,529,873</u>	<u>102,724,282</u>	10.5%
<b>Total operating expenses</b>	<u><u>\$2,449,478,732</u></u>	<u><u>\$2,432,439,775</u></u>	0.7%



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# INCOME STATEMENT

## NET NONOPERATING REVENUES

	FYE 2012	FYE 2011	Change
<b>Non-Operating Revenues (Expenses):</b>			
State appropriations	\$486,492,294	\$534,677,905	-9.0%
Non-capital grants -- student financial aid	17,898,888	18,945,583	-5.5%
Other non-capital grants	163,440,317	175,600,458	-6.9%
Non-capital gifts, net	99,445,647	93,166,398	6.7%
Investment income (net of investment expenses)	33,133,817	208,184,198	-84.1%
Interest and fees on debt	(64,321,547)	(56,764,609)	13.3%
Federal interest subsidy on debt	2,273,604	2,272,964	0.0%
Other non-operating expenses	<u>(6,052,699)</u>	<u>(2,670,423)</u>	126.7%
<b>Net non-operating revenues</b>	<u><u>\$732,310,321</u></u>	<u><u>\$973,412,474</u></u>	-24.8%



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## INCOME STATEMENT

### CAPITAL ADDITIONS

	FYE 2012	FYE 2011	Change
<b>Capital Additions:</b>			
Refund of capital appropriations	\$0	(\$81,256)	
Capital grants	78,133,274	91,864,121	-14.9%
Capital gifts	5,630,001	9,149,274	-38.5%
Additions to endowments	<u>27,563,546</u>	<u>44,520,293</u>	-38.1%
<b>Total capital additions</b>	<u><u>\$111,326,821</u></u>	<u><u>\$145,452,432</u></u>	-23.5%



# RECAST INCOME STATEMENT

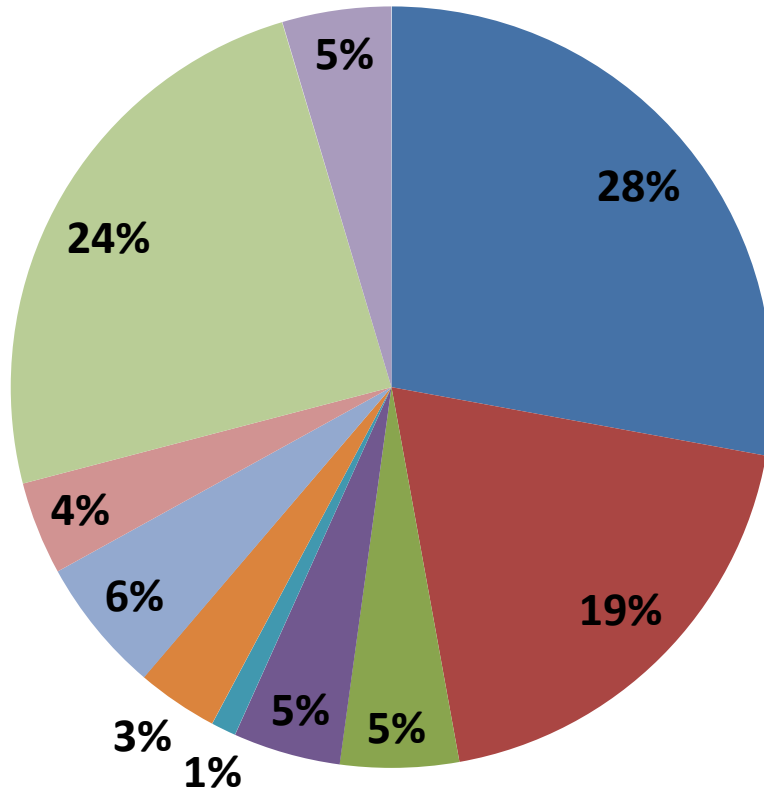
	FYE 2012	FYE 2011	Change
<b>Revenues for Operations:</b>			
Student tuition and fees, net	\$320,535,342	\$289,896,547	10.6%
State appropriations	486,492,294	534,677,905	-9.0%
Grants and contracts	907,185,337	950,166,361	-4.5%
Sales and services, net	681,150,466	653,740,495	4.2%
Non-capital gifts, net	99,445,647	93,166,398	6.7%
Investment income	28,831,888	36,069,001	-20.1%
Other revenues	2,944,429	3,007,922	-2.1%
<b>Total Revenues for Operations</b>	<b>2,526,585,403</b>	<b>2,560,724,629</b>	<b>-1.3%</b>
<b>LESS: Operating Expenses &amp; Debt Service</b>	<b>2,511,526,675</b>	<b>2,486,931,420</b>	<b>1.0%</b>
<b>Operating Margin</b>	<b>15,058,728</b>	<b>73,793,209</b>	<b>-79.6%</b>
<b>Capital Additions:</b>			
Capital gifts and grants	83,763,275	100,932,139	-17.0%
Investment income	4,301,929	172,115,197	-97.5%
Additions to endowments	27,563,546	44,520,293	-38.1%
<b>Total Capital Additions</b>	<b>115,628,750</b>	<b>317,567,629</b>	<b>-63.6%</b>
<b>Increase in Net Assets</b>	<b>130,687,478</b>	<b>391,360,838</b>	<b>-66.6%</b>
<b>Net Assets - July 1</b>	<b>4,102,958,532</b>	<b>3,711,597,694</b>	<b>10.5%</b>
<b>Net Assets - June 30</b>	<b>\$4,233,646,010</b>	<b>\$4,102,958,532</b>	<b>3.2%</b>



