

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, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE
CHARLOTTE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2005

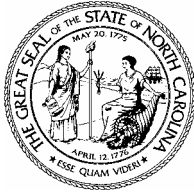
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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement and compliance audit of The University of North Carolina at Charlotte for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements and our consideration of the University's administration of federal programs in accordance with applicable laws, regulations, contracts and grants resulted in no audit findings.

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.

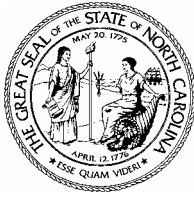
Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

February 28, 2006

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of The University of North Carolina at Charlotte, a constituent institution of the 16-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The University of North Carolina at Charlotte's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., which represent 15.6 percent of the assets of the University; or the financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., which represent 100% of the University's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

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. The financial statements of The Foundation of the University of North Carolina at Charlotte Inc., and The University of North Carolina at Charlotte Investment Fund, Inc., were not audited in accordance with *Government Auditing Standards*. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Charlotte and its discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

November 10, 2005

THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

The University of North Carolina at Charlotte (hereinafter referred to as the "University"), is pleased to present its financial statements for fiscal year 2005. The emphasis of discussion about these statements regards current year data and material changes occurring between prior and current years.

There are two financial statements presented:

- Statement of Net Assets.
- Statement of Revenues, Expenses, and Changes in Net Assets.

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 (hereinafter referred to as "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 the University. 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 University. They are also able to determine how much the University owes vendors, investors, and lending Universities. Finally, the SNA provides a picture of the net assets and their availability for expenditure by the University.

Net assets are divided into three major categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted Net Assets
- Unrestricted Net Assets

Invested in Capital Assets, Net of Related Debt, provides the University's equity in property, plant, and equipment owned by the University.

Restricted Net Assets is divided into two categories, expendable and nonexpendable. The corpus of nonexpendable restricted resources is available for investment purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Expendable restricted net assets are available for expenditure by the University 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 Net Assets are available to the University for any lawful purpose of the University.

	2005	2004	Change	Percentage Change
Assets:				
Current Assets	\$ 115,253,735	\$ 94,724,724	\$ 20,529,011	22%
Capital Assets, Net	412,697,263	360,467,746	52,229,517	14%
Other Assets	88,749,450	63,289,952	25,459,498	40%
Total Assets	<u>616,700,448</u>	<u>518,482,422</u>	<u>98,218,026</u>	19%
Liabilities:				
Current Liabilities	21,616,765	26,430,099	(4,813,334)	-18%
Noncurrent Long-Term Liabilities	<u>131,595,895</u>	<u>108,428,537</u>	<u>23,167,358</u>	21%
Total Liabilities	<u>153,212,660</u>	<u>134,858,636</u>	<u>18,354,024</u>	14%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	334,656,150	277,554,731	57,101,419	21%
Restricted for:				
Expendable	21,734,834	14,114,663	7,620,171	54%
Nonexpendable	33,351,392	30,855,969	2,495,423	8%
Unrestricted	<u>73,745,412</u>	<u>61,098,423</u>	<u>12,646,989</u>	21%
Total Net Assets	<u>\$ 463,487,788</u>	<u>\$ 383,623,786</u>	<u>\$ 79,864,002</u>	21%

The total assets of the University increased \$98,218,026, the bulk of which was a \$52,229,517 increase in Capital Assets. This occurred primarily from increases in construction in progress for the year. Current Assets increased by \$20,529,011. The most significant increase in Current Assets relates to Short Term Investments (current portion), which increased by \$19,388,635 to \$23,621,581 and is associated with temporarily invested funds received from the issuance of certificates of participation for the Greek Village.

Noncurrent Long-Term Liabilities increased \$23,167,358. The increase is primarily due to issuance of certificates of participation, \$22,670,000; the University of North Carolina at Charlotte's portion of the General Revenue Bonds Series A issuance, \$11,855,000; and a defeasance of bonds payable related to the Student Activity Center, \$11,925,000. The defeasance is described in detail in Note 7D.

