

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, 2002

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, 2002

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Ralph Campbell, Jr.
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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 The University of North Carolina at Charlotte, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

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 subjected 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 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 that relate solely to The University of North Carolina at Charlotte. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to the 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. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To 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 and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

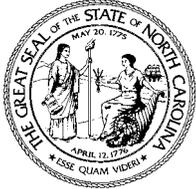
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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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 basic financial statements of the The University of North Carolina at Charlotte, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, as listed in the table of contents. 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, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 2002

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2003 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 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.



Ralph Campbell, Jr.
State Auditor

February 21, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

The University of North Carolina at Charlotte (UNC Charlotte) is pleased to present its financial statements for fiscal year 2002. The emphasis of discussion about these statements will be on current year data. In future years this analysis will show comparisons between current year and prior year information.

There are three financial statements presented: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year.

Statement of Net Assets

The Statement of Net Assets (SNA) presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The SNA is a point-in-time financial statement. The purpose of the SNA is to present to the readers of the financial statements a fiscal snapshot of UNC Charlotte. The SNA presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (assets minus liabilities). The difference between current and noncurrent assets is discussed in the footnotes to the financial statements.

From the data presented, readers of the SNA are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the SNA provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant, and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Net Assets June 30, 2002 (dollars in thousands)

	<u>Amount</u>
Assets:	
Current Assets	\$ 67,946
Capital Assets, Net	237,848
Other Assets	<u>63,207</u>
Total Assets	<u>369,001</u>
Liabilities:	
Current Liabilities	15,793
Noncurrent Long-Term Liabilities	<u>76,304</u>
Total Liabilities	<u>92,097</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	175,199
Restricted for:	
Expendable	27,255
Nonexpendable	28,259
Unrestricted	<u>46,191</u>
Total Net Assets	<u>\$ 276,904</u>

The total assets of the institution increased by \$20,964,000, the bulk of which was in investment in plant. Most of the other asset categories also increased during the year, with the most notable exception being endowment investments, which declined by \$6,657,000.

The total liabilities for the year increased by \$6,299,000. The primary cause for the increase in noncurrent liabilities, the bulk of which is \$2,047,000 in capital payables, is related to the Parking System Revenue Bonds, Series 2002. The net of the increase in total assets of \$20,964,000 and the increase in total liabilities of \$6,299,000 yields an increase in total net assets of \$14,665,000. The increase in total net assets is primarily in the category of invested in capital assets, net of related debt in the amount of \$22,423,000.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets, as presented on the Statement of Net Assets, are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA). The purpose of this Statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the institution.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Generally, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. For example, State appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

Statement of Revenues, Expenses, and Changes in Net Assets June 30, 2002

(dollars in thousands)

	<u>Amount</u>
Operating Revenues:	
Student Tuition and Fees	\$ 59,063
Federal Contracts and Grants	19,022
Sales and Services	28,306
Other Operating Revenues	<u>4,674</u>
 Total Operating Revenues	 <u>111,065</u>
 Nonoperating Revenues:	
State Appropriations	86,320
Noncapital Gifts	6,288
Other Nonoperating Revenues	<u>(3,491)</u>
 Total Nonoperating Revenues	 <u>89,117</u>
 Total Revenue	 <u>200,182</u>
 Operating Expenses	(195,170)
Nonoperating Expenses	(5,037)
 Capital Contributions	14,398
Additions to Endowment	<u>292</u>
 Increase in Net Assets	 14,665
 Net Assets at Beginning of Year, as Originally Reported	392,081
Cumulative Effect of Changes in Accounting Principle	(129,841)
 Net Assets at Beginning of Year - Restated	 <u>262,240</u>
 Net Assets at End of Year	 <u>\$ 276,905</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Some highlights of the information presented on the SRECNA are as follows:

- UNC Charlotte realized an increase in student tuition and fees revenue in fiscal year 2002 of \$6,165,000. This is reflective of our faster than expected enrollment growth during the year, 6.2% and 5.6%, Fall and Spring semesters respectively, and to the campus-initiated tuition increase.
- The \$2,839,000 increase in federal contracts and grants is the result of UNC Charlotte's commitment to reach the Carnegie classification of Doctoral/Research University - Intensive status by the year 2010.
- The University realized a \$10,365,000 loss in State appropriations during the year, primarily the result of the State severely restricting cash flow during May and June. Since the restriction was imposed suddenly at the end of the fiscal year, we were unable to plan budget reductions and simply delayed many vendor payments until fiscal year 2003.
- The Campaign for UNC Charlotte, It Takes A Gift, which entered its public phase in February 2002, resulted in an increase of noncapital gifts of \$2,693,000.
- The strong downturn in investment markets caused a significant loss in investment income of \$3,528,000 for fiscal 2002, compared with a gain of \$1,596,000 in fiscal 2001.
- The State of North Carolina allocated funding for capital projects at UNC Charlotte as part of the statewide capital improvement bond issue. The University received \$13,700,000 in fiscal 2002 compared with \$6,900,000 in fiscal 2001. These funds were designated for buildings for Admissions, Humanities, Science and Technology, the College of Education, the College of Nursing and Health Professions, Graduate Engineering, and Physical Plant and Public Safety, as well as central heating plant improvements and expansion of the technology infrastructure.
- The cumulative effects of changes in accounting principle are the result of the University adopting depreciation on capital assets, the reclassification of government grants refundable, the write-down of fixed assets, and the write-off of library books.