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# 2012 Operating Expenses by Function: \$2,449,479 (in thousands)



- Instruction \$682,857 (-2.3% change from prior year)
- Research \$472,102 (+0.7%)
- Public Service \$122,989 (-10.4%)
- Academic Support \$111,719 (+5.5%)
- Student Services \$25,992 (-8.2%)
- Institutional support \$84,400 (-7.8%)
- Operations and Maintenance of Plant \$140,417 (-3.3 %)
- Student Financial Aid \$96,871 (+6.3%)
- Auxiliary Enterprises \$598,602 (+6.4%)
- Depreciation and amortization \$113,530 (+10.5%)



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## **NET ASSET CATEGORIES**

### **INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT**

Net assets represent 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.

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### **RESTRICTED NON-EXPENDABLE**

Net assets represent 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.

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### **RESTRICTED EXPENDABLE**

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

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### **UNRESTRICTED**

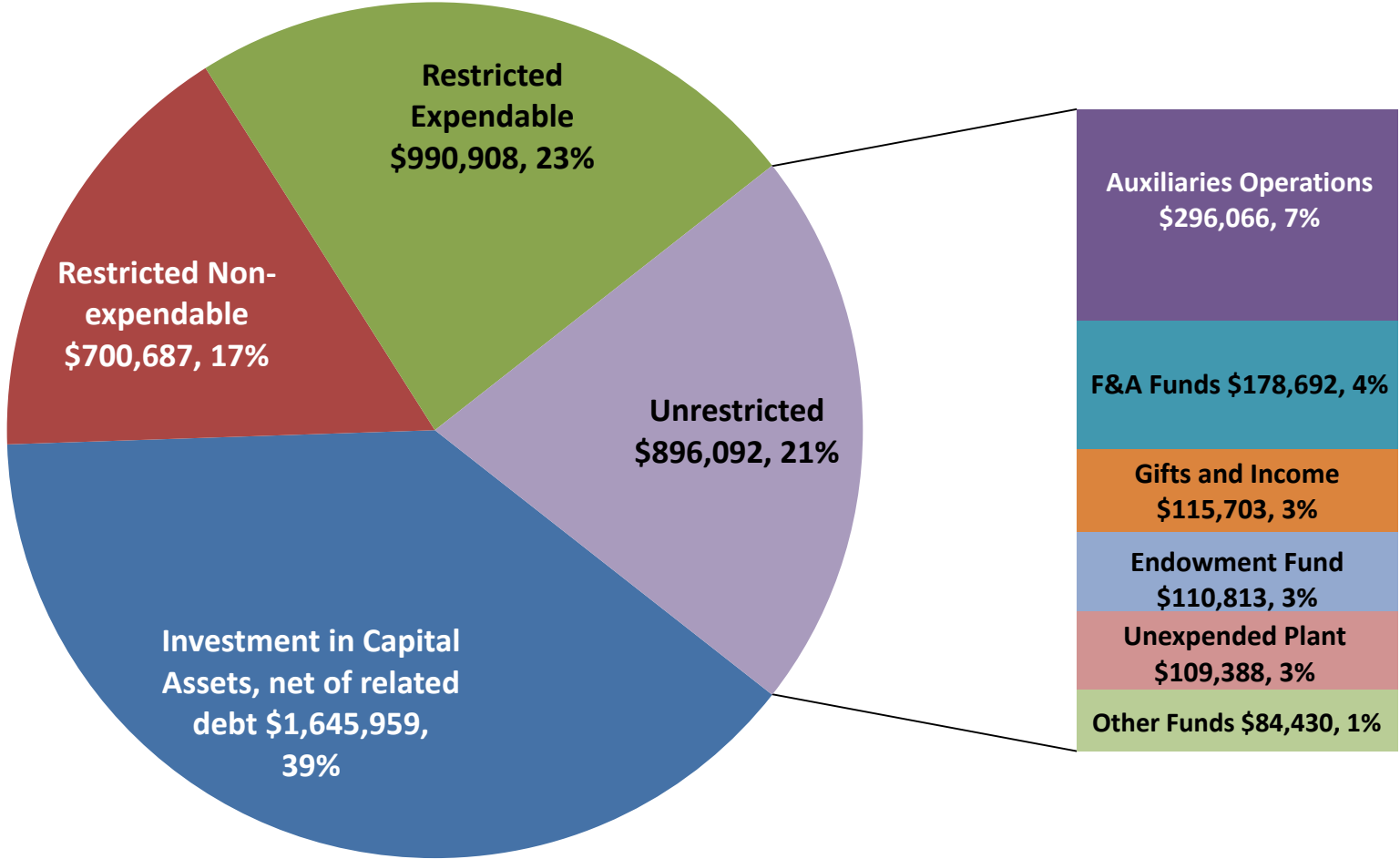
Net assets represent the spendable resources that are not subject to externally imposed stipulations. The resources are designated for various operating and capital uses. Includes resources derived from student tuition and fees, state appropriations, sales and services, unrestricted gifts, and other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



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# 2012 Net Assets: \$4,233,646 (in thousands)



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# BUDGET, FINANCE, AND AUDIT COMMITTEE MEETING

January 23, 2013



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## CAFR 2012- Additional Discussion and Questions



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