

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, 2003

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, 2003

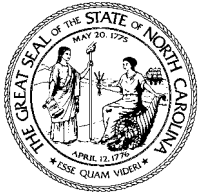
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Ralph Campbell, Jr.
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STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of The University of North Carolina at Charlotte, a 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, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina 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 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.

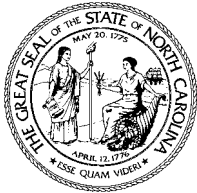
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

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 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, 2003, 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, 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, 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.

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

Ralph Campbell, Jr.
State Auditor

November 18, 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 2003. The emphasis of discussion about these statements is on current year data and material changes occurring between prior and current years.

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 distinction between current and noncurrent assets is discussed in the notes 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 category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is 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. 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, 2003 (dollars in thousands)

	2003	2002	Change	% Change
Assets:				
Current Assets	\$ 70,452	\$ 67,946	\$ 2,506	3.7%
Capital Assets, Net	288,815	237,848	50,967	21.4%
Other Assets	73,864	63,207	10,657	16.9%
Total Assets	433,131	369,001	64,130	17.4%
Liabilities:				
Current Liabilities	18,681	15,793	2,888	18.3%
Noncurrent Long-Term Liabilities	97,961	76,304	21,657	28.4%
Total Liabilities	116,642	92,097	24,545	26.7%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	221,116	175,199	45,917	26.2%
Restricted for:				
Expendable	16,847	27,255	(10,408)	(38.2%)
Nonexpendable	28,315	28,259	56	0.2%
Unrestricted	50,211	46,191	4,020	8.7%
Total Net Assets	\$ 316,489	\$ 276,904	\$ 39,585	14.3%

The total assets of the Institution increased by \$64,130,000, the bulk of which was in Capital Assets, Net.

Total liabilities for the year increased by \$24,545,000. The primary cause for this increase is related to the issue of \$21,115,000 in pooled bonds to be used for the construction of apartments for student housing.

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 operating and nonoperating revenues received by the Institution, and the operating and nonoperating expenses paid by the Institution. Other revenues, expenses, gains, and losses received or spent by the Institution and not classified as operating or nonoperating are presented separately on the statement.

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,

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, 2003

(dollars in thousands)

	2003	2002	Change	% Change
Operating Revenues:				
Student Tuition and Fees	\$ 61,285	\$ 59,063	\$ 2,222	3.8%
Federal Contracts and Grants	24,231	19,022	5,209	27.4%
Sales and Services	27,362	28,306	(944)	(3.3%)
Other Operating Revenues	5,411	4,674	737	15.8%
Total Operating Revenues	118,289	111,065	7,224	6.5%
Nonoperating Revenues:				
State Appropriations	95,881	86,320	9,561	11.1%
Noncapital Gifts	5,321	6,288	(967)	(15.4%)
Other Nonoperating Revenues	3,863	(3,491)	7,354	(210.7%)
Total Nonoperating Revenues	105,065	89,117	15,948	17.9%
Total Revenue	223,354	200,182	23,172	11.6%
Operating Expenses	(213,818)	(195,170)	(18,648)	9.6%
Nonoperating Expenses	(4,101)	(5,037)	936	(18.6%)
Capital Contributions	34,043	14,397	19,646	136.5%
Additions to Endowment	1,282	292	990	339.0%
Increase in Net Assets	40,760	14,664	26,096	178.0%
Net Assets at Beginning of Year, as Originally Reported	276,905	392,081	(115,176)	
Net Asset Restatements	(1,176)	(129,841)	128,665	
Net Assets as Beginning of Year - Restated	275,729	262,240	13,489	5.1%
Net Assets at End of Year	\$ 316,489	\$ 276,904	\$ 39,585	14.3%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

- The University received an increase of \$5,209,000 in federal funding to benefit their continued commitment to reach the Carnegie classification of Doctoral/Research University – Intensive status by the year 2010.
- 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 \$33,568,411 in Fiscal 2003 compared with \$13,700,000 in Fiscal 2002. These Capital Contributions are 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 net increase in Net Assets on the SRECNA is primarily the result of Capital contributions, an increase in Federal Grants, and increased State Appropriations.

