



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

CHARLOTTE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

CHARLOTTE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

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THE UNIVERSITY OF NORTH CAROLINA

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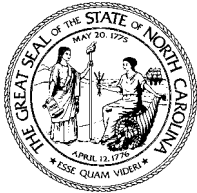
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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, The University of North Carolina at Charlotte

This report presents the results of our financial statement audit of The University of North Carolina at Charlotte, a component unit of the State of North Carolina, for the year ended June 30, 2001. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the University are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the University were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements and supplementary information that relate solely to The University of North Carolina at Charlotte. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements and supplementary information that relate solely to The University of North Carolina at Charlotte. A summary of our reporting objectives and audit results are:

1. **Objective** - Express an opinion on the accompanying financial statements and supplementary information that relate solely to The University of North Carolina at Charlotte.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. The accompanying supplementary information

AUDITOR'S TRANSMITTAL (CONCLUDED)

presents information that is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the University's ability to record, process, summarize, and report financial data in the financial statements.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting which require disclosure herein under *Government Auditing Standards*.

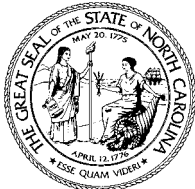
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Balance Sheet of The University of North Carolina at Charlotte, a component unit of the State of North Carolina, as of June 30, 2001, and the related Statement of Changes in Fund Equity and Statement of Current Funds Revenues, Expenditures, and Other Changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Charlotte as of June 30, 2001, and the changes in fund equity and the current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14A to the financial statements, the University changed its method of accounting for securities lending transactions allocated from the State Treasurer's Cash and Investment Pool during the year ended June 30, 2001. As discussed in Note 14B to the financial statements, the University implemented Governmental Accounting Standard Board, Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions*, during the year ended June 30, 2001.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2001 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, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

Schedules 1, 2, 3 and 4 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

December 14, 2001

The University of North Carolina at Charlotte
Balance Sheet
June 30, 2001

Exhibit A

	Current Funds			Fiduciary Funds			Plant Funds		
	Unrestricted								Investment
	General	Proprietary	Restricted	Loan	Endowment	Agency	Unexpended	Debt Service	in Plant
ASSETS									
Cash and Cash Equivalents	\$ 15,167,430	\$ 26,865,366	\$ 2,275,128	\$ 897,239	\$ 1,009,534	\$ 949,025	\$ 8,975,694	\$ 4,205,746	\$ 0
Investments	7,501				41,616,069			7,000,824	
Receivables:									
Accounts Receivable (Net)	2,508,983	2,472,771	432,447						
Intergovernmental Receivables			800,435					70,372	
Interest Receivable	75,352	94,952	1,984	2,008	16,461		9,295	17,743	
Due from Other Funds	17,085	228,155	87,554			4,322	195,810		
Due from Primary Government	63,884		519,495				5,817,273		
Notes Receivable (Net)				5,991,357					
Inventories	357,476	752,844							
Prepaid Items								249,455	
Fixed Assets (Note 4)									343,363,304
Total Assets	\$ 18,197,711	\$ 30,414,088	\$ 4,117,043	\$ 6,890,604	\$ 42,642,064	\$ 953,347	\$ 14,998,072	\$ 11,544,140	\$ 343,363,304

The University of North Carolina at Charlotte
Balance Sheet
June 30, 2001

Exhibit A
Page 2

	Current Funds			Fiduciary Funds			Plant Funds		
	Unrestricted		Restricted	Loan	Endowment	Agency	Unexpended	Debt Service	Investment in Plant
	General	Proprietary							
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts Payable and Accrued Liabilities:									
Accounts Payable	\$ 376,312	\$ 394,093	\$ 165,843	\$ 675	\$ 900	\$ 9,324	\$ 2,872,910	\$ 0	\$ 0
Accrued Payroll	363,979	173,622	218,101						
Due to Other Funds	154,475	154,828	219,646				3,977		
Bonds Payable (Note 5B)								513,461	66,036,649
Interest Payable								738,853	
Deposits Payable						784,035			
Accrued Vacation Leave	3,524,586	642,320	92,868						
Deferred Revenue	1,777,809	849,740	739,253						
Funds Held for Others	4,172	66,895				159,988			
Total Liabilities	6,201,333	2,281,498	1,435,711	675	900	953,347	2,876,887	1,252,314	66,036,649
Fund Equity:									
Net Investment in Plant									277,326,655
Fund Balances:									
Restricted:									
U. S. Government Grants Refundable				5,179,342					
Endowment					24,338,016				
Quasi-Endowment					10,982,263				
Restricted for Debt Retirement								7,571,092	
Restricted for Repair and Replacement								2,720,734	
Other Restricted Funds			2,681,332	1,710,587			12,121,185		
Unrestricted:									
Quasi-Endowment					7,320,885				
Other Unrestricted Funds	11,996,378	28,132,590							
Total Fund Equity	11,996,378	28,132,590	2,681,332	6,889,929	42,641,164		12,121,185	10,291,826	277,326,655
Total Liabilities and Fund Equity	\$ 18,197,711	\$ 30,414,088	\$ 4,117,043	\$ 6,890,604	\$ 42,642,064	\$ 953,347	\$ 14,998,072	\$ 11,544,140	\$ 343,363,304

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

The University of North Carolina at Charlotte
Statement of Changes in Fund Equity
Year Ended June 30, 2001