The SRECNA shows an increase in net assets at the end of the year, which is primarily the result of the capital contributions received.

Statement of Cash Flows

The final Statement presented by The University of North Carolina at Charlotte is the Statement of Cash Flows. This Statement presents detailed information about the cash activity of the institution during the year. The Statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Cash Flows For the Fiscal Year ended June 30, 2002 *(dollars in thousands)*

	<u>Amount</u>
Cash Provided/(Used) By:	
Operating Activities	\$ (78,134)
Noncapital Financing Activities	92,802
Capital and Related Financing Activities	(12,658)
Investing Activities	<u>2,137</u>
Net Change in Cash	4,147
Cash, Beginning of Year	<u>60,345</u>
Cash, End of Year	<u><u>\$ 64,492</u></u>

Capital Asset and Debt Administration

As previously stated, the University issued revenue bonds in fiscal 2002, the proceeds of which were used to fund Parking Deck F and to refund the Series 1992 Parking System Revenue Bonds. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the University.

Economic Outlook

The State of North Carolina continues to experience below-budgeted revenues due to its sagging economy. This statewide cash shortage resulted in reductions to UNC Charlotte's operating appropriation in the two most recent fiscal years. The overall downturn in the economy could slow cash contributions to the capital campaign, which moved into its public phase during fiscal 2002. Balancing these issues is the University's strong enrollment growth. Otherwise, we are not aware of any facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

The University's overall financial position is strong. Even with a reduced State appropriation for 2002, the University was able to generate a modest increase in net assets. The University anticipates the current fiscal year will be much like last and will maintain a close watch over resources to maintain the University's ability to react to unknown internal and external issues.

The University of North Carolina at Charlotte
Statement of Net Assets
June 30, 2002

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	46,588,084
Restricted Cash and Cash Equivalents		5,750,217
Restricted Short-Term Investments		3,218,315
Receivables, Net (Note 5)		10,675,409
Due from Primary Government		87,838
Inventories		418,233
Notes Receivable, Net (Note 5)		1,207,731

Total Current Assets 67,945,827

Noncurrent Assets:

Restricted Cash and Cash Equivalents		12,153,461
Restricted Due from Primary Government		7,075,222
Endowment Investments		34,958,959
Other Long-Term Investments		4,406,371
Notes Receivable, Net (Note 5)		4,613,963
Capital Assets, Net (Note 6)		237,847,603

Total Noncurrent Assets 301,055,579

Total Assets 369,001,406

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)		7,216,604
Due to Primary Government		61,213
Deferred Revenue		3,508,653
Interest Payable		766,163
Long-Term Liabilities - Current Portion (Note 8)		4,240,441

Total Current Liabilities 15,793,074

Noncurrent Liabilities:

Deposits Payable		1,236,091
Funds Held for Others		149,565
U. S. Government Grants Refundable		5,408,790
Long-Term Liabilities (Note 8)		69,509,297

Total Noncurrent Liabilities 76,303,743

Total Liabilities 92,096,817

The University of North Carolina at Charlotte
Statement of Net Assets
June 30, 2002

Exhibit A

Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	175,199,454
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,202,623
Endowed Professorships	18,831,697
Departmental Uses	3,372,151
Loans	1,810,418
Other	42,046
Expendable:	
Scholarships and Fellowships	2,258,873
Research	64,093
Departmental Uses	349,463
Capital Projects	6,883,785
Debt Service	10,754,437
Other	6,944,416
Unrestricted	46,191,133
Total Net Assets	\$ 276,904,589

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

***The University of North Carolina at Charlotte
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2002***

Exhibit B

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$	59,062,792
Federal Grants and Contracts		19,022,378
State and Local Grants and Contracts		814,067
Nongovernmental Grants and Contracts		2,759,550
Sales and Services, Net (Note 10)		28,306,280
Interest Earnings on Loans		168,037
Other Operating Revenues		931,699
Total Operating Revenues		111,064,803

EXPENSES

Operating Expenses:

Salaries and Benefits		129,575,737
Supplies and Materials		17,103,877
Services		29,196,595
Scholarships and Fellowships		5,013,827
Utilities		5,928,779
Depreciation		8,351,404
Total Operating Expenses		195,170,219

Operating Loss (84,105,416)

NONOPERATING REVENUES (EXPENSES)

State Appropriations		86,319,621
Noncapital Grants		36,589
Noncapital Gifts		6,287,893
Investment Income (Net of Investment Expense of \$511,205)		(3,527,812)
Interest and Fees on Capital Asset-Related Debt		(3,860,786)
Other Nonoperating Expenses		(1,175,902)
Net Nonoperating Revenues		84,079,603

Loss Before Other Revenues, Expenses, Gains, or Losses (25,813)

Capital Grants		13,700,000
Capital Gifts		698,033
Additions to Permanent Endowments		292,499
Increase in Net Assets		14,664,719

NET ASSETS

Net Assets - July 1, 2001, as Restated (Note 18)		262,239,870
Net Assets - June 30, 2002	\$	276,904,589