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 spent for nonoperating, noninvesting, and 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 loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Cash Flows for the Fiscal Year Ended June 30, 2003 (dollars in thousands)

	2003
Cash Provided/(Used) By:	
Operating Activities	\$ (80,049)
Noncapital Financing Activities	102,519
Capital and Related Financing Activities	(9,230)
Investing Activities	2,774
Net Change in Cash	16,014
Cash, Beginning of Year	64,492
Cash, End of Year	<u>\$ 80,506</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Asset and Debt Administration

The University is scheduled to receive \$6,000,000 for the construction of a new health center. These proceeds are a portion of the University's \$23,460,000 allocation of the Board of Governor's bond sale. Of this allocation, \$8,635,000 will be used to redeem Housing and Dining series M bonds, and \$8,770,000 will be used to redeem a portion of the Student Activity Center bonds originally issued in 1995. There have been no significant changes in credit ratings or debt limitations that may affect financing for the University.

Economic Outlook

The State of North Carolina continues to experience below-budgeted revenues due to the continued sagging economy. However, the University's enrollment continues to grow, and its net assets continue to increase moderately over prior years. There are no known immediate existing conditions that will significantly impact the financial position of the University in the next fiscal year and we will continue to maintain a close watch over the University's resources to effectively react to unknown internal and external issues.

The University of North Carolina at Charlotte
Statement of Net Assets
June 30, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	47,281,453
Restricted Cash and Cash Equivalents		10,868,609
Restricted Short-Term Investments		3,177,910
Receivables, Net (Note 4)		7,276,047
Due from Primary Government		106,982
Inventories		455,071
Notes Receivable, Net (Note 4)		1,285,989

Total Current Assets		70,452,061
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Noncurrent Assets:

Restricted Cash and Cash Equivalents		22,356,001
Restricted Due from Primary Government		6,154,097
Endowment Investments		35,722,850
Other Long-Term Investments		4,717,544
Notes Receivable, Net (Note 4)		4,913,517
Capital Assets - Nondepreciable (Note 5)		66,382,782
Capital Assets - Depreciable, Net (Note 5)		222,432,475

Total Noncurrent Assets		362,679,266
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Total Assets		433,131,327
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		10,474,146
Due to Primary Government		57,026
Deferred Revenue		3,541,316
Interest Payable		720,940
Long-Term Liabilities - Current Portion (Note 7)		3,887,727

Total Current Liabilities		18,681,155
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Noncurrent Liabilities:

Deposits Payable		1,760,963
Funds Held for Others		584,322
U. S. Government Grants Refundable		5,449,522
Long-Term Liabilities (Note 7)		90,166,575

Total Noncurrent Liabilities		97,961,382
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Total Liabilities		116,642,537
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The University of North Carolina at Charlotte
Statement of Net Assets
June 30, 2003

Exhibit A

Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	221,115,571
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,713,677
Endowed Professorships	18,459,512
Departmental Uses	3,372,672
Loans	1,775,406
Other	993,038
Expendable:	
Scholarships and Fellowships	2,293,831
Research	68,932
Departmental Uses	425,553
Capital Projects	2,126,524
Debt Service	11,230,352
Other	702,803
Unrestricted	50,210,919
Total Net Assets	\$ 316,488,790

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, 2003***

Exhibit B

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$	61,285,320
Federal Grants and Contracts		24,231,129
State and Local Grants and Contracts		659,231
Nongovernmental Grants and Contracts		3,599,229
Sales and Services, Net (Note 9)		27,361,546
Interest Earnings on Loans		109,726
Other Operating Revenues		1,042,686

Total Operating Revenues		118,288,867
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EXPENSES

Operating Expenses:

Salaries and Benefits		140,771,484
Supplies and Materials		18,386,180
Services		34,154,912
Scholarships and Fellowships		5,488,487
Utilities		5,858,477
Depreciation		9,158,483

Total Operating Expenses		213,818,023
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Operating Loss		(95,529,156)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations		95,880,599
Noncapital Grants		38,282
Noncapital Gifts, Net (Note 9)		5,321,222
Investment Income (Net of Investment Expense of \$379,391.85)		3,825,231
Other Nonoperating Expenses		(4,101,156)

Net Nonoperating Revenues		100,964,178
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Income Before Other Revenues, Expenses, Gains, or Losses		5,435,022
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Capital Grants		33,568,411
Capital Gifts, Net (Note 9)		474,945
Additions to Endowments		1,281,689

Increase in Net Assets		40,760,067
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NET ASSETS

Net Assets - July 1, 2002, as Restated (Note 16)		275,728,723
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Net Assets - June 30, 2003	\$	316,488,790
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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, 2003