Exhibit B

	Current Funds			Fiduciary Funds		Plant Funds		
	Unrestricted		Restricted	Loan	Endowment	Unexpended	Debt Service	Investment in Plant
	General	Proprietary						
Revenues and Other Additions:								
Tuition and Fees	\$ 39,098,291	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
State Appropriations	96,684,606					1,976,400		
Federal Contracts and Grants	1,027,301		15,155,890				140,744	
State Contracts and Grants	449,191		342,632		167,000	6,900,000		
Local Contracts and Grants	375,611		161,771					
Nongovernmental Contracts and Grants	1,890,649	25,883	962,863					
Gifts	1,219,449	288,637	1,980,421	2,000	749,854			81,950
Investment Income	952,135	1,640,590	427,188	208,602	(2,862,371)	102,977	553,476	
Endowment Income	149,042		905,235	31,232				
Sales and Services	2,749,619	51,557,543	4,587					
Expended for Plant Facilities								11,542,811
Retirement of Indebtedness								3,176,000
Other Revenues and Additions	914,580	481,823	66,303	34,296				
Total Revenues and Other Additions	145,510,474	53,994,476	20,006,890	276,130	(1,945,517)	8,979,377	694,220	14,800,761
Expenditures and Other Deductions:								
Educational and General	142,641,080		18,571,827					
Auxiliary Enterprises		40,208,949						
Internal Service Funds		2,148,727						
Indirect Costs Recovered			1,083,036					
Expended for Plant Facilities						10,282,874		
Retirement of Indebtedness							3,176,000	
Interest on Indebtedness							3,583,382	
Disposal of Plant Facilities								2,153,342
Other Expenditures and Deductions				142,483	1,578,317		50,707	
Total Expenditures and Other Deductions	142,641,080	42,357,676	19,654,863	142,483	1,578,317	10,282,874	6,810,089	2,153,342
Transfers:								
Mandatory Transfers In (Out)		(6,557,937)	(77,441)		77,441		6,557,937	
Non-Mandatory Transfers In (Out)	(1,987,617)	(2,087,763)	(130,328)		27,312	4,234,718	(56,322)	
Net Transfers In (Out)	(1,987,617)	(8,645,700)	(207,769)		104,753	4,234,718	6,501,615	
Net Increase (Decrease) for the Year	881,777	2,991,100	144,258	133,647	(3,419,081)	2,931,221	385,746	12,647,419
Fund Equity July 1, 2000	11,107,797	25,141,490	3,381,857	6,756,282	46,060,245	9,189,964	9,906,080	264,679,236
Prior Period Adjustments (Note 15)	6,804		(844,783)					
Fund Equity June 30, 2001	\$ 11,996,378	\$ 28,132,590	\$ 2,681,332	\$ 6,889,929	\$ 42,641,164	\$ 12,121,185	\$ 10,291,826	\$ 277,326,655

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

The University of North Carolina at Charlotte
Statement of Current Funds Revenues, Expenditures, and Other Changes
Year Ended June 30, 2001, with comparative totals for 2000

Exhibit C

	Unrestricted			Restricted	Totals Year Ended June 30,	
	General	Proprietary	Total		2001	2000
Revenues:						
Tuition and Fees	\$ 39,098,291	\$ 0	\$ 39,098,291	\$ 0	\$ 39,098,291	\$ 34,308,791
State Appropriations	96,684,606		96,684,606		96,684,606	90,634,577
Federal Contracts and Grants	1,027,301		1,027,301	14,527,761	15,555,062	15,446,659
State Contracts and Grants	449,191		449,191	176,810	626,001	796,371
Local Contracts and Grants	375,611		375,611	131,579	507,190	621,774
Nongovernmental Contracts and Grants	1,890,649	25,883	1,916,532	703,970	2,620,502	2,179,813
Gifts	1,219,449	288,637	1,508,086	1,980,421	3,488,507	3,134,293
Investment Income	952,135	1,640,590	2,592,725	427,188	3,019,913	2,459,295
Endowment Income	149,042		149,042	905,235	1,054,277	851,771
Sales and Services	2,749,619	51,557,543	54,307,162	5,921	54,313,083	50,680,367
Other Sources	914,580	481,823	1,396,403	64,969	1,461,372	920,337
Total Revenues	145,510,474	53,994,476	199,504,950	18,923,854	218,428,804	202,034,048
Expenditures:						
Educational and General:						
Instruction	84,361,719		84,361,719	2,890,354	87,252,073	78,677,912
Organized Research	773,078		773,078	5,262,951	6,036,029	5,941,146
Public Service	1,875,782		1,875,782	1,563,696	3,439,478	2,997,187
Academic Support	16,637,816		16,637,816	482,129	17,119,945	17,526,669
Student Services	6,016,582		6,016,582	58,349	6,074,931	5,878,309
Institutional Support	13,709,173		13,709,173	86,632	13,795,805	12,042,555
Plant Maintenance and Operations	16,552,453		16,552,453	90,843	16,643,296	15,793,701
Student Financial Aid	2,714,477		2,714,477	8,136,873	10,851,350	9,602,687
Auxiliary Enterprises		40,208,949	40,208,949		40,208,949	37,696,572
Internal Service Funds		2,148,727	2,148,727		2,148,727	1,840,429
Total Expenditures	142,641,080	42,357,676	184,998,756	18,571,827	203,570,583	187,997,167
Transfers and Additions/(Deductions):						
Mandatory Transfers (Out)		(6,557,937)	(6,557,937)	(77,441)	(6,635,378)	(6,582,710)
Non-Mandatory Transfers (Out)	(1,987,617)	(2,087,763)	(4,075,380)	(130,328)	(4,205,708)	(4,561,346)
Net Increase in Fund Equity	\$ 881,777	\$ 2,991,100	\$ 3,872,877	\$ 144,258	\$ 4,017,135	\$ 2,892,825

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

THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

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, 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 Charlotte is a constituent institution of the sixteen 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. 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. Related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America applicable to governmental colleges and universities as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement #15 *Governmental College and University Accounting and Financial Reporting Models*, the University has elected to follow the fund accounting and reporting guidelines set forth by the American Institute of Certified Public Accountants in its Industry Audit Guide, *Audits of Colleges and Universities*.
- C. Fund Structure** - The accompanying financial statements are structured into three categories of funds: Current, Fiduciary, and Plant Funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The **Current Funds** are used to account for the revenues and expenditures resulting from operations, with the Unrestricted Funds and Restricted Fund shown separately. The Restricted Fund represents resources that are restricted to use by either an outside donor or grantor. Current funds that are internally designated for specific purposes by the governing board or management having delegated authority are reported as Unrestricted Funds. The Unrestricted Proprietary Fund reflecting the operations of the student supply store, dormitories, other auxiliary enterprises, internal service funds, student activity funds and intercollegiate athletics is shown separately from the Unrestricted General Fund.

The **Fiduciary Funds** are used to account for additions to and deductions from fund equity of the Loan Fund and Endowment Fund. In addition, the Fiduciary Funds are used to account for funds of students and organizations held by the University as custodian in the Agency Fund. The transactions of the Agency Fund increase and decrease assets and liabilities but do not effect fund equity. As a result, the Agency Fund is not reflected in the Statement of Changes in Fund Equity.