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 University, and the operating and nonoperating expenses paid by the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

University. Other revenues, expenses, gains, and losses received or spent by the University 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 University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. 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 University without the legislature directly receiving commensurate goods and services for those revenues.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets June 30, 2005

	2005	2004	Change	Percentage Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 76,253,896	\$ 69,283,647	\$ 6,970,249	10%
Federal Contracts and Grants	30,888,617	31,523,049	(634,432)	-2%
Sales and Services	30,561,339	27,871,111	2,690,228	10%
Other Operating Revenues	9,411,777	6,595,877	2,815,900	43%
Total Operating Revenues	<u>147,115,629</u>	<u>135,273,684</u>	<u>11,841,945</u>	9%
Nonoperating Revenues:				
State Appropriations	115,154,358	100,369,924	14,784,434	15%
Noncapital Gifts	5,358,260	3,120,464	2,237,796	72%
Other Nonoperating Revenues	6,254,182	6,833,378	(579,196)	-8%
Total Nonoperating Revenues	<u>126,766,800</u>	<u>110,323,766</u>	<u>16,443,034</u>	15%
Total Revenues	<u>273,882,429</u>	<u>245,597,450</u>	<u>28,284,979</u>	12%
Operating Expenses	253,712,357	224,827,269	28,885,088	13%
Nonoperating Expenses	4,831,767	4,218,036	613,731	15%
Capital Appropriations	5,408,200	226,900	5,181,300	2284%
Capital Contributions	57,651,467	51,198,729	6,452,738	13%
Additions to Endowment	2,081,590	136,585	1,945,005	1424%
Increase in Net Assets	80,479,562	68,114,359	12,365,203	18%
Net Assets at Beginning of Year	383,623,786	316,488,790	67,134,996	21%
Restatement (Note 17)	(615,560)	(979,363)	363,803	-37%
Net Assets at Beginning of Year, Restated	<u>383,008,226</u>	<u>315,509,427</u>	<u>67,498,799</u>	21%
Net Assets at End of Year	<u>\$ 463,487,788</u>	<u>\$ 383,623,786</u>	<u>\$ 79,864,002</u>	21%

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

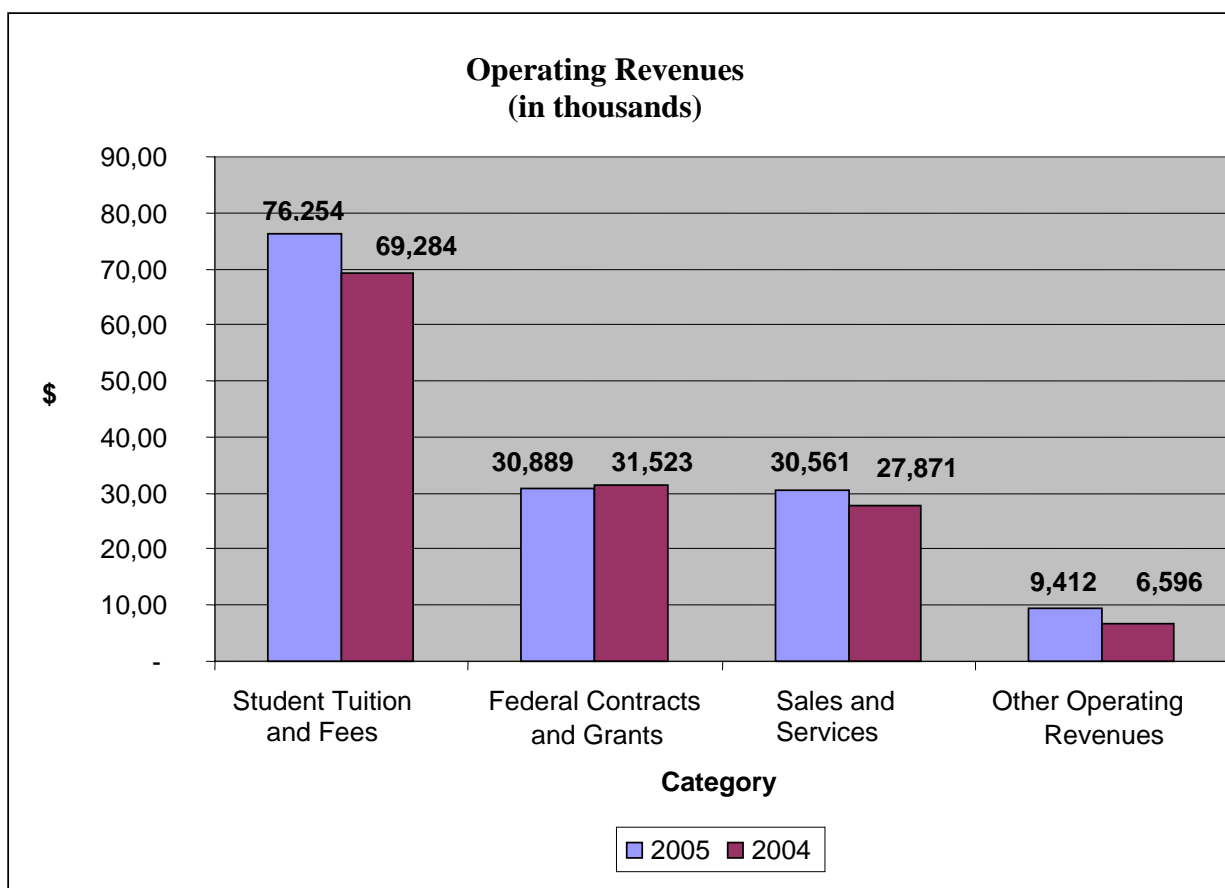
- Total Operating Revenues increased by 8.75% over the fiscal year. The most significant increase is noted in Student Tuition and Fees, which increased by 10.06% primarily due to