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 121,678,728
Payments to Employees and Fringe Benefits	(138,385,527)
Payments to Vendors and Suppliers	(58,608,218)
Payments for Scholarships and Fellowships	(5,420,538)
Loans Issued	(1,517,576)
Collection of Loans	(1,121,191)
Interest Earned on Loans	2,365,896
Other Receipts	959,628

Net Cash Used by Operating Activities	(80,048,798)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	95,880,599
Federal Appropriations	
Grants for Other than Capital Purposes	40,319
Noncapital Gifts	5,316,719
Additions to Permanent and Term Endowments	1,281,689

Net Cash Provided by Noncapital Financing Activities	102,519,326
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	21,888,555
Capital Grants	34,358,919
Capital Gifts	121,020
Proceeds from Sale of Capital Assets	2,942
Acquisition and Construction of Capital Assets	(57,837,933)
Principal Paid on Capital Debt and Leases	(3,662,547)
Interest and Fees Paid on Capital Debt and Leases	(4,101,436)

Net Cash Used by Capital and Related Financing Activities	(9,230,480)
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CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	14,424,698
Interest on Investments	3,990,279
Purchase of Investments and Related Fees	(15,640,724)

Net Cash Provided by Investing Activities	2,774,253
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Net Increase in Cash and Cash Equivalents	16,014,301
Cash and Cash Equivalents - July 1, 2002	64,491,762
Cash and Cash Equivalents - June 30, 2003	\$ 80,506,063

The University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003

Exhibit C
Page 2

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

Operating Loss	\$	(95,529,156)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense		9,158,483
Allowances, Write-Offs, and Amortizations		18,574
Changes in Assets and Liabilities:		
Receivables (Net)		3,031,440
Due from Primary Government		111,473
Inventories		(36,838)
Accounts Payable and Accrued Liabilities		(14,765)
Due to Primary Government		(4,187)
Deferred Revenue		32,662
Compensated Absences		2,223,888
Funds Held for Others		959,628
Net Cash Used by Operating Activities	\$	<u>(80,048,798)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	47,281,453
Restricted Cash and Cash Equivalents		10,868,609
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		22,356,001
Total Cash and Cash Equivalents - June 30, 2003	\$	<u>80,506,063</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$	25,013,494
Assets Acquired through a Gift		358,428
Change in Fair Value of Investments		(1,976,030)
Loss on Disposal of Capital Assets		(44,943)

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, 2003

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 nonprofit 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*, 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)

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, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- 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.

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment portfolio. 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, equity investments, mutual funds, money market funds, limited partnerships, real estate, and other asset holdings by the University. Except for money market funds, real estate not held by a governmental external investment pool, and other asset holdings, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** – Inventories, consisting of expendable supplies, are valued at last invoice cost. Merchandise for resale is valued using the retail inventory 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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 more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 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** – Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Funds Held in Trust for Pool Participants** – Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.
- K. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- L. 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.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the North Carolina General Assembly to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

There is no liability for unpaid accumulated sick leave because the University has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

- M. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

- N. 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.
- O. Revenue and Expense Recognition** – The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, State and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. 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 investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- P. 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, and telecommunications. 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 - DEPOSITS AND INVESTMENTS

- A. Deposits** – Unless specifically exempt, the University is required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to General Statute 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, 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. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

Deposits include cash and cash equivalents and certificates of deposit totaling \$80,506,063. At year-end, cash on hand was \$2,117,091. The University's portion of the State Treasurer's Investment Pool was \$77,888,477. It is the State Treasurer's policy and practice for deposits

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and for 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 \$500,495 and the bank balance was \$1,582,817. Of the bank balance, \$200,000 was covered by federal depository insurance and \$1,382,817 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 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 and Chapter VI of the Administrative Manual of the University of North Carolina, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment pools to manage investments and distribute investment income. The University utilizes the following investment pools:

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

External Investment Pool - The external investment pool sponsored by the University was established in 2002. The pool is utilized to manage the investments for charitable, nonprofit 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.

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 Corporation is the custodian for the pool for funds invested by Bank of America, Wachovia, and Cohen, Klingenstein & Marks, and provides the University with monthly statements defining income and fair value information which is then allocated among the fund's participants. Westwood and Academy Ventures provide similar information. 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 participants holding assets in the endowment pool as of June 30, 2003 were the University Endowment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fund, The Foundation of The University of North Carolina at Charlotte, Inc., and The University of North Carolina at Charlotte Athletic Foundation and were therefore not consolidated with the University Endowment's proportionate share of other investments.