The **Plant Funds** are used to account for additions to and deductions from fund equity of the Unexpended Plant Fund, Debt Service Fund, and the Investment in Plant Fund. The Debt Service Fund includes the Repair and Replacement reserves as well as the reserves for Retirement of Indebtedness.

- D. Basis of Accounting** - The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by public educational institutions, no provision is made for depreciation of fixed assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are recorded when earned and expenditures are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the University receives value without directly giving equal value in exchange, include grants, state appropriations, and private donations. On an accrual basis, revenues from these transactions are recognized in the fiscal year in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

E. Cash and Cash Equivalents - In addition to cash on deposit with private bank accounts, petty cash, and undeposited receipts, this classification includes cash on deposit with fiscal agents, and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). All other short-term investments are reported as investments.

F. Investments - This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, limited partnerships, real estate, and other asset holdings by the University. Except for money market funds, real estate not held by a governmental external investment pool and other asset holdings, these investments are reported at fair value for year-end financial reporting purposes. Fair value is the amount at which an investment could be exchanged between two willing parties. Fair value for financial reporting purposes is based on quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a part 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 market value or appraised value at date of gift, if donated.

G. Receivables and Allowance for Doubtful Accounts – Accounts receivable in the Unrestricted General Fund and the Unrestricted Proprietary Fund are shown in the accompanying financial statements net of allowances for doubtful accounts of \$377,087 and \$324,287, respectively. In addition, notes receivable in the Loan Fund is shown net of the allowance for doubtful accounts of \$327,073. The accounts receivable in the Restricted Fund is shown at book value with no provision for doubtful accounts considered necessary.

H. Inventories - Inventories held by the University are priced at the lower of cost or market value using the first-in, first-out method. The inventories for the Unrestricted General Fund consist of expendable supplies, postage and fuel oil held for consumption. Inventories for the Unrestricted Proprietary Fund consist of textbooks and other merchandise for resale.

I. Fixed Assets and Depreciation – Fixed Assets are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. The University capitalizes fixed assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Depreciation is not recorded.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

To the extent that current funds are used to finance plant assets, the amounts provided are accounted for as: (1) expenditures, in the case of normal replacement of furniture and movable equipment; (2) mandatory transfers, in the case of required provisions for debt retirement and renewal and replacement; and (3) transfers of a non-mandatory nature for all other cases.

Fixed assets financed with debt proceeds are reported in the Investment in Plant fund subgroup when expenditures are incurred. Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the fixed asset.

Fixed assets, such as roads, parking lots, decks, sidewalks, and other non-building structures and improvements are capitalized as infrastructure.

- J. Vacation and Sick Leave** - 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 1st 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

The University has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

- K. Revenue Recognition** – Current Funds revenues, as reflected on Exhibit C, include all exchange and non-exchange transactions earned and in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

Certain Unrestricted Proprietary Fund auxiliary operations provide goods and services to activities reported in the Unrestricted General Fund (as well as external customers). These auxiliary operations include activities such as central stores, the print shop, and other auxiliaries with interdepartmental activities. Because the University reports its Unrestricted General and Proprietary Fund activities separately on the financial statements, interdepartmental charges between the Unrestricted General and Proprietary Funds have not been eliminated. The total internal (and external) transactions related to these operations totaled approximately \$2,045,068 for the fiscal year ended June 30, 2001. These

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

internal (and external) charges have been reported as a part of sales and service revenue and the related costs as auxiliary enterprise expenses.

Tuition remission and waivers are recorded as “Tuition and Fees” revenue and as “Student Financial Aid” expenditures on the accompanying financial statements.

Student fees pledged under bond indentures are reported as unrestricted revenues when received unless such fees are not legally available for other purposes, in which case they are reported as an addition to Debt Service Fund equity.

- L. Endowment Investment Return** – Investments of the University’s endowment funds are pooled, unless required to be separately invested by the donor. Investment return of the University’s endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University’s endowment funds are based on a preset rate, as approved by the Endowment Board of Trustees. The payout rate is currently 5% of a three-year rolling average of the fair market value of the fund. To the extent that the total return for the current year exceeds the payout requirements, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from the quasi-endowment balance to make up the difference.

Endowments are classified as either “true” or “quasi”. True endowments are funds that the donor has specified, as a condition of the gift, that the principal be maintained indefinitely. Quasi-endowments are funds on which there is no such restriction placed by the donor. For classification purposes, the income and appreciation added to principal is classified as quasi-endowment, unless the donor has stipulated otherwise.

- M. 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 in the future have not been recorded on the accompanying financial statements. At year end the amount held in irrevocable trusts by others for the University was \$1,183,797. Funds established under revocable trusts or where the trustees have discretionary power over distributions are recorded as revenue when distributions are received and resource provider conditions are satisfied.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- N. Refunds of State Appropriations** - Refunds related to current year appropriations are reported on the accompanying financial statements as a reduction to State Appropriations. These refunds were deemed necessary by the Governor as a result of decreases in projected State revenues.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The University is required by General Statute 147-77 to deposit its budget code cash and by the University of North Carolina Board of Governors pursuant to General Statute 116-36.1 to deposit its institutional trust funds in the State Treasurer's Cash and Investment Pool. In addition, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, and debt service funds with the State Treasurer's Cash and Investment Pool. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

Deposits include cash and cash equivalents totaling \$60,345,162. At year-end, cash on hand was \$4,283,193. The University's portion of the State Treasurer's Cash and Investment Pool was \$55,686,395. It is the State Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and for his investments to be held by the State's agent in the State's name. The carrying amount of the University's deposits not with the State Treasurer was \$375,573 and the bank balance was \$326,544. Of the bank balance, \$100,000 was covered by federal depository insurance and \$226,544 was uninsured and uncollateralized.

North Carolina General Statutes 147-69.1(c) and 147-69.2 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; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 116-36.2 to invest its special funds in the same manner as the State Treasurer is required to invest, as previously discussed.

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

General Statute 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 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. The University utilizes the following investment pools:

Long Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit value method. Under this method, each participating fund's investment balance is determined on a market value basis. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

Credit Risk Categories - The University's investments (pooled and non-pooled) are categorized below to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the University's name.