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

increased enrollment and increases in tuition rates. Sales and Services increased by 9.65% due to higher rates for room and board for students.

- Total Nonoperating Revenues increased by 14.90% over the fiscal year. The increase in Nonoperating Revenues consists of a \$14,784,434 increase in State Appropriations and \$2,237,796 increase in Noncapital Gifts.
- Capital Appropriations and Additions to Endowment increased during the fiscal year to \$5,408,000 and \$2,081,590, respectively. Capital Appropriations noted a \$4,000,000 increase specifically for the North Carolina Motorsports Testing Complex.
- The primary reason for the increase to Net Assets is a result of completion of State funded construction projects which did not require university debt. These construction projects (buildings) also receive State Appropriation for operating expenses such as utilities and maintenance personnel.
- Tuition and State Appropriations continue to be the primary sources of funding for the University's operations. Tuition and fees consist of \$76,253,896 and State Appropriations consist of \$115,154,358, as of June 30, 2005.

Please refer to the table below for an illustration of the University's Operating Revenues.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Asset and Debt Administration

The University continues to expand its facilities to meet the increasing student enrollment and advances in information technology. In fiscal year 2004-05 the University completed projects valued at \$79,371,148. These included parking decks, additions to buildings, renovation and new construction to academic and administrative facilities. Construction in progress totals \$43,086,734, a decrease of approximately \$24,761,313 over fiscal year 2003-04, and outstanding commitments on construction contracts were approximately \$34,026,419. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the University.

Banner Project

The University was in the process of converting its financial system from the FRS system to the Banner system during 2004-05. This implementation required funding for employee retraining, ITS support personnel, system software and hardware along with other operating costs. The University converted to Banner Finance on July 1, 2005. Currently, the University is anticipating conversion to Banner Human Resources in January 2006, and Banner Student during the fall of 2006.

Economic Outlook

The University's enrollment continues to grow, and its net assets continue to increase moderately. There are no known immediate existing conditions that will significantly impact the financial position of the University in the next fiscal year. Management is committed to making sound fiscal decisions to maintain the University's financial position and its ability to withstand future economic uncertainties.