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, 2003 is presented below:

External Investment Pool

	Fair Value			
	Risk Category			Total
	1	2	3	
Categorized Investments:				
U.S. Government Securities	\$ 17,754	\$ 0	\$ 0	\$ 17,754
Corporate Stock		3,799,275		3,799,275
Total Categorized Investments	<u>\$ 17,754</u>	<u>\$ 3,799,275</u>	<u>\$ 0</u>	3,817,029
Investments Not Categorized:				
Money Market Funds				911,626
Mutual Funds				21,264,638
Total Investments Not Categorized				<u>22,176,264</u>
Total External Pool Investments				<u>\$ 25,993,293</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Non-Pooled Investments

	Fair Value			
	Risk Category			Total
	1	2	3	
Categorized Investments:				
U.S. Government Securities	\$ 298,992	\$ 0	\$ 0	\$ 298,992
Collateralized Mortgage Obligations	275,234			275,234
Corporate Bonds		247,636		247,636
Corporate Stocks		1,934,090		1,934,090
Total Categorized Investments	<u>\$ 574,226</u>	<u>\$ 2,181,726</u>	<u>\$ 0</u>	<u>2,755,952</u>
Investments Not Categorized:				
Real Estate				6,418,383
Limited Partnerships				429,360
Money Market Funds				8,015,008
Other Investments				6,308
Total Investments Not Categorized				<u>14,869,059</u>
Total Non-Pooled Investments				<u>\$ 17,625,011</u>

Total Investments

	Fair Value			
	Risk Category			Total
	1	2	3	
Total Categorized Investments	\$ 591,980	\$ 5,981,001	\$ 0	\$ 6,572,981
Total Investments Not Categorized				37,045,323
Total Investments				\$ 43,618,304

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, 2003 are as follows:

Statement of Net Assets June 30, 2003	
	<u>Amount</u>
Assets:	
Cash in Bank	\$ 2,175,782
Investment at Cost	67,830,813
Reserve for FMV	(8,337,392)
Interest Receivable	<u>72,430</u>
Total Assets	<u>61,741,633</u>
Liabilities:	
Accrued Accounts Payable	<u>1,250</u>
Total Liabilities	<u>1,250</u>
Net Assets:	
Internal Portion	26,023,294
External Portion	<u>35,717,089</u>
Total Net Assets	<u>61,740,383</u>
Total Liabilities and Net Assets	<u><u>\$ 61,741,633</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Operations and Changes in Net Assets For the Fiscal Year Ended June 30, 2003

	Amount
Increase in Net Assets from Operations:	
Revenues:	
Additions to Investments	\$ 4,137,949
Investment Income	1,584,480
Net Gains on Investments	529,791
	<u>6,252,220</u>
Total Revenue	6,252,220
Expenditures:	
Investment Management	(177,247)
	<u>(177,247)</u>
Net Increase in Net Assets Resulting from Operations	6,074,973
Distributions to Participants:	
Distributions Paid and Payable	(3,633,078)
	<u>(3,633,078)</u>
Total Increase in Net Assets	<u>2,441,895</u>
Net Assets:	
Beginning of Year	59,298,488
	<u>59,298,488</u>
End of Year	<u>\$ 61,740,383</u>

The major investment classifications of the external investment pool had the following attributes at June 30, 2003:

Investment Classification	Fair Value
U.S. Government Securities	\$ 42,119
Corporate Stocks	9,013,700
Mutual Funds	50,450,571
Money Market Funds	2,162,813
	<u>2,162,813</u>
	<u>\$ 61,669,203</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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

values. These instruments may include forwards, futures, currency and interest rate swaps, options, floaters/inverse floaters, and caps/floors/collars. During the year the University did not invest in derivative investments but did invest in transactions similar to a derivative instrument. Investment transactions similar to a derivative may include securitized assets, such as mortgage-backed securities and other asset-backed securities. As required by accounting principles generally 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

issued by GNMA, FNMA, or FHLMC that guarantee full and timely payment of principal and interest.

The CMOs held by the University include mortgage-backed securities issued by FNMA, FHLMC, certain trusts, and private corporations (including REMIC issuers). In addition, nontraditional 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 nontraditional pass-through securities during the year.