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

The University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	\$ 106,957,571
Payments to Employees and Fringe Benefits	(129,290,140)
Payments to Vendors and Suppliers	(51,566,246)
Payments for Scholarships and Fellowships	(5,022,180)
Loans Issued	(956,489)
Collection of Loans	1,087,416
Interest Earned on Loans	168,037
Other Receipts	488,182
Net Cash Used by Operating Activities	(78,133,849)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	86,319,621
Grants for Other than Capital Purposes	36,589
Capital Grants	6,153,589
Noncapital Gifts	292,499
Net Cash Provided by Noncapital Financing Activities	92,802,298
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	5,910,459
Capital Grants	13,039,664
Capital Gifts	433,435
Proceeds from Sale of Capital Assets	4,784
Acquisition and Construction of Capital Assets	(25,116,570)
Principal Paid on Capital Debt and Leases	(3,346,000)
Interest Paid on Capital Debt	(3,583,772)
Net Cash Used by Capital Financing and Related Financing Activities	(12,658,000)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	14,091,155
Net Earnings on Investments	1,823,834
Purchase of Investments and Related Fees	(13,778,952)
Net Cash Provided by Investing Activities	2,136,037
Net Increase in Cash and Cash Equivalents	4,146,486
Cash and Cash Equivalents - July 1, 2001	60,345,276
Cash and Cash Equivalents - June 30, 2002	\$ 64,491,762

***The University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002***

Exhibit C

Page 2

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (84,105,416)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	8,351,404
Allowances, Write-Offs, and Amortizations	48,302
Changes in Assets and Liabilities:	
Receivables (Net)	(3,979,147)
Due from Primary Government	(102,188)
US Government Grants Refundable	117,617
Notes Receivable (Net)	130,928
Inventories	692,087
Accounts Payable and Accrued Liabilities	(235,035)
Due to Primary Government	59,787
Deferred Revenue	141,851
Compensated Absences	375,395
Deposits Payable	385,262
Funds Held for Others	(14,696)
Net Cash Used by Operating Activities	\$ (78,133,849)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 46,588,084
Restricted Cash and Cash Equivalents	5,750,217
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	12,153,461
Total Cash and Cash Equivalents - June 30, 2002	\$ 64,491,762

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 8,787,766
Assets Acquired through a Gift	398,902
Change in Fair Value of Investments	(5,862,851)
Loss on Disposal of Capital Assets	(1,175,902)
Increase in Receivables Related to Nonoperating Income	762,524

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, 2002

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 as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, effective for the University's year ended June 30, 2002, the full scope of the University's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Basis of Accounting** - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and short-term investments with the State Treasurer’s Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - This classification includes long-term fixed income 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, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises’ sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

G. Inventories – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.

H. Capital Assets – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 20 years for equipment.

The University's Art, Literature, and Artifacts collections are capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

I. Restricted Assets – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

J. Noncurrent Long-Term Liabilities – Noncurrent long-term liabilities include principal amounts of bonds payable and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refundings. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs are expensed.

K. Compensated Absences - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

L. **Net Assets** – The University’s net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the University’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Assets – Nonexpendable – Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity. Nonexpendable restricted net assets also include student loan programs.

Restricted Net Assets – Expendable – Expendable restricted net assets include resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University.

M. **Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students’ behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- N. Revenue and Expense Recognition** – The University presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the University. Operating revenues include all charges to customers, grants received for student financial assistance, research contracts and grants, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges, and such programs are necessary and essential to the mission of the University. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- O. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as Central Stores, Copy Centers, Motor Pool, Postal Services, Telecommunications, and Bookstore. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 at Charlotte 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 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 3 - DEPOSITS AND INVESTMENTS

A. Deposits - The University is required by General Statute 147-77 to deposit its budget code cash, as defined in Note 2, and by the University of North Carolina Board of Governors pursuant to General Statute 116-36.1 to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, in the State Treasurer's Cash and Investment Pool. In addition, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer'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 \$64,491,762. At year-end, cash on hand was \$2,486,906. The University's portion of the State Treasurer's Cash and Investment Pool was \$60,850,227. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Carolina's agent in the name of the State and for 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 \$1,154,629 and the bank balance was \$1,164,967. Of the bank balance, \$200,000 was covered by federal depository insurance and \$964,967 was uninsured and uncollateralized.

North Carolina General Statutes 147-69.1(c), applicable to the State's General Fund, and 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; time deposits of specified institutions; prime quality commercial paper, and asset-backed securities with specified ratings. Also, General Statute 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. General Statute 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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 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 and funds received for services rendered by health care professionals 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

External Investment Pool - The external investment pool sponsored by the University was established in fiscal year 2002. The pool is utilized to manage the investments for charitable, non-profit organizations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Other affiliated organizations not included in the University's reporting entity represent the pool's external participants. Fund ownership of the pool is measured using the pro rata method. Under this method, each participating fund's investment balance is determined based on its pro rata share of the fair market value of the investment pool at the beginning of each monthly period. At June 30, 2002, the only asset in the external investment pool was held by the University Endowment Fund.

The external investment pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Board has chosen not to make individual security selection decisions. The Board's primary role is to oversee the allocation of the pool's portfolio among the asset classes, investment vehicles, and investment managers.