A summary of the University's investments at June 30, 2001 is presented below:

Long Term (Internal) Investment Pool

	Fair Value		
	Risk Category		Total
	1	2	
Categorized Investments:			
U. S. Government Securities	\$ 0	\$ 470,367	\$ 470,367
Collateralized Mortgage Obligations		354,248	354,248
Corporate Bonds		247,960	247,960
Corporate Stocks	500,000	11,852,166	12,352,166
Total Categorized Investments	<u>\$ 500,000</u>	<u>\$ 12,924,741</u>	13,424,741
Investments Not Categorized:			
Money Market Funds			27,202,651
Mutual Funds			<u>2,436,429</u>
Total Investments Not Categorized			<u>29,639,080</u>
Total Temporary Pool Investments			<u>\$ 43,063,821</u>

Non-Pooled Investments

	Fair Value
	Total
Investments Not Categorized:	
Real Estate	\$ 5,235,018
Limited Partnerships	318,054
Other Investments	<u>7,501</u>
Total Investments Not Categorized	<u>5,560,573</u>
Total Non-Pooled Investments	<u>\$ 5,560,573</u>

Total Investments

	Fair Value		
	Risk Category		Total
	1	2	3
Total Categorized Investments	<u>\$ 500,000</u>	<u>\$ 12,924,741</u>	<u>\$ 0</u>
Total Investments Not Categorized			<u>35,199,653</u>
Total Investments			<u>\$ 48,624,394</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Non-Current Funds Gains and Losses on Investments** – The net change in fair value of investments is recorded as part of “Investment Income” on the accompanying financial statements. The additions and deductions to the non-current fund’s fund equity resulting from the net change in fair value of investments follow:

	Net Unrealized Gains/Losses	Realized Gains	Realized Losses	Net Change in Fair Value
Endowment Fund	\$ (4,219,636)	\$ 1,119,564	\$ (679,924)	\$ (3,779,996)

- D. Endowment Fund Investments** - The Board of Trustees of the Endowment Fund of The University of North Carolina at Charlotte has established a policy that emphasizes growth orientation in the investment of endowment funds. The fair value of the Endowment Fund Investments as of June 30, 2001 as compared to the prior year was as follows:

	Balance June 30, 2001	Balance June 30, 2000
Investments by Fund:		
Endowment	\$ 23,752,930	\$ 22,733,095
Quasi-Endowment Unrestricted	10,718,249	17,280,868
Quasi-Endowment Restricted	7,144,890	4,675,074
Total	<u>\$ 41,616,069</u>	<u>\$ 44,689,037</u>
Investment by Type:		
Debt Securities	\$ 718,328	\$ 1,569,530
Equity Securities	12,352,166	14,364,220
Collateralized Mortgage Obligations	354,248	
Money Market Funds	702,860	967,446
Mutual Funds	21,935,396	22,452,823
Real Estate	5,235,018	5,235,018
Limited Partnerships	318,053	100,000
Total	<u>\$ 41,616,069</u>	<u>\$ 44,689,037</u>

- E. Derivative and Similar Transactions** - A derivative is a financial instrument created from, or whose value depends on (is derived from), the value of one or more underlying assets, reference rates, or indexes of asset values. These instruments may include forwards, futures, currency and interest rate swaps, options, floaters/inverse floaters and caps/floors/collars. During the year the University did not invest in derivative investments but did invest in transactions similar to a derivative instrument. Investment transactions similar to a derivative may include securitized assets, such as mortgage-backed securities and other asset-backed securities. As required by accounting principles generally

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

accepted in the United States of America, the nature of derivative or similar transactions entered into by the University, and the reasons for entering into those transactions follow:

Indirect Derivative Holdings - The University identifies various external investment funds (mutual funds, external investment pools, and limited partnerships) that meet asset allocation and investment management objectives. The University invests in these funds to increase the yield and return on its investment portfolio given the available alternative investment opportunities and to diversify its asset holdings. Fund investments generally include equity and bond funds. Certain funds expose the University to significant amounts of market risk by trading or holding derivative instruments and by leveraging the securities in the fund.

The University limits the amount of funds managed by any single asset manager and also limits the amount of funds to be invested in particular security classes. The investment funds that utilized derivative securities for the fiscal year ending June 30, 2001 are summarized in the chart below. The amounts shown in the chart represent the market value of the University's (including affiliated external foundations) investment in the various investment funds and the market value and percent of holdings held in derivatives by those funds.

	Mortgage-Backed Securities			Asset-Backed Securities	
	Total				
	Fair Market Value	Percent Invested	Amount Invested	Percent Invested	Amount Invested
<u>Investment Fund</u>					
Nations Investment Grade Bond Fund	\$ 210,937	29.50	\$ 62,226	17.70	\$ 37,336
BACAP Intermediate Fixed Income Fund	2,225,492	12.80	284,863	22.50	500,736
Federal Home Loan Bank Notes	10,059	100.00	10,059		
Federal Home Loan Mortgage Corp	124,310	100.00	124,310		
Federal National Mortgage Assn Debt	157,938	100.00	157,938		
Government National Mortgage Assn	102,275	100.00	102,275		
Total Indirect Derivative Holdings			<u>\$ 741,671</u>		<u>\$ 538,072</u>
Total Endowment Investment Holdings	\$ 42,641,164		1.70%		1.30%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The market risk associated with these indirect derivative holdings by fund type follow:

- Mortgage-backed risk - Decline in interest rates may produce early mortgage payoffs, resulting in a decline in the value of the portfolio's mortgage-backed securities. Equivalent yield securities may not be available for reinvestment of the portfolio.
- Asset-backed securities risk - Payment of interest and repayment of principal may be impacted by the cash flows generated by the assets backing these securities. The value of the Fund's asset-backed securities may also be affected by changes in interest rates, the availability of information concerning the interests in and structure of the pools of purchase contracts, financing leases or sales agreements that are represented by these securities, the creditworthiness of the servicing agent for the pool, the originator of the loans or receivables, or the entities that provided any supporting letters of credit, surety bonds, or other credit enhancements.

NOTE 3 - INTER-FUND RECEIVABLES AND PAYABLES

Due From/To Other Funds as of June 30, 2001 are summarized below:

Due From	Due To					Total Due From
	Unrestricted General	Unrestricted Proprietary	Restricted	Agency Funds	Unexpended Plant Fund	
Unrestricted General Fund	\$ 0	\$ 17,469	\$ 87,554	\$ 4,102	\$ 45,350	\$ 154,475
Unrestricted Proprietary Fund	4,352			16	150,460	154,828
Restricted Fund	12,733	206,709		204		219,646
Unexpended Plant Fund		3,977				3,977
Total Due To	<u>\$ 17,085</u>	<u>\$ 228,155</u>	<u>\$ 87,554</u>	<u>\$ 4,322</u>	<u>\$ 195,810</u>	<u>\$ 532,926</u>

These inter-fund receivables and payables are expected to be paid back during the next fiscal year at no interest.