As of June 30, 2003, the University was holding \$332,765 in mortgage-backed securities valued at fair value representing approximately 0.76% of its total investments. Of this amount \$275,234 represents 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 nonperformance by the issuers or counter parties to these instruments. However, the University does not expect any issuers or counter parties 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 nonperformance, reduce the credit risk.

As of June 30, 2003, the University held no asset-backed securities classified as other.

NOTE 3 - 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 preset rate as approved by The Board of Trustees of the Endowment Fund. The payout rate for the period ending June 30, 2003 was 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; the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2003, net appreciation of \$962,567 was available to be spent, of which \$10,451 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 5,271,751	\$ 75,721	\$ 5,196,030
Accounts	172,473		172,473
Intergovernmental	1,236,942		1,236,942
Investment Earnings	425,930		425,930
Other	244,672		244,672
Total Current Receivables	<u>\$ 7,351,768</u>	<u>\$ 75,721</u>	<u>\$ 7,276,047</u>
Noncurrent Receivables:			
Intergovernmental	<u>\$ 6,154,098</u>	<u>\$ 0</u>	<u>\$ 6,154,098</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 9,568	\$ 0	\$ 9,568
Institutional Student Loan Programs	1,508,194	297,843	1,210,351
	66,070		66,070
Total Notes Receivable - Current	<u>\$ 1,583,832</u>	<u>\$ 297,843</u>	<u>\$ 1,285,989</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 4,554,199	\$ 0	\$ 4,554,199
Institutional Student Loan Programs	389,575	30,257	359,318
Total Notes Receivable - Noncurrent	<u>\$ 4,943,774</u>	<u>\$ 30,257</u>	<u>\$ 4,913,517</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:					
Land	\$ 2,213,595	\$ 2,504,112	\$ 0	\$ 0	\$ 4,717,707
Art, Literature, and Artifacts	8,363,837		4,119,894		12,483,731
Construction in Progress	24,454,242	(26,839,496)	51,566,598		49,181,344
Total Capital Assets, Nondepreciable	35,031,674	(24,335,384)	55,686,492		66,382,782
Capital Assets, Depreciable:					
Buildings	217,188,601	7,456,885		157,499	224,487,987
Machinery and Equipment	40,816,386		5,775,637	1,167,678	45,424,345
General Infrastructure	34,178,839	16,878,499			51,057,338
Total Capital Assets, Depreciable	292,183,826	24,335,384	5,775,637	1,325,177	320,969,670
Less Accumulated Depreciation/Amortization for:					
Buildings	57,797,657		4,442,840		62,240,497
Machinery and Equipment	23,326,869		3,971,089	1,116,954	26,181,004
General Infrastructure	9,378,500		740,034	2,840	10,115,694
Total Accumulated Depreciation	90,503,026		9,153,963	1,119,794	98,537,195
Total Capital Assets, Depreciable, Net	201,680,800	24,335,384	(3,378,326)	205,383	222,432,475
Capital Assets, Net	\$ 236,712,474	\$ 0	\$ 52,308,166	\$ 205,383	\$ 288,815,257

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 6,561,254
Accrued Payroll	827,847
Contract Retainage	3,083,009
Other	2,036
Total Accounts Payable and Accrued Liabilities	\$ 10,474,146

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2003 is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Bonds Payable	\$ 69,820,000	\$ 21,115,000	\$ 3,676,000	\$ 87,259,000	\$ 3,751,000
Add/Deduct Premium/Discount	(705,431)	628,223	(13,454)	(63,754)	(672,925)
Total Bonds Payable	69,114,569	21,743,223	3,662,546	87,195,246	3,078,075
Compensated Absences	4,635,168	4,560,705	2,336,817	6,859,056	809,651
Total Long-Term Liabilities	\$ 73,749,737	\$ 26,303,928	\$ 5,999,363	\$ 94,054,302	\$ 3,887,727