Wachovia is the custodian for the pool and provides the University with monthly statements defining income and fair value information which is then allocated among the fund's participants. There are no involuntary participants in the pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the pool's investments. The University Endowment Fund was the only external participant holding assets in the investment pool as of June 30, 2002, and its investments of the pool were therefore consolidated with the University Endowment's other investment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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, 2002 is presented below:

Long-Term Investment Pool

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
U. S. Government Securities	\$ 236,717	\$ 0	\$ 0	\$ 236,717
Collateralized Mortgage Obligations	131,366	340,022		471,388
Corporate Bonds		252,370		252,370
Corporate Stocks		8,297,647		8,297,647
Total Categorized Investments	\$ 368,083	\$ 8,890,039	\$ 0	9,258,122
Investments Not Categorized:				
Money Market Funds				6,783,817
Mutual Funds				19,916,870
Total Investments Not Categorized				26,700,687
Total Long-Term Pool Investments				\$ 35,958,809

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

External Investment Pool

	<u>Fair Value</u>
	<u>Total</u>
Investments Not Categorized:	
Mutual Funds	\$ 974,582
Total External Pool Investments	<u>\$ 974,582</u>

Non-Pooled Investments

	<u>Fair Value</u>
	<u>Total</u>
Investments Not Categorized:	
Real Estate	\$ 5,325,018
Limited Partnerships	323,428
Other Investments	<u>1,808</u>
Total Non-Pooled Investments	<u>\$ 5,650,254</u>

Total Investments

	<u>Fair Value</u>			
	<u>Risk Category</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>
Total Categorized Investments	<u>\$ 368,083</u>	<u>\$ 8,890,039</u>	<u>\$ 0</u>	\$ 9,258,122
Total Investments Not Categorized				<u>33,325,523</u>
Total Investments				<u>\$ 42,583,645</u>

Since a separate annual financial report on the external investment pool has not been, and is not planned to be, issued, the following additional disclosures are being provided in the University's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The external investment pool's Statement of Net Assets and Statement of Operations and Changes in Net Assets as of and for the period ended June 30, 2002 are as follows:

Statement of Net Assets June 30, 2002	
Assets	
Investments	<u>\$ 974,582</u>
Net Assets	
Internal Portion	<u>\$ 974,582</u>
Total Net Assets	<u>\$ 974,582</u>

Statement of Operations and Changes in Net Assets For the Fiscal Year Ended June 30, 2002	
Increase in Net Assets From Operations	
Revenues:	
Investment Income	\$ 9,561
Expenditures:	
Investment Management	<u>3,843</u>
Net Increase in Net Assets Resulting from Operations	5,718
Share Transactions	
Net Share Purchases	<u>968,864</u>
Total Increase in Net Assets	<u>974,582</u>
Net Assets	
Beginning of Year	<u>0</u>
End of Year	<u>\$ 974,582</u>

The major investment classifications of the external investment pool had the following attributes at June 30, 2002:

Investment Classification	Fair Value	Principal Amount	Interest Rate
Mutual Funds	\$ 971,864	\$ 975,763	
Money Market Funds	<u>2,718</u>	<u>2,718</u>	1.42%
	<u>\$ 974,582</u>	<u>\$ 978,481</u>	

- C. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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:

Mortgage-Backed Securities - The University invests in mortgage-backed securities issued by the Government National Mortgage Association (GNMA), an agency of the United States government, government sponsored enterprises including the Federal Home Loan Mortgage Corporation (FHLMC) or the Federal National Mortgage Association (FNMA), and private trusts or corporations. The University invests in these securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

The values of mortgage-backed securities are generally based on the cash flows from principal and interest receipts on the underlying mortgage pools. These securities may include mortgage pass-through securities and collateralized mortgage obligations (CMOs). Mortgage pass-through securities pay the holder of the security the principal and interest amounts received from the underlying pool of mortgages as these amounts are collected from the mortgage holders. In a CMO, the cash flows from principal and interest payments from one or more mortgage pass-through securities or a pool of mortgages may be reallocated to multiple security classes with different priority claims and payment streams (commonly referred to as tranches.) A holder of the CMO security thus chooses the class of security that best meet its risk and return objectives. Both pass-through securities and CMOs are subject to significant market risk due to fluctuations in interest rates, prepayment rates and various liquidity factors related to their specific markets.

The mortgage pass-through securities issued by GNMA, FNMA, and FHLMC are classified by the University as U. S. government securities. The mortgage pools underlying the GNMA pass-through securities are backed by the full faith and credit of the U. S. government by the Federal Housing Administration (FHA), Veterans Administration (VA), and the Farmers Home Administration (FHA). The FNMA and FHLMC securities are collateralized by underlying pools of mortgages primarily issued by GNMA, FNMA, or FHLMC which guarantee full and timely payment of principal and interest.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The CMOs held by the University include mortgage-backed securities issued by FNMA and FHLMC. In addition, non-traditional mortgage pass-through securities, such as “interest-only strips” and “principal-only strips”, if held by the University, are classified as CMOs. The University did not hold any non-traditional pass-through securities during the year.

As of June 30, 2002, the University was holding \$417,387.84 in mortgage-backed securities valued at fair value representing approximately .98% of its total investments. Of this amount \$291,458.64 represent investments in CMOs.