In addition, other inter-fund borrowings of a temporary nature have occurred where one bank account is maintained for more than one fund. Because the fund making the temporary loan has not been determined by the University, these inter-fund borrowings are not reported as an asset of the fund making the advance or as a liability of the fund receiving the advance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CHANGES IN FIXED ASSETS

A summary of changes in the fixed assets is presented as follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ 2,207,185	\$ 0	\$ 0	\$ 2,207,185
Buildings	207,774,503	3,054,835		210,829,338
Other Structures and Improvements	41,353,981	903,039		42,257,020
Furniture, Machinery and Equipment	36,876,363	4,533,746	1,875,859	39,534,250
Artwork, Artifacts and Literature	41,019,892	1,359,708	277,483	42,102,117
Construction in Progress	4,659,961	5,731,307	3,957,874	6,433,394
Total Fixed Assets	\$ 333,891,885	\$ 15,582,635	\$ 6,111,216	\$ 343,363,304

NOTE 5 - LONG-TERM OBLIGATIONS

A. Changes in Long-Term Obligations - A summary of changes in the long-term obligations is presented as follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Bonds Payable (principal only)	\$ 70,452,000	\$ 0	\$ 3,176,000	\$ 67,276,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Bonds Payable - The University was indebted for bonds payable (net of discount and premium) in the amount of \$66,550,110 at June 30, 2001 for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/01	Principal Outstanding 6/30/01
Housing & Dining						
Sanford/Moore High Rise	B	3.000%	2008	\$ 1,650,000	\$ 1,185,000	\$ 465,000
Scott High Rise	C	5.875%	2007	2,200,000	1,375,000	825,000
Holshouser High Rise	D	5.200%	2007	2,200,000	1,375,000	825,000
Hunt Village Apartments	E	5.750%	2003	1,250,000	1,050,000	200,000
Martin Village Apartments	F	3.000%	2018	2,175,000	915,000	1,260,000
High Rise Energy Conversion	G	3.000%	2007	152,000	115,000	37,000
Phase 3 Apartments	H	3.000%	2019	1,568,000	649,000	919,000
Series J, K, L Refinance	M	4.6%-5.25%	2015	19,805,000	7,205,000	12,600,000
Total Housing & Dining				31,000,000	13,869,000	17,131,000
Cone Student Center						
Cone Center Addition	C	6.75%-7.0%	2010	2,300,000	1,170,000	1,130,000
Parking System						
Parking Deck	1992	5.9%-6.5%	2017	6,400,000	1,205,000	5,195,000
Parking Deck "E"	1996	5.4%-6.0%	2021	5,000,000	560,000	4,440,000
Total Parking System				11,400,000	1,765,000	9,635,000
Student Activity Center						
Barnhardt Student Activity Center	1995	5.0%-5.6%	2021	26,295,000	3,015,000	23,280,000
System-Wide Financing						
Phase VII Apartments	(A)	3.25%	2023	15,875,000	700,000	15,175,000
Recreational Playing Fields	(A)	3.25%	2008	1,105,000	180,000	925,000
Total System-Wide Financing				16,980,000	880,000	16,100,000
Total Bonds Payable (principal only)				<u>\$ 87,975,000</u>	<u>\$ 20,699,000</u>	67,276,000
Less: Unamortized Discount						(734,281)
Plus: Unamortized Premium						8,391
Total Bonds Payable						<u>\$ 66,550,110</u>

(A) The University of North Carolina System Pool Revenue Bonds, Series 1998B.

Designated student fees and revenue streams related to the systems financed have been pledged for the payment of these bonds. In addition, fund reservations required by the Bond Indentures have been established and recorded in the Debt Service Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2001 are presented as follows:

<u>Fiscal Year</u>	<u>Bonds Payable</u>
2002	\$ 6,785,814
2003	6,776,154
2004	6,674,530
2005	6,007,620
2006	5,999,725
2007-2011	28,140,659
2012-2016	22,941,233
2017-2021	17,900,559
2022-2026	3,168,960
Total Requirements	\$ 104,395,254

NOTE 6 - OPERATING LEASES

Rental expense for all operating leases with a term greater than one month during the year was \$235,395.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** – The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$13,642,029 and on other purchases were \$1,110,020 at June 30, 2001.
- B. Pending Litigation and Claims** – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. In addition, amounts not allotted but accrued as expended at year-end are recorded as revenue. The University's remaining authorization \$168,733,501 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 8 - BUDGETING AND BUDGETARY CONTROL

The State of North Carolina operates on a biennial budget cycle with separate annual departmental and institutional certified budgets adopted by the General Assembly.

Chapter 116, Article 1, Part 2A of the North Carolina General Statutes authorizes the universities within the sixteen campus University of North Carolina System to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget codes are also used to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management. Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. The University of North Carolina has applied for and received special responsibility status.

After the budget is approved by the General Assembly and adopted by the Board of Governors, the University follows an established system of budgetary controls. Periodic interim budget statements to department heads guide them in managing budget allocations. Monthly financial reports, which include

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

budget and actual data, are provided for each fund to individual managers responsible for the fund. When actual conditions require changes to the budget, revisions are prepared and communicated to those affected. Changes to the budget are reviewed and approved at the University or State level as required. The University maintains an encumbrance accounting system as another method to ensure that imposed expenditure constraints are observed. The state budgetary control is maintained on a cash basis of accounting.

NOTE 9 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and the 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.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess liability coverage up to \$11,000,000 public officers and employees via contract with a private insurance company. The premium, based on a composite rate, is paid by the University to the State's Agent of Record.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. Coverage for fire losses for operations supported by the State's General Fund is provided at no cost to the University. Other operations not supported by the State's General Fund are charged for fire coverage. The University also purchased through the Fund extended coverage, vandalism, theft, flood and "all risks" for computers and miscellaneous equipment. Losses covered by the Fund are subject to a \$500 per occurrence deductible except theft losses carry a \$1,000 per occurrence deductible. 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.