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 06/30/2003	Principal Outstanding 06/30/2003
Housing and Dining Revenue Bonds						
Sanford/Moore High Rise	B	3.000%	2008	\$ 1,650,000	\$ 1,305,000	\$ 345,000
Scott High Rise	C	5.875%	2007	2,200,000	1,620,000	580,000
Holshouser High Rise	D	5.200%	2007	2,200,000	1,620,000	580,000
Hunt Village Apartments	E	5.750%	2003	1,250,000	1,250,000	
Martin Village Apartments	F	3.000%	2018	2,175,000	1,035,000	1,140,000
High Rise Energy Conservation	G	3.000%	2007	152,000	127,000	25,000
Phase Three Apartments	H	3.000%	2019	1,568,000	729,000	839,000
Series J, K, and L Refinance	M	4.6% - 5.25%	2015	19,805,000	9,775,000	10,030,000
Total Housing and Dining Revenue Bonds				31,000,000	17,461,000	13,539,000
Cone Student Center Revenue Bonds						
Cone Center Addition	C	6.75% - 7.0%	2010	2,300,000	1,375,000	925,000
Parking System Revenue Bonds						
Parking Deck E	1996	5.4% - 6.0%	2021	5,000,000	825,000	4,175,000
Parking Deck F	2002	3.5% - 5.125%	2027	10,900,000	375,000	10,525,000
Total Parking System Revenue Bonds				15,900,000	1,200,000	14,700,000
Student Activity Center Revenue Bonds						
Barnhardt Student Activity Center	1995	5.0% - 5.5%	2021	26,295,000	4,415,000	21,880,000
The University of North Carolina System Pool Revenue Bonds						
Phase VII Apartments	1998(B)	4.0% - 5.25%	2023	15,875,000	1,495,000	14,380,000
Recreational Playing Fields	1998(B)	4.0% - 4.5%	2008	1,105,000	385,000	720,000
Phase 8 Apartments	2002	4.0% - 5.375%	2027	21,115,000		21,115,000
Total The University of North Carolina System Pool Revenue Bonds				38,095,000	1,880,000	36,215,000
Total Bonds Payable (principal only)				\$ 113,590,000	\$ 26,331,000	\$ 87,259,000
Less: Unamortized Discount						672,925
Plus: Unamortized Premium						609,171
Total Bonds Payable						\$ 87,195,246

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, 2003 are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements</u>	
	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 3,751,000	\$ 4,362,631
2005	3,771,000	4,185,334
2006	3,943,000	4,010,179
2007	4,145,000	3,825,839
2008	4,015,000	3,629,834
2009-2013	20,450,000	15,137,714
2014-2018	21,170,000	9,800,650
2019-2023	17,934,000	4,389,408
2024-2028	8,080,000	930,744
Total Requirements	<u>\$ 87,259,000</u>	<u>\$ 50,272,333</u>

NOTE 8 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$287,399.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	Net Revenues Pledged as Security for Debt
Operating Revenues:						
Student Tuition and Fees	\$ 71,686,197	\$ 0	\$ 10,356,847	\$ 44,030	\$ 61,285,320	\$ 0
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 12,826,053	\$ 431,413	\$ 1,723,804	\$ 11,255	\$ 10,659,581	\$ 10,659,581 (A)
Dining	8,954,073		932,748	5,352	8,015,973	8,015,973 (B)
Student Union Services	508,466	328,973			179,493	
Health, Physical Education, and Recreation Services	4,704			555	4,149	
Parking	3,615,141	111,847		4,797	3,498,497	3,498,497 (C)
Other	13,971,587	9,840,830		2,388	4,128,369	4,128,369 (D)
Sales and Services of Education and Related Activities	3,015,150	2,139,667			875,483	
Total Sales and Services	\$ 42,895,174	\$ 12,852,730	\$ 2,656,552	\$ 24,347	\$ 27,361,546	\$ 26,302,420
Nonoperating - Noncapital Gifts	\$ 5,321,222	\$ 0	\$ 0	\$ 0	\$ 5,321,222	\$ 0
Capital Gifts	\$ 474,945	\$ 0	\$ 0	\$ 0	\$ 474,945	\$ 0

Revenue Bonds Secured by Pledged Revenues:

- (A) Housing and Student Center System
- (B) Student Union Center
- (C) Recreation Services
- (D) Parking

NOTE 10 - 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	\$ 82,786,299	\$ 5,472,241	\$ 7,290,694	\$ 0	\$ 163	\$ 0	\$ 95,549,397
Research	5,496,870	1,053,900	2,574,320				9,125,090
Public Service	2,294,965	281,365	539,159				3,115,489
Academic Support	9,542,393	5,588,398	3,088,777				18,219,568
Student Services	4,768,474	572,948	1,100,396		810		6,442,628
Institutional Support	12,478,001	1,189,894	2,981,010		1,236		16,650,141
Operations and Maintenance of Plant	9,047,398	568,184	838,854		3,732,802		14,187,238
Student Financial Aid				5,488,487			5,488,487
Auxiliary Enterprises	14,357,084	3,659,250	15,741,702		2,123,466		35,881,502
Depreciation						9,158,483	9,158,483
Total Operating Expenses	\$ 140,771,484	\$ 18,386,180	\$ 34,154,912	\$ 5,488,487	\$ 5,858,477	\$ 9,158,483	\$ 213,818,023

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - 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. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment, otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

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, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the University had a total payroll of \$117,717,651, of which \$50,568,612 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$3,034,117 and \$0.00, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$943,693, 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 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 that 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the carrier of their choice. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

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.