University of North Carolina at Charlotte
Statement of Net Assets
June 30, 2005

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 69,716,865
Restricted Cash and Cash Equivalents	10,649,112
Restricted Short-Term Investments	23,621,581
Receivables, Net (Note 4)	9,492,661
Inventories	309,368
Notes Receivable, Net (Note 4)	1,456,575
Other Assets	7,573
	<hr/>
Total Current Assets	115,253,735

Noncurrent Assets:

Restricted Cash and Cash Equivalents	26,129,622
Restricted Due from Primary Government	8,834,861
Endowment Investments	42,702,744
Other Long-Term Investments	5,820,526
Notes Receivable, Net (Note 4)	5,261,697
Capital Assets - Nondepreciable (Note 5)	62,545,558
Capital Assets - Depreciable, Net (Note 5)	350,151,705
	<hr/>
Total Noncurrent Assets	501,446,713

Total Assets	<hr/> 616,700,448 <hr/>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	10,224,153
Deferred Revenue	5,120,691
Interest Payable	304,718
Long-Term Liabilities - Current Portion (Note 7)	5,967,203
	<hr/>
Total Current Liabilities	21,616,765

Noncurrent Liabilities:

Deposits Payable	2,661,666
Funds Held for Others	6,504,164
U. S. Government Grants Refundable	5,452,107
Funds Held in Trust for Pool Participants	5,811,763
Long-Term Liabilities (Note 7)	111,166,195
	<hr/>
Total Noncurrent Liabilities	131,595,895

University of North Carolina at Charlotte
Statement of Net Assets
June 30, 2005

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	334,656,150
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,081,520
Endowed Professorships	22,970,102
Departmental Uses	3,444,998
Loans	1,760,091
Other	1,094,681
Expendable:	
Scholarships and Fellowships	2,867,303
Research	18,668
Departmental Uses	1,016,950
Capital Projects	14,325,181
Debt Service	3,506,732
Unrestricted	73,745,412
Total Net Assets	<u><u>\$ 463,487,788</u></u>

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

***University of North Carolina at Charlotte
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 76,253,896
Federal Grants and Contracts	30,888,617
State and Local Grants and Contracts	2,668,667
Nongovernmental Grants and Contracts	4,298,586
Sales and Services, Net (Note 9)	30,561,339
Interest Earnings on Loans	78,608
Other Operating Revenues	2,365,916

Total Operating Revenues	<u>147,115,629</u>
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EXPENSES

Operating Expenses:

Salaries and Benefits	161,888,924
Supplies and Materials	25,927,276
Services	42,985,440
Scholarships and Fellowships	3,292,826
Utilities	7,021,463
Depreciation	12,596,428

Total Operating Expenses	<u>253,712,357</u>
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Operating Loss	<u>(106,596,728)</u>
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	115,154,358
Noncapital Gifts	5,358,260
Investment Income (Net of Investment Expense of \$322,287)	5,565,251
Interest and Fees on Capital Asset-Related Debt	(4,831,767)
Other Nonoperating Revenues	688,931

Net Nonoperating Revenues	<u>121,935,033</u>
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Income Before Other Revenues	15,338,305
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Capital Appropriations	5,408,200
Capital Grants	55,633,350
Capital Gifts	2,018,117
Additions to Endowments	2,081,590

Increase in Net Assets	80,479,562
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NET ASSETS

Net Assets - July 1, 2004, as Restated (Note 17)	<u>383,008,226</u>
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Net Assets - June 30, 2005	<u><u>\$ 463,487,788</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 145,308,457
Payments to Employees and Fringe Benefits	(161,478,613)
Payments to Vendors and Suppliers	(77,602,705)
Payments for Scholarships and Fellowships	(3,744,012)
Loans Issued to Students	(1,585,520)
Collection of Loans to Students	1,440,134
Other Payments	(754,485)

Net Cash Used by Operating Activities	(98,416,744)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	115,154,358
Noncapital Grants Received	368,066
Noncapital Gifts and Endowments Received	7,439,850

Cash Provided by Noncapital Financing Activities	122,962,274
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CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,038,924
Capital Grants Received	55,633,350
Proceeds from Capital Debt	34,967,937
Proceeds from Sale of Capital Assets	1,228,791
Acquisition and Construction of Capital Assets	(68,479,049)
Principal Paid on Capital Debt and Leases	(15,976,888)
Interest Paid on Capital Debt and Leases	(4,853,435)