All State-owned vehicles are covered by liability insurance handled by the North Carolina Department of Insurance. The State is self-insured for the first \$500,000 of any loss through a retrospective rating plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$500,000. The liability limits for losses occurring in state are \$500,000 per claimant and \$5,000,000 per occurrence. The University is charged premiums

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

to cover the cost of excess insurance and to pay for those losses falling under the self-insured retention.

The University is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible.

The University purchased other authorized coverages from private insurance companies. These coverages include: Equipment Floaters (Master Music, Fine Arts), Boiler and Machinery coverage, Student Nursing & Physician Liability coverage, General Liability, and various other commercial applications. These coverages were affected and placed by the North Carolina Department of Insurance through the State's agent of record.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Health care coverage is optionally available through contractual agreements with several HMO plans.

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 is self-insured for workers' compensation.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer's Office and funded via employer contributions.

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 10 - 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. The Teachers' and State Employees' Retirement System (System) is a multiple-employer

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contributions rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2001, these rates were set at 5.33% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2001, the University had a total payroll of \$105,221,689 of which \$46,548,892 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$2,792,934 and \$2,481,056, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2001, 2000, and 1999, which were \$2,481,056, \$3,549,073, and \$3,204,449, respectively.

In accordance with constitutional provisions requiring a balanced budget for the State of North Carolina, the Governor issued an executive order requiring the employers' share of retirement contributions for the months February 2001 through June 2001 to be transferred to a reserve account rather than paid to the Teachers' and State Employees' Retirement System. A portion of those funds was ultimately used by the State of North Carolina for general fund purposes and not released to the retirement system. The total amount of employer contributions paid by the University has been recognized as pension costs in the financial statements. The contributions which were not released to the Teachers' and State Employees' Retirement System are considered immaterial to the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

University's financial statements taken as whole. The University has no liability for pension costs beyond the contributions already made.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial 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, which 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 Program offers plans administered by the Teachers' Insurance Annuity Association and College Retirement Equities Fund (TIAA-CREF), as well as Lincoln National Life Insurance Company, the Variable Annuity Life Insurance Company (VALIC) and Fidelity Investments. Participant eligibility and contributory requirements are established by General Statute 135-5.1. Participants contribute 6% of their salary and the University matches with a 6.84% contribution for pension benefits. The University assumes no liability other than its contribution.

Participants in the Program are vested after five years of service but plan administrators must return the value of the participant's and University's contribution to both the participant and the University if termination occurs prior to five years of service. Participants may direct their contributions to TIAA-CREF, Lincoln National, VALIC, Fidelity Investment or combinations of the aforementioned. Participants in all four plans may choose to invest among several alternatives, including fixed and variable accounts. Employees may elect to have their contributions deposited by one provider and the matching benefit deposited by another, or they may elect to have both deposited by the same provider.

For the year ended June 30, 2001, the University had a total payroll of \$105,221,689 of which \$43,122,342 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$2,587,341 and \$2,949,568, 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 \$39,511 for the year ended June 30, 2001.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-163.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2001 were \$60,997. The voluntary contributions by employees amounted to \$567,365 for the year ended June 30, 2001.

IRC Section 403(b) and 403(b)(7) Plans - All University employees who work 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 non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$2,119,430 for the year ended June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees -

The University participates in state administered programs which provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 1.28% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2001, the University's total contribution to the Plan was \$1,147,792. 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*.

B. Long-Term Disability - The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. The Plan provides disability income to eligible participants. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2001, the University's total contribution to the DIPNC was \$466,209. 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 12 - RELATED PARTIES

Foundations - There are two separately incorporated non-profit foundations associated with the University. These foundations are The Foundation of the University of North Carolina at Charlotte, Inc. and The Athletic Association of the University of North Carolina at Charlotte.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

These organizations serve 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 University's financial statements do not include the assets, liabilities, net assets or operational transactions of the foundations, except for support from each organization to the University. This support approximated \$3,182,660 for the year ended June 30, 2001. The Ben Craig Center is a separately incorporated non-profit small business incubator, partially supported and operated in support of the University. Direct support approximated \$239,305 for the year ended June 30, 2001. In addition, the University paid \$185,001 during the year for maintenance cost of the Ben Craig Center.

NOTE 13 - PLEDGES RECEIVABLE

Pledges not available for expenditure, such as additions to permanent endowments, are not recorded until received because the donor condition not to expend cannot start to be satisfied until received.

NOTE 14 - ACCOUNTING CHANGES

- A. Securities Lending Transactions** - The University deposits certain funds with the State Treasurer's Cash and Investment Pool, which participates in securities lending activities. In prior years it was the State's policy to allocate the risk associated with these transactions to each component unit. For the year ending June 30, 2001, the State changed its policy, as a result of discussion with the GASB technical staff, to report the associated risk as part of the State of North Carolina's fiduciary funds rather than to allocate the risk to component units. The effect of this change removes from the University issued financial statements the assets and liabilities associated with the State Treasurer's security lending program. This change does not affect the University's beginning fund equities.
- B. Governmental Accounting Standard Board, Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions*** - Effective July 1, 2000, the University implemented the new accounting and reporting standards required in GASB #33. This standard provides accounting rules over non-exchange transactions and changes the University's standards for the recognition of revenues and the reporting of funds received but not earned in the University's restricted fund. In prior years, the University reported funds received but not expended in its restricted fund as an addition to fund equity. Based on this new standard,

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

revenues are recognized when earned and when the resource provider's conditions have been satisfied. Amounts received not meeting the recognition requirements are now reported as deferred revenue. In addition, the new standard requires promises to give (pledges) that are expected to be collected and available for expenditure, and that are verifiable and measurable, be recorded as a receivable and revenue, upon satisfying the resource provider's conditions. Prior to this year, pledges for operating funds were not recorded as a receivable unless there was a legally enforceable right. There were no such promises for the year ended June 30, 2001.