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, 2003, 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.

For the year ended June 30, 2003, the University had a total payroll of \$117,717,651, of which \$50,095,412 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$3,005,725 and \$3,426,526, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

University. The voluntary contributions by employees amounted to \$174,686 for the year ended June 30, 2003.

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, 2003 were \$65,942. The voluntary contributions by employees amounted to \$701,335 for the year ended June 30, 2003.

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 nonprofit 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 \$2,329,081 for the year ended June 30, 2003.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 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, 2003, the University's total contribution to the Plan was \$1,177,242. The University assumes no liability for retiree health care

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and 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, 2003, the University's total contribution to the DIPNC was \$523,453. 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 13 - 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 coverage up to \$5,000,000 via contract with a private 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 for vandalism,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

theft, and flood, and coverage for all risks for computers and miscellaneous equipment.

All State-owned vehicles are covered by liability insurance through a private insurance company and 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 claim and \$5,000,000 per occurrence. The University pays 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 coverage from private insurance companies through the North Carolina Department of Insurance. This coverage includes: 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.

University 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. The plan is effective for the October 1, 2001 through September 30, 2002. The Plan no longer offers HMO health coverage.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University is self-insured for workers' compensation.

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - 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 \$80,745,820 and on other purchases were \$4,173,511 at June 30, 2003.
- B. Pending Litigation and Claims** – The University is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding 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 \$104,837,087 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - RELATED PARTIES

Foundations - There are two separately incorporated nonprofit 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 \$3,795,550 for the year ended June 30, 2003.

Other Related Entities:

The Ben Craig Center, Inc.

The Ben Craig Center, Inc. is a separately incorporated nonprofit 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 \$221,600 in financial support from The Ben Craig Center, Inc. In addition, the University paid \$182,392 toward the operating costs for The Ben Craig Center, Inc. Operating costs included utilities and personnel expenses.

NOTE 16 - NET ASSET RESTATEMENTS

As of July 1, 2002, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2002 Net Assets as Previously Reported	\$ 276,904,589
Prior Year Depreciation Adjustment	(1,135,128)
Perkins Year-End Adjustment	<u>(40,738)</u>
July 1, 2002 Net Assets as Restated	<u><u>\$ 275,728,723</u></u>

***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, 2003***

Schedule 1

	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Capital Improvement Projects							
<i>Projects Started</i>							
Academic Facilities-Humanities Building	Apr 1999	\$ 25,410,365	\$ 8,041,836	\$ 33,452,201	\$ 18,847,691	56.34%	Apr 2004
Science & Technology Building	Nov 2000	33,853,736	2,500,000	36,353,736	11,522,844	31.70%	Aug 2004
Classroom and Office Building	Jan 2001	20,758,610		20,758,610	1,265,866	6.10%	Nov 2004
College of Education Building/CID	Jan 2001	32,850,311	305,341	33,155,652	7,967,002	24.03%	Nov 2004
College of Nursing & Health Professions Building	Jan 2001	30,467,216		30,467,216	1,394,522	4.58%	Oct 2006
Graduate Engineering Complex	Jan 2001	24,513,651		24,513,651	1,175,529	4.80%	Jan 2005
Central Heating Plant Improvements	Nov 2000	5,245,083		5,245,083	4,209,521	80.26%	Aug 2003
Physical Plant & Campus Public Safety Facilities	Jan 2001	5,025,329	198,000	5,223,329	492,518	9.43%	Oct 2004
Rowe Classroom Building Renovations	Jun 2002	4,091,175		4,091,175	86,501	2.11%	Jul 2005
McEniry Classroom Building Renovations	Oct 2002	3,261,350		3,261,350	38,093	1.17%	Jan 2006
Chiller replacement	Apr 1999	1,824,200	125,000	1,949,200	1,812,708	93.00%	Jul 2003
Technology Infrastructure Expansion	Apr 2001	2,345,500		2,345,500	2,260,342	96.37%	Jun 2003
Effective Project Management	Apr 2002	386,975		386,975	49,963	12.91%	Oct 2006
Total All Projects		\$ 190,033,501	\$ 11,170,177	\$ 201,203,678	\$ 51,123,100		