Net Cash Provided by Capital Financing and Related Financing Activities	3,559,630
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CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	24,061,662
Investment Income	3,683,280
Purchase of Investments and Related Fees	(44,155,107)

Net Cash Used by Investing Activities	(16,410,165)
---------------------------------------	--------------

Net Increase in Cash and Cash Equivalents	11,694,994
Cash and Cash Equivalents - July 1, 2004	94,800,605

Cash and Cash Equivalents - June 30, 2005	\$ 106,495,599
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University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Exhibit A-3

Page 2

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

Operating Loss	\$ (106,596,728)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	12,596,428
Provision for Uncollectible Loans and Write-Offs	(16,123)
Miscellaneous Nonoperating Income	459,500
Changes in Assets and Liabilities:	
Receivables (Net)	(2,406,335)
US Government Grants Refundable	(17,873)
Inventories	156,942
Notes Receivable, Net	(241,917)
Other Assets	1,414
Accounts Payable and Accrued Liabilities	(1,635,334)
Due to Primary Government	(57,026)
Deferred Revenue	198,785
Compensated Absences	337,635
Funds Held for Others	(1,196,112)
Net Cash Used by Operating Activities	<u>\$ (98,416,744)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 69,716,865
Restricted Cash and Cash Equivalents	10,649,112
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>26,129,623</u>
Total Cash and Cash Equivalents - June 30, 2005	<u>\$ 106,495,600</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 34,967,937
Assets Acquired through a Gift	2,018,117
Change in Fair Value of Investments	3,364,001
Capital Asset Write-Offs	1,269,376
Increase in Receivables Related to Nonoperating Income	4,024,523

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

The Foundation of the University of North Carolina at Charlotte, Inc.
Statement of Financial Position
June 30, 2005

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	226
Investments		64,218,386
Interest Receivable		110,322
Accounts Receivable		2,753
Notes Receivable		2,474,290
Pledges Receivable		7,967,523
Cash Surrender Value of Life Insurance		435,304
Prepaid Expenses		1,361
Equipment, Net		158,199
Leasehold Improvements, Net		137,356
Property Held for Investments, Net		9,304,194
Prepaid Expenses		1,361
		<hr/>
Total Assets		84,811,275
		<hr/>

LIABILITIES

Accounts Payable and Accrued Expenses		279,996
Funds Held for Others		37,506
Other Long-Term Liabilities		206,203
Long-Term Debt		6,338,898
		<hr/>
Total Liabilities		6,862,603
		<hr/>

NET ASSETS

Unrestricted		12,027,724
Temporarily Restricted		37,883,683
Permanently Restricted		28,035,904
		<hr/>
Total Net Assets	\$	77,947,311
		<hr/>

See Note 1 in the Notes to the Financial Statements

*The Foundation of the University of North Carolina
at Charlotte, Inc.*

*Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenue, Support and Gains:	
Support-Public Contributions	\$ 694,350
Revenue:	
Endowment Income	488,263
Transfer of Endowment Income	(127,617)
Rental and Other Income	780,033
Net Gain on Investment	1,167,722
Net Loss on Disposal of Equipment	(77,060)
Other Investment Income	459,317
	<hr/>
Subtotal	3,385,008
Net Assets Released from Restrictions	<hr/> 3,462,731
Total Revenue, Support and Gains	<hr/> 6,847,739
Expenses:	
Program Services:	
Contributions to the University of North Carolina at Charlotte	3,427,862
Distributions to Donors	54,953
Capital Projects	832,616
	<hr/>
Total Program Expenses	4,315,431
Supporting Services:	
Professional Fees	143,143
Other General and Administrative Expenses	919,599
Interest Expense	314,449
	<hr/>
Total Supporting Services	1,377,191
Total Expenses	<hr/> 5,692,622
Transfer to Other Funds	<hr/> (68,832)
Increase in Unrestricted Net Assets	<hr/> 1,086,285

***The Foundation of the University of North Carolina
at Charlotte, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2005***

***Exhibit B-2
Page 2***

CHANGES IN TEMPORARY RESTRICTED NET ASSETS

Revenue, Support and Gains:	
Support-Public Contributions	19,016,449
Revenue :	
Other Investment and Interest Income	69,989
Endowment Income	1,018,987
Transfer of Endowment Income	127,616
Rental and Other Income	(6,640)
Net Gain on Investments	2,096,736
	<hr/>
Subtotal	22,323,137
Net Assets Released from Restrictions	(3,462,731)
	<hr/>
Total Revenue, Support and Gains	18,860,406
Transfers to Other Funds	43,900
	<hr/>
Increase in Temporarily Restricted Net Assets	18,904,306
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:

Revenue, Support and Gains:	
Support-Public Contributions	1,716,461
Revenue:	
Rental and Other Income	3,369
	<hr/>
Total Revenue, Support and Gains	1,719,830
Transfers from Other Funds	24,932
	<hr/>
Increase in Permanently Restricted Net Assets	1,744,762
	<hr/>
Change in Net Assets	21,735,353
Net Assets, Beginning of Year	56,211,958
	<hr/>
Net Assets, End of Year	<u><u>\$ 77,947,311</u></u>

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THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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 16-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 and its component units. 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. The University's component units are either blended or discretely presented in the University's financial statements. The blended component unit, although legally separate, is, in substance, part of the University's operations and therefore, is reported as if it were part of the University. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Blended Component Units - The University of North Carolina at Charlotte Investment Fund, Inc., (UNCCIF), is a component unit of the University, and is reported as if it was part of the University. The UNCCIF is a legally separate, 501 (c) (3) entity and is governed by a seven-member board consisting of four ex officio directors and three directors appointed by the members of the UNCCIF. The ex officio directors include the Chancellor of the University, the Chairman of the Board of Trustees of the Endowment Fund of the University, the Chairman of The Foundation of the University of North Carolina at Charlotte, Inc., and the Vice Chancellor for Business Affairs of the University. The members of the UNCCIF are: The Foundation of the University of North Carolina at Charlotte, Inc., The Board of Trustees of the Endowment of the University of North Carolina at Charlotte, and the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Athletic Foundation of the University of North Carolina at Charlotte. The purpose of UNCCIF is to operate exclusively for the benefit of the University. UNCCIF is a governmental external investment pool. Because four of the seven directors of UNCCIF are administrators of the University or appointed by the University of North Carolina at Charlotte's Board of Trustees and UNCCIF's primary purpose is to benefit the University, its financial statements have been blended with those of the University. A copy of the audited financial statements for UNCCIF for the most recent reporting period can be obtained by contacting Cindy Weber, employed by the University of North Carolina at Charlotte, Controller's Office, or at 704-687-6141.

Discretely Presented Component Units - The Foundation of the University of North Carolina at Charlotte, Inc., (hereinafter referred to as the "Foundation"), is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

The Foundation is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 43 officers and directors, including a seven member executive committee. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2005, the Foundation distributed \$3,427,863 on a cash basis to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Sheila Hamm, employed by the University of North Carolina at Charlotte, Office of Sponsored Programs, or at 704-687-2792.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 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 and accordingly, is reported within a single column in the basic financial statements.

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, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund 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, real estate, and other asset holdings by the University. Except for money market funds, real estate not held by a governmental external investment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, and local governments, in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refunds. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refunds are amortized over the life of the old debt 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 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at yearend is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003, and September 1, 2005. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 *North Carolina 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 G.S. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2005, the University's deposit with the State Treasurer's Short-Term Investment Fund totaled \$94,672,682. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The carrying amount of the University's deposits not with the State Treasurer was \$904,193 and the bank balance was \$1,334,341. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2005, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ <u>1,294,469</u>
--------------------------------	---------------------

- B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy 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 discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 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, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

local governments; and obligations of certain entities with specified ratings.

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

G.S. 116-36(e) provides that the trustees of the Endowment Fund shall be responsible for the prudent investment of the Fund in the exercise of their sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

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

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 share 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 portion of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

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 of funds invested by Bank of America and Wachovia. Wachovia was also custodian for the Cohen, Klingenstein, and Marks account, which was closed during the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

current fiscal year. Assets invested with the Westwood Group in prior years were liquidated during fiscal year 2005 and reallocated to other investment managers. Academy Venture Fund and UNC Management Company continue to provide the University with similar information, as do Wellington Management Company, Managers' Investment Group, The Vanguard Group, Acadian Asset Management, and State Street Global Advisors, who were all added during fiscal year 2005 after approval by the Board of Directors. 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, 2005, were the University Endowment Fund, The Foundation of the University of North Carolina at Charlotte, Inc., and the University of North Carolina at Charlotte Athletic Foundation. The Foundation's financial statements are discretely presented with this document. The Athletic Foundation, as a part of the UNCCIF, has been blended with the University, for financial reporting purposes. The annual financial report for the external investment pool may be obtained from Melissa Wilkinson, Office of Sponsored Programs, or at 704-687-2275.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2005, for the External Investment Pool. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The External Investment Pool Board of Directors does not have a formal investment policy that addresses interest rate risk.

External Investment Pool

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
Mutual Bond Funds	<u>\$ 21,157,497</u>	<u>\$ 1,354,080</u>	<u>\$ 11,361,576</u>	<u>\$ 5,247,059</u>	<u>\$ 3,194,782</u>
Other Securities					
Money Market Funds	143,093				
UNC Investment Fund	3,738,280				
Other Mutual Funds	66,775,222				
Domestic Stocks	<u>769</u>				
Total External Investment Pool	<u>\$ 91,814,861</u>				

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Credit Risk: The External Investment Pool Board does not have a formal policy that addresses credit risk. As of June 30, 2005, the investments in the External Investment Pool were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB Ba
Mutual Bond Funds	\$ 21,157,497	\$ 17,243,360	\$ 211,575	\$ 1,861,860	\$ 1,692,600	\$ 148,102

Rating Agency: All ratings reported were obtained from Standard and Poor's.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The External Investment Pool Board does not have a formal policy for custodial credit risk. The University's investments in the External Investment Pool were exposed to custodial credit risk as follows:

Investment Type	Issuer	Amount
Other Mutual Funds(Large-Cap Index Fund)	Bank of America	\$ 20,048,956
Other Mutual Funds(Emerging Markets Fund)	State Street Global Advisors	7,419,969
Mutual Bond Fund	Evergreen Investments	21,157,497
Total		<u>\$ 48,626,422</u>

Concentration of Credit Risk: The External Investment Pool Board places no limit on the amount the Board may invest in any one issuer. More than 5% of the long-term investment pool investments are in Bank of America's Large-Cap Index Fund, State Street Global Advisors' Emerging Market Funds and Evergreen Investment's Mutual Bond Fund. These investments are 15.5%, 5.7% and 16.4%, respectively, of the External Investment Pool's total investments.

Foreign Currency Risk: Foreign currency risk is defined by GASB Statement No. 40 as the risk that changes in exchange rates will adversely affect the fair value of an investment. The External Investment Pool Board does not have a formal policy for foreign currency risk. As of June 30, 2005, the University did not have any assets held in foreign currency. Therefore, the University has no foreign currency risk to report.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2005, for the University's non-pooled investments. Interest rate

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The University does not have a formal investment policy that addresses interest rate risk.

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 350,642	\$ 89,321	\$ 166,071	\$ 23,365	\$ 71,885
U.S. Agencies	71,584		7,304	64,280	
Mortgage Pass Throughs	227,011				227,011
Collateralized Mortgage Obligations	25,115				25,115
Domestic Corporate Bonds	292,296	30,427	55,601	170,077	36,191
		<u>\$ 119,748</u>	<u>\$ 228,975</u>	<u>\$ 257,722</u>	<u>\$ 360,202</u>
Other Securities					
Bank Investment Contracts	23,740,891				
Other Mutual Funds	10,490				
Investments in Real Estate	6,418,383				
Domestic Stocks	2,291,593				
Other	8,763				
Total Non-Pooled Investments	<u>\$ 33,436