NOTE 15 - PRIOR PERIOD ADJUSTMENTS

As of July 1, 2000, the fund equity of the various funds as previously reported was restated as follows:

<u>Fund Group</u>	<u>To Restate Fund Equity as a Result of the Accounting Change for GASB 33</u>	<u>To Reclassify Funds to a more Appropriate Fund Group(s)</u>	<u>Total Restatement to July 1, 2000 Fund Equity</u>
Unrestricted Fund	\$ 0	\$ 6,804	\$ 6,804
Restricted Fund	(837,980)	(6,804)	(844,784)

***The University of North Carolina at Charlotte
Revenue Bond Funds
Balance Sheet
June 30, 2001***

Schedule 1

	Housing & Dining*	University Center	Parking	Student Activities Center	Recreational Playing Fields*
REVENUE FUND					
Assets:					
Cash and Cash Equivalents	\$ 6,409,484	\$ 6,124,294	\$ 5,934,898	\$ 229,948	\$ 303,434
Due From Current Unrestricted		422	4,179		
Due from Current Restricted			210		
Accounts Receivable	780,978	310,824	225,278	76,821	9,626
Accrued Interest Receivable	28,749	23,313	25,116	970	1,280
Total Assets	\$ 7,219,211	\$ 6,458,853	\$ 6,189,681	\$ 307,739	\$ 314,340
Liabilities and Fund Equity:					
Liabilities:					
Accounts Payable and Accrued Liabilities	\$ 60,608	\$ 85,336	\$ 1,163	\$ 920	\$ 53
Due to Other Funds	128,999	22,500	717		
Deferred Revenue	85,072	323,099		86,160	10,770
Accrued Payroll	208,616	149,847	44,194		
Total Liabilities	483,295	580,782	46,074	87,080	10,823
Fund Equity:					
Unrestricted	6,735,916	5,878,071	6,143,607	220,659	303,517
Total Liabilities and Fund Equity	\$ 7,219,211	\$ 6,458,853	\$ 6,189,681	\$ 307,739	\$ 314,340
BOND AND INTEREST SINKING FUND					
Assets:					
Cash and Cash Equivalents	\$ 0	\$ 0	\$ 0	\$ 1,986,786	\$ 0
Cash in Depository	4,676,287	289,107	1,541,702	1,315	
Prepaid Expense	237,439				12,017
Accrued Interest Receivable				8,381	
HUD Receivable	44,752	25,620			
Total Assets	\$ 4,958,478	\$ 314,727	\$ 1,541,702	\$ 1,996,482	\$ 12,017
Liabilities and Fund Equity:					
Liabilities:					
Bonds Payable	\$ 857,573	\$ 0	\$ 114,000	\$ 262,778	\$ 5,000
Unamortized Bond Discounts	(450,452)		(78,400)	(205,429)	8,392
Interest Payable	405,494	39,392	293,966		
Total Liabilities	812,615	39,392	329,566	57,349	13,392
Fund Equity:					
Unrestricted	4,145,863	275,335	1,212,136	1,939,133	(1,375)
Total Liabilities and Fund Equity	\$ 4,958,478	\$ 314,727	\$ 1,541,702	\$ 1,996,482	\$ 12,017
REPAIR AND REPLACEMENT RESERVE					
Assets:					
Cash and Cash Equivalents	\$ 1,156,891	\$ 0	\$ 0	\$ 1,062,069	\$ 0
Cash in Depository		165,795	326,648		
Accrued Interest Receivable	4,880			4,481	
Total Assets	\$ 1,161,771	\$ 165,795	\$ 326,648	\$ 1,066,550	\$ 0
Liabilities and Fund Equity:					
Fund Equity:					
Unrestricted	\$ 1,161,771	\$ 165,795	\$ 326,648	\$ 1,066,550	\$ 0
Total Liabilities and Fund Equity	\$ 1,161,771	\$ 165,795	\$ 326,648	\$ 1,066,550	\$ 0

The University of North Carolina at Charlotte
Revenue Bond Funds
Schedule of Changes in Fund Equity
Year Ended June 30, 2001

Schedule 2

	Housing & Dining*	University Center	Parking	Student Activities Center	Recreational Playing Fields*
REVENUE FUND					
Additions:					
Sales and Rentals	\$ 10,911,906	\$ 1,553,105	\$ 0	\$ 0	\$ 0
Student Fees	6,441,497	4,256,434		1,982,539	166,755
Parking Fees			2,936,640		
Parking Fines			440,948		
Investment Income	584,382	321,208	363,005	75,743	15,641
Other Income	236,264	22,268			
Transfers from Bond and Interest Sinking Fund				184,334	
Transfers from Other Funds	75	163,688			
Total Additions	18,174,124	6,316,703	3,740,593	2,242,616	182,396
Deductions:					
Personnel Compensation	3,295,935	2,513,019	675,216		
Supplies and Materials	740,273	227,078	22,784		
Utilities	1,558,794	528,318	4,938		
Repairs and Maintenance	1,167,781	141,518	163,597		
Educational Awards	301,760				
Insurance and Bonding	141,860	44,350	11,439	22,159	370
Other Current Services	6,295,081	876,733	134,679		(30)
Equipment	853,459	297,480	125,752		
Contracts and Other Fixed Charges	66,929	449,891	4,651		
Other Fund Deductions	52,512	(3,471)	6,107	835	470
Transfers:					
To Bond and Interest Sinking Fund	3,405,965	115,673	859,547	1,922,230	137,469
To Repair & Replacement Fund	128,012		117,053		
To Construction Fund			315,644	900,000	
To Other Funds	1,024,343	207,419	5,842		
Total Deductions	19,032,704	5,398,008	2,447,249	2,845,224	138,279
Net Increase (Decrease) in Fund Equity	(858,580)	918,695	1,293,344	(602,608)	44,117
Fund Equity July 1, 2000	7,594,496	4,959,376	4,850,263	823,267	259,400
Fund Equity June 30, 2001	\$ 6,735,916	\$ 5,878,071	\$ 6,143,607	\$ 220,659	\$ 303,517
BOND AND INTEREST SINKING FUND					
Additions:					
Investment Income	\$ 202,139	\$ 12,993	\$ 67,204	\$ 128,104	\$ 0
HUD Subsidy	89,504	51,240			
Transfer from Revenue Fund	3,405,965	115,673	859,547	1,922,230	137,469
Total Additions	3,697,608	179,906	926,751	2,050,334	137,469
Deductions:					
Principal Payments - Bonds	2,036,000	95,000	295,000	655,000	95,000
Principal Payments - Notes	1,574,646	78,785	600,895	1,288,494	40,561
Administrative and Collection Costs	32,885	2,777	10,111	1,370	2,408
Transfer to Repair & Replacement Fund			48,474		
Transfer to Revenue Funds				120,121	
Total Deductions	3,643,531	176,562	954,480	2,064,985	137,969
Net Increase (Decrease) in Fund Equity	54,077	3,344	(27,729)	(14,651)	(500)
Fund Equity (Deficit) July 1, 2000	4,091,786	271,991	1,239,865	1,953,784	(875)
Fund Equity (Deficit) June 30, 2001	\$ 4,145,863	\$ 275,335	\$ 1,212,136	\$ 1,939,133	\$ (1,375)