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 Revenues and Expenses
Year Ended June 30, 2003***

Schedule 2

	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues					
Operating Revenues:					
Student Fees, Net (Note 2)	\$ 1,125,279	\$ 836,029	\$ 2,503,571	\$ 696,051	\$ 5,160,930
Ticket Sales	637,594	4,196	10,643	2,113	654,546
Program Sales				131,810	131,810
Tournament Revenues				34,733	34,733
Radio and TV Rights	47,465			169,254	216,719
Gifts:					
Unrestricted	26,012	16,123	87,147	745,495	874,777
Restricted				14,049	14,049
NCAA/Conference USA	30,072	46,487	18,935		95,494
Other Sources	1,422		847	1,317,134	1,319,403
Total Operating Revenues	1,867,844	902,835	2,621,143	3,110,639	8,502,461
Expenses					
Operating Expenses:					
Coaches' Salaries	383,851	280,244	745,387		1,409,482
Other Salaries	73,939	20,257	11,098	1,237,687	1,342,981
Travel:					
Team	160,520	138,513	460,016		759,049
Recruiting	129,518	62,767	106,955		299,240
Other				152,126	152,126
Financial Aid, Net	213,528	231,555	1,030,448	68,193	1,543,724
Supplies and Uniforms	37,729	41,528	200,960	125,501	405,718
Insurance	2,499	723	1,567	70,243	75,032
Publicity		57	3,042	62,606	65,705
Communications	30,647	49,127	31,038	44,639	155,451
Officials	70,016	47,278	67,865	6,581	191,740
Tournaments	90,797	31,565	2,446	26,000	150,808
Maintenance and General Administration	31,452	10,038	22,509	130,728	194,727
Equipment Purchases	2,235	3,100	14,788	66,918	87,041
Other Contractual Services	170,940	14,351	20,023	170,026	375,340
Miscellaneous	32,131	19,143	65,960	393,547	510,781
Total Operating Expenses	1,429,802	950,246	2,784,102	2,554,795	7,718,945
Operating Income (Loss)	438,042	(47,411)	(162,959)	555,844	783,516
Excess (Deficiency) of Revenues over Expenses	\$ 438,042	\$ (47,411)	\$ (162,959)	\$ 555,844	\$ 783,516
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 Revenues and Expenses presents the University's intercollegiate athletic program's activity in accordance with the National Collegiate Athletic Association Financial Audit Guidelines. Those guidelines issued on May 2, 1996 require only a presentation of the current funds revenues and expenses by major program. This Statement has 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 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 net assets and cash flows.
- C. Basis of Accounting** - The preceding Statement of Revenues and Expenses was 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.
- D. Nonmonetary 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.

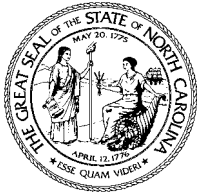
During the year, leased vehicles and coaching services were provided at no charge to the University. The values of these donations have been recorded as gifts in the preceding Statement of Revenues and Expenses.

NOTE 2 - 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 and Expenses. 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 and Expenses. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount. The amount of tuition discounting applicable to Athletics was \$1,195,840.

NOTE 3 - RELATED PARTIES

The Athletic Foundation, Inc., is a separate and legal entity established to promote and support the University's intercollegiate athletics program. During the fiscal year, the University received \$839,291 in direct support from the Foundation, as well as \$560,167 in indirect support through payments made on behalf of the University by the Foundation. These amounts are reported as contributions and expenses in the preceding Statement of Revenues and Expenses.



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

**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, 2003, and have issued our report thereon dated November 18, 2003.

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*.

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 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

**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 (CONCLUDED)**

misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

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

Ralph Campbell, Jr.
State Auditor

November 18, 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.

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The Honorable Roy A. Cooper, III	Attorney General
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Mr. Robert L. Powell	State Controller
Ms. Molly Corbett Broad	President, The University of North Carolina
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Mr. Olen B. Smith, Jr.	Vice Chancellor for Business Affairs
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Mr. James D. Johnson	Director, Fiscal Research Division
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March 18, 2004

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