Other Asset-Backed Securities - The University invests in various asset-backed securities such as automobile loan securitizations, credit card securitizations, and home equity loans. The University invests in the various asset-backed securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

The values of these other asset-backed securities are generally based on the cash flows to be received from the underlying pools of assets. Accordingly, these securities are subject to market risk due to fluctuations in interest rates, prepayment rates, and various liquidity factors related to their specific markets. The market risk is reduced by the University’s preference to invest in the shorter average life securities.

These security holdings are subject to credit-related losses in the event of non-performance by the issuers or counterparties to these instruments. However, the University does not expect any issuers or counterparties to fail to meet their obligation given their high credit ratings. The assets that collateralize these securities, which could be liquidated at market values at the time of non-performance, reduce the credit risk.

As of June 30, 2002, the University held no asset-backed securities.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2002 are summarized in the chart below. The amounts shown in the chart represent the market value of the University's investment in the various investment funds and the market value and percent of holdings held in derivatives by those funds.

Investment	Total Fair Market Value	Mortgage-Backed		Asset-Backed	
		Amount	%	Amount	%
BACAP Intermediate Fixed Income	\$ 1,998,379	\$ 259,789	13.0	\$ 219,822	11.0
Nations Fund Investment Grade	225,281	22,528	10.0	27,034	12.0
Evergreen Core Bond	537,062	256,179	47.7	29,001	5.4
Total Fair Market Value of Fund	\$ 2,760,722	\$ 538,496	19.5	\$ 275,857	9.99
Total Indirect Derivatives	\$ 817,353				
Total Endowment Investments	\$ 34,958,959		1.5		0.8

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

Mortgage-related 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

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 Board of Trustees of the Endowment Fund. 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 quasi-endowment 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. Sufficient unrestricted quasi-endowment funds are retained to cover any negative accumulations. At June 30, 2002, combined unrestricted endowment principal and net appreciation of \$9,208,693.95 was available to be spent of which \$2,313,140.33 was restricted to specific purposes.

Endowment funds held in trust by others are resources neither in the possession nor in 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. The income receipts are recorded as an asset and revenue when received by the University. At year-end, the amount held by others in irrevocable trusts for the University was \$1,120,182.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 9,223,062	\$ 619,464	\$ 8,603,598
Accounts	380,827	7,920	372,907
Intergovernmental	1,041,480		1,041,480
Investment Earnings	233,660		233,660
Interest on Loans	177,593		177,593
Other	246,171		246,171
Total Current Receivables	\$ 11,302,793	\$ 627,384	\$ 10,675,409
Notes Receivables:			
Notes Receivable - Current			
Federal Loan Programs	\$ 1,395,211	\$ 294,061	\$ 1,101,150
Institutional Student Loan Programs	97,013		97,013
Other	9,568		9,568
Total Notes Receivable - Current	\$ 1,501,792	\$ 294,061	\$ 1,207,731
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 4,215,328	\$ 0	\$ 4,215,328
Institutional Student Loan Programs	436,116	37,481	398,635
Total Notes Receivable - Noncurrent	\$ 4,651,444	\$ 37,481	\$ 4,613,963

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2001	Adjustments	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:					
Land	\$ 2,207,185	\$ 0	\$ 6,410	\$ 0	\$ 2,213,595
Art, Literature, and Artifacts	7,344,219		1,019,618		8,363,837
Construction in Progress	6,433,394	(699,549)	18,720,397		24,454,242
Total Capital Assets, Non-Depreciable	15,984,798	(699,549)	19,746,425		35,031,674
Capital Assets, Depreciable:					
Buildings	212,361,120	631,640	4,195,841		217,188,601
Machinery and Equipment	39,534,250		3,860,389	2,512,999	40,881,640
General Infrastructure	33,723,090	67,909	387,840		34,178,839
Total Capital Assets, Depreciable	285,618,460	699,549	8,444,070	2,512,999	292,249,080
Less Accumulated Depreciation:					
Buildings	(53,455,919)		(4,341,738)		(57,797,657)
Machinery and Equipment	(20,202,587)		(3,347,935)	(1,293,528)	(22,256,994)
General Infrastructure	(8,716,769)		(661,731)		(9,378,500)
Total Accumulated Depreciation	(82,375,275)		(8,351,404)	(1,293,528)	(89,433,151)
Total Capital Assets, Depreciable, Net	203,243,185	699,549	92,666	1,219,471	202,815,929
Capital Assets, Net	\$ 219,227,983	\$ 0	\$ 19,839,091	\$ 1,219,471	\$ 237,847,603

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	Amount
Accounts Payable	\$ 4,800,968
Due to Students	32,293
Due to Employees	58,676
Accrued Payroll	656,413
Contract Retainage	1,668,254
Total Accounts Payable and Accrued Liabilities	\$ 7,216,604

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Bonds Payable	\$ 67,276,000	\$ 10,900,000	\$ 8,356,000	\$ 69,820,000	\$ 3,676,000
Add/Deduct Premium/Discount	(725,890)	(54,307)	74,766	(705,431)	
Total Bonds Payable	66,550,110	10,845,693	8,430,766	69,114,569	3,676,000
Compensated Absences	4,259,774	4,377,609	4,002,214	4,635,169	564,441
Total Long-Term Liabilities	\$ 70,809,884	\$ 15,223,302	\$ 12,432,980	\$ 73,749,738	\$ 4,240,441