The University of North Carolina at Charlotte

Revenue Bond Funds

Schedule of Changes in Fund Equity

Year Ended June 30, 2001

Schedule 2

Page 2

	Housing & Dining*	University Center	Parking	Student Activities Center	Recreational Playing Fields*
REPAIR AND REPLACEMENT RESERVE					
Additions:					
Investment Income	\$ 59,724	\$ 8,970	\$ 11,040	\$ 63,302	\$ 0
Transfer from Bond and Interest Sinking Fund			23,026		
Transfer from Debt Service Fund			25,447		
Transfer from Revenue Funds	128,012		117,053		
Total Additions	187,736	8,970	176,566	63,302	0
Deductions:					
Transfer to Proprietary Fund				64,213	
Administrative and Collection Costs		563	592		
Total Deductions		563	592	64,213	0
Net Increase (Decrease) in Fund Equity	187,736	8,407	175,974	(911)	
Fund Equity July 1, 2000	974,035	157,358	150,674	1,067,461	0
Fund Equity June 30, 2001	\$ 1,161,771	\$ 165,765	\$ 326,648	\$ 1,066,550	\$ 0

* These systems include bond financing through the University of North Carolina System Pool Revenue Bonds.
Financing related to these bonds are insured and are not required to maintain debt service reserves.

Deficit fund balances are due to year end accruals.

***The University of North Carolina at Charlotte
Intercollegiate Athletics Program***

***Statement of Current Funds Revenues and Expenditures
Year Ended June 30, 2001***

Schedule 3

	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues:					
Student Fees	\$ 895,071	\$ 696,340	\$ 2,615,359	\$ 59,001	\$ 4,265,771
Ticket Sales	663,505	1,582	37,975	39,651	742,713
Program Sales			15,350	122,450	137,800
Radio and TV Rights	76,700			219,058	295,758
Tournament Revenues			6,475	717,177	723,652
Gifts	80,487	24,286	112,078	340,256	557,107
Other Sources	600		12	29,130	29,742
Total Revenues	1,716,363	722,208	2,787,249	1,526,723	6,752,543
Expenditures:					
Coaches' Salaries	400,431	212,314	667,652	70,155	1,350,552
Other Salaries	30,038	4,081	21,366	872,560	928,045
Travel:					
Team	225,158	121,464	515,542		862,164
Recruiting	131,374	80,173	81,635	555	293,737
Other				129,797	129,797
Tournaments	71,205		36,155	36,567	143,927
Financial Aid	172,057	197,590	962,192	60,661	1,392,500
Officials	51,516	44,687	54,835		151,038
Other Services	158,823	9,533	14,708	105,508	288,572
Maintenance and General Administration	6,067	4,466	13,334	184,618	208,485
Supplies and Uniforms	46,540	19,370	149,054	81,467	296,431
Printing and Binding	3,114	2,449	3,802	92,587	101,952
Equipment Purchases	31,725	531	4,850	42,105	79,211
Publicity	2,665	35	3,802	24,012	30,514
Insurance	2,079	1,836		53,390	57,305
Communications	28,891	16,208	20,924	37,839	103,862
Miscellaneous	93,460	29,237	116,767	137,997	377,461
Total Expenditures	1,455,143	743,974	2,666,618	1,929,818	6,795,553
Excess (Deficiency) of Revenues over Expenditures	\$ 261,220	\$ (21,766)	\$ 120,631	\$ (403,095)	\$ (43,010)

The accompanying notes are an integral part of this statement.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The University of North Carolina at Charlotte is a constituent institution of The 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 University of North Carolina at Charlotte is classified as a Division I institution by the National Collegiate Athletic Association (NCAA).
- B. Basis of Presentation** - The preceding statement of current funds revenues and expenditures presents the University's intercollegiate athletic program's activity in accordance with the NCAA financial audit guidelines. Those guidelines require only a presentation of the current funds revenues and expenditures by major program. This presentation is not intended to provide a complete presentation of the program's financial position or its changes in fund balances.
- C. Revenue Recognition** - Current funds revenues include all gifts, grants, fees, sales receipts, and other resources earned and for which the resource provider condition(s) attached to those amounts were satisfied during the reporting period.
- D. Basis of Accounting** - The preceding statement of current funds revenues and expenditures was prepared in accordance with the accrual basis, except that no depreciation expense is reflected.

NOTE 2 - THE ATHLETIC FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

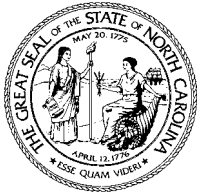
The Athletic Foundation of the University of North Carolina at Charlotte (Foundation) is a separate and legal entity established to promote and support the University's intercollegiate athletic program. During the fiscal year, the University received direct current funds support from the Foundation, as well as indirect support through payments made on behalf of the University's current fund activities by the Foundation. These amounts are reported as contributions and expenditures on the preceding statement of current funds revenues and expenditures. The amounts provided as direct support and as indirect support follow:

<u>Current Funds</u>	<u>Amount</u>
Direct Support	\$ 374,283
Indirect Support Funds	171,596

Schedule 4

* Projects in planning stage (in-house) - no expenditures

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Ralph Campbell, Jr.
State Auditor

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

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

We have audited the financial statements of The University of North Carolina at Charlotte, a component unit of the State of North Carolina, as of and for the year ended June 30, 2001, and have issued our report thereon dated December 14, 2001.

As discussed in Note 14A to the financial statements, the University changed its accounting for securities lending transactions allocated from the State Treasurer's Cash and Investment Pool during the year ended June 30, 2001. As discussed in Note 14B to the financial statements, the University implemented Governmental Accounting Standard Board, Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions*, during the year ended June 30, 2001.

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.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Audit Committee, the Board of Trustees and Board of Governors, management and staff of the University, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

December 14, 2001

DISTRIBUTION OF AUDIT REPORT

In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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Majority Leader of the N.C. Senate
Minority Leader of the N.C. Senate
Minority Leader of the N.C. House of Representatives
N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

January 28, 2002

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