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Bonds Payable - The University was indebted for bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2002	Principal Outstanding 06/30/2002
<u>Housing and Dining</u>						
Sanford/Moore High Rise	B	3.000%	2008	\$ 1,650,000	\$ 1,245,000	\$ 405,000
Scott High Rise	C	5.875%	2007	2,200,000	1,495,000	705,000
Holshouser High Rise	D	5.200%	2007	2,200,000	1,495,000	705,000
Hunt Village Apartments	E	5.750%	2003	1,250,000	1,145,000	105,000
Martin Village Apartments	F	3.000%	2018	2,175,000	975,000	1,200,000
High Rise Energy Conversion	G	3.000%	2007	152,000	121,000	31,000
Phase 3 Apartments	H	3.000%	2019	1,568,000	689,000	879,000
Series J, K, L Refinance	M	4.6%-5.25%	2015	19,805,000	8,460,000	11,345,000
Total Housing and Dining				<u>31,000,000</u>	<u>15,625,000</u>	<u>15,375,000</u>
<u>Cone Student Center</u>						
Cone Center Addition	C	6.75%-7.0%	2010	2,300,000	1,270,000	1,030,000
<u>Parking System</u>						
Parking Deck "E"	1996	5.4%-6.0%	2021	5,000,000	690,000	4,310,000
Parking Deck "F"	2002	3.5-5.125%	2027	10,900,000		10,900,000
Total Parking System				<u>15,900,000</u>	<u>690,000</u>	<u>15,210,000</u>
<u>Student Activity Center</u>						
Barnhardt Student Activity Center	1995	5.0%-5.5%	2021	26,295,000	3,700,000	22,595,000
<u>System-Wide Financing</u>						
Phase VII Apartments	1998B	4.00%-5.25%	2023	15,875,000	1,090,000	14,785,000
Recreation Playing Fields	1998B	4.00%-4.50%	2008	1,105,000	280,000	825,000
Total System-Wide Financing				<u>16,980,000</u>	<u>1,370,000</u>	<u>15,610,000</u>
Total Bonds Payable (Principle only)				<u>\$ 92,475,000</u>	<u>\$ 22,655,000</u>	69,820,000
Less: Unamortized Discount						712,665
Plus: Unamortized Premium						7,234
Total Bonds Payable						<u>\$ 69,114,569</u>

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, 2002 are as follows:

<u>Fiscal Year</u>	Annual Requirements	
	Bonds Payable	
	Principal	Interest
2003	\$ 3,676,000	\$ 3,448,795
2004	3,751,000	3,287,631
2005	3,261,000	3,110,334
2006	3,408,000	2,955,579
2007	3,590,000	2,792,639
2008-2012	17,225,000	11,414,036
2013-2017	17,075,000	7,070,544
2018-2022	14,074,000	2,799,237
2023-2027	3,760,000	368,294
Total Requirements	\$ 69,820,000	\$ 37,247,089

- D. Bond Defeasance** - The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

On January 9, 2002 the University issued \$10,900,000 of Parking System Revenue Bonds (Series 2002) with an average interest rate of 4.544%. The refunding component of this bond issue was used to retire \$5,010,000 of outstanding Parking System Revenue Bonds (Series 1992) with a combined average interest rate of 6.400%. Net proceeds of \$5,582,570 resulted from the bond sale and will be used in the construction of a parking deck.

NOTE 9 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases with a term greater than one month during the year was \$85,389.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - REVENUES

A summary of eliminations and allowances by revenue classification and revenues pledged as security for revenue bonds is presented as follows:

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	Net Revenues Pledged as Security for Debt	
Operating Revenues:						
Student Tuition and Fees	<u>\$ 67,557,730</u>	<u>\$ 8,160,773</u>	<u>\$ 334,165</u>	<u>\$ 59,062,792</u>	<u>\$ 0</u>	
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 11,465,640	\$ 1,605,479	\$ 119,929	\$ 9,740,232	\$ 9,740,232	(A)
Dining	7,400,564	827,291	49,360	6,523,913	6,523,913	(A)
Student Activities	502,006		31,686	470,320		(B)
Health, Physical Education, and Recreation Services	778,956		966	777,990		(C)
Parking	3,342,700		42,716	3,299,984	3,299,984	(C)
Other	6,627,185			6,627,185	6,627,185	
Sales and Services of Educational and Related Activities	<u>866,656</u>			<u>866,656</u>		
Total Sales and Services	<u>\$ 30,983,707</u>	<u>\$ 2,432,770</u>	<u>\$ 244,657</u>	<u>\$ 28,306,280</u>	<u>\$ 26,191,314</u>	

Revenue bonds secured by pledged revenues:

(A) Housing and Student Center System

(B) Student Union Center

(C) Parking

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 75,907,954	\$ 2,962,319	\$ 5,574,850	\$ 407,507	\$ 0	\$ 0	\$ 84,852,630
Research	3,990,378	2,484,450	1,548,329	35,561			8,058,718
Public Service	2,374,514	151,963	571,599	100			3,098,176
Academic Support	9,018,911	1,544,806	2,445,905	78,080			13,087,702
Student Services	4,240,295	359,260	1,132,877	7,735	344		5,740,511
Institutional Support	12,053,926	135,622	2,821,026	145	607		15,011,326
Operations and Maintenance of Plant	8,684,019	7,992,743	890,565		3,437,889		21,005,216
Student Financial Aid	408,415	1,825	71,910	2,813,632			3,295,782
Auxiliary Enterprises	12,897,325	1,470,889	14,139,534	1,671,067	2,489,939		32,668,754
Depreciation						8,351,404	8,351,404
Total Operating Expenses	<u>\$ 129,575,737</u>	<u>\$ 17,103,877</u>	<u>\$ 29,196,595</u>	<u>\$ 5,013,827</u>	<u>\$ 5,928,779</u>	<u>\$ 8,351,404</u>	<u>\$ 195,170,219</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - PENSION PLANS

- A. **Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. The Teachers' and State Employees' Retirement System (System) is a multiple-employer 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 Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the University had a total payroll of \$109,374,299, of which \$47,903,206 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$2,874,192 and \$943,693, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$943,693, \$2,395,160, and \$2,481,056, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products. The Board has authorized the following carriers: Teachers’ Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the University contributions to any one of the carriers or may direct their contributions to one carrier and the University contributions to another. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2002, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

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

For the year ended June 30, 2002, the University had a total payroll of \$109,374,299, of which \$45,392,811 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$2,723,569 and \$3,104,868, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$65,646 for the year ended June 30, 2002.

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 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2002 were \$64,253. The voluntary contributions by employees amounted to \$608,057 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other 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 \$2,133,734 for the year ended June 30, 2002.

NOTE 13 - 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'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2.35% 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, 2002, the University's total contribution to the Plan was \$1,066,731. 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. 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, 2002, the University's total contribution to the DIPNC was \$485,139. The University assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 14 - RISK MANAGEMENT

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

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 public officers' and employees' liability insurance up to \$11,000,000 via contract with a private

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible. The University also purchased through the Fund extended coverage, vandalism, theft, flood and "all risks" for computers and miscellaneous equipment.

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 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 through the North Carolina Department of Insurance. This coverage include: Equipment Floaters (Master Music, Fine Arts), Boiler and Machinery coverage, Student Nursing and Physician Liability coverage, Bonds (Postal, Employee Dishonesty, Computer Fraud), Robbery and Burglary, General Liability, and various other commercial applications.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 15 - 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 \$40,943,097 and on other purchases were \$3,360,757 at June 30, 2002.

B. 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 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. The University's remaining authorization \$150,833,162 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions, the remaining

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 16 - RELATED PARTIES

Foundations - There are two (2) 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 Foundation of The University of North Carolina at Charlotte.

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 \$4,377,673 for the year ended June 30, 2002.

Other Related Entities:

University Research Park, Inc. - The University received \$100,000 from University Research Park, Inc., a non-profit corporation organized to foster and stimulate the economic and social growth by attracting governmental, business, and research enterprises to locate in the community from which the University draws its students and employment for its students.

The Ben Craig Center, Inc. - The Ben Craig Center, Inc. is a separately incorporated non-profit small business incubator, organized to promote charitable, scientific, and educational purposes and to promote projects between The University of North Carolina at Charlotte and the private sector. During the year, the University received \$242,300 in financial support from The Ben Craig Center, Inc. In addition, the University paid \$154,182 toward the operating costs for The Ben Craig Center, Inc. Operating costs included utilities and personnel expenses.

NOTE 17 - ACCOUNTING CHANGES

Effective July 1, 2001, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The financial statement presentation

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating interfund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the University implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

NOTE 18 - NET ASSET RESTATEMENT

As referred to in Note 17, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*.

July 1, 2001 Fund Equity as previously reported	\$ 392,081,059
Implementation of GASB 34/35	<u>(129,841,189)</u>
July 1, 2001 Net Assets as Restated	<u>\$ 262,239,870</u>

NOTE 19 - SUBSEQUENT EVENTS

On October 11, 2002, the University of North Carolina Board of Governor’s ratified the issuance of bonds for a system-wide tax-exempt bond financing. These bonds were issued on October 22, 2002 with close scheduled for November 14, 2002. At that time funds will be available for the University’s use in the construction of a 500-bed student housing facility. The University will borrow approximately \$21,115,000 through this financing.

***The University of North Carolina at Charlotte
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2002***

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<i>Projects Started</i>							
Academic Facilities - Humanities Building	Apr 1999	\$ 25,410,365.00	\$ 8,041,836.00	\$ 33,452,201.00	\$ 8,487,970.00	25.37%	Dec 2003
Science and Technology Building	Nov 2000	34,653,736.00	1,157,524.00	35,811,260.00	2,739,420.00	7.65%	Sep 2004
Classroom and Office Building	Jan 2001	22,605,136.00		22,605,136.00	865,698.00	3.83%	Aug 2004
College of Education Building	Jan 2001	33,532,114.00		33,532,114.00	1,928,702.00	5.75%	Aug 2004
College of Nursing and Health Professions Building	Jan 2001	29,967,216.00		29,967,216.00	397,098.00	1.33%	Jul 2006
Graduate Engineering Complex	Jan 2001	19,695,651.00		19,695,651.00	202,144.00	1.03%	Aug 2004
Central Heating Plant Improvements	Nov 2000	5,745,083.00	190,000.00	5,935,083.00	680,275.00	11.46%	Mar 2003
Physical Plant and Campus Public Safety Facilities	Nov 2000	5,515,000.00	198,000.00	5,713,000.00	277,392.00	4.86%	Jul 2004
Rowe Classroom Building Renovations	May 2001	4,091,175.00		4,091,175.00	27,851.00	0.68%	Dec 2004
McEniry Classroom Building Renovations	May 2001	3,261,350.00		3,261,350.00	27,093.00	0.83%	Sep 2005
Chiller Replacement	Nov 2000	1,824,200.00	125,000.00	1,949,200.00	129,716.00	6.65%	Sep 2003
Technology Infrastructure Expansion	Apr 2001	3,345,500.00		3,345,500.00	1,433,132.00	42.84%	Jan 2003
Effective Project Management	Apr 2002	386,975.00		386,975.00	13,775.00	3.56%	Jul 2006
Total All Projects		\$ 190,033,501.00	\$ 9,712,360.00	\$ 199,745,861.00	\$ 17,210,266.00		

Note: 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 projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

The University of North Carolina at Charlotte
Intercollegiate Athletics Program
Statement of Current Funds Revenues and Expenditures
Year Ended June 30, 2002

Schedule 2

	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues:					
Student Fees	\$ 481,382	\$ 876,689	\$ 2,637,224	\$ 808,054	\$ 4,803,349
Ticket Sales	546,526	2,871	8,781	1,124	559,302
Program Sales				129,601	129,601
Radio and TV Rights	5,000		17,640	187,569	210,209
Tournament Revenues	87,288		5,729	28,819	121,836
Gifts:					
Unrestricted	32,347	20,043	31,885	317,567	401,842
Restricted	1,000	1,486	13,224	105,535	121,245
Other Sources	80			937,564	937,644
Total Revenues	1,153,623	901,089	2,714,483	2,515,833	7,285,028
Expenditures:					
Coaches' Salaries	375,702	238,314	651,669		1,265,685
Other Salaries	45,301	34,349	13,936	1,160,873	1,254,459
Travel:					
Team	180,937	130,728	517,333		828,998
Recruiting	117,540	53,034	79,513		250,087
Other				131,663	131,663
Financial Aid	199,995	194,677	912,754	34,990	1,342,416
Maintenance and General Administration	61,716	8,345	22,581	125,856	218,498
Supplies and Uniforms	45,893	27,150	177,402	83,231	333,676
Equipment Purchases	4,378	572	9,967	36,642	51,559
Publicity	1,950		500	35,385	37,835
Insurance	3,362	1,683	176	53,670	58,891
Communications	32,135	24,621	21,565	35,823	114,144
Contracted Services	177,208	13,212	29,018	156,264	375,702
Officials	76,125	44,348	59,737	250	180,460
Tournaments	50,698			39,443	90,141
Miscellaneous	36,078	22,923	24,224	364,142	447,367
Total Expenditures	1,409,018	793,956	2,520,375	2,258,232	6,981,581
Excess (Deficiency) of Revenues over Expenditures	\$ (255,395)	\$ 107,133	\$ 194,108	\$ 257,601	\$ 303,447
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 Athletics Program’s activity in accordance with the National Collegiate Athletics Association Financial Audit Guidelines. Those guidelines issued on May 2, 1996 require only a presentation of the current funds revenues and expenditures by major program and have not been updated for Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. 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 of accounting, except that no depreciation expense is reflected.
- E. Non-Monetary Transactions** - The University reports goods and services received either by donation or in an exchange transaction at their fair value at the date of receipt. Only services of those individuals possessing skills which would be purchased if not received through a non-monetary transaction are recorded. These goods and services include equipment, leased automobiles, insurance, repairs, memberships, and dues.

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 Athletics 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	\$ 305,175
Indirect Support	187,113

In addition to supporting the University's current fund activities, the Foundation also provided \$1,501,747 during the year for noncurrent plant fund activities.



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 constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated February 21, 2003.

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 2002.

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*.

**INDEPENDENT AUDITOR'S REPORT
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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.



Ralph Campbell, Jr.
State Auditor

February 21, 2003

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 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.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Molly Corbett Broad	President, The University of North Carolina
Dr. James H. Woodward	Chancellor, The University of North Carolina at Charlotte
Mr. Olen B. Smith, Jr.	Vice Chancellor for Business Affairs The University of North Carolina at Charlotte
Mr. Howard C. Bissell	Chairman, Board of Trustees The University of North Carolina at Charlotte

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Richard T. Morgan, Co-Chairman
Senator Keever M. Clark	Representative Martha B. Alexander
Senator Daniel G. Clodfelter	Representative E. Nelson Cole
Senator Walter H. Dalton	Representative James W. Crawford, Jr.
Senator James Forrester	Representative William T. Culpepper, III
Senator Linda Garrou	Representative W. Pete Cunningham
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Senator David F. Weinstein	Representative Thomas E. Wright
	Representative Douglas Y. Yongue

Other Legislative Officials

Senator Anthony E. Rand	Majority Leader of the N. C. Senate
Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	Minority Leader of the N. C. House of Representatives
Representative Joe Hackney	N. C. House Speaker Pro-Tem
Mr. James D. Johnson	Director, Fiscal Research Division

April 28, 2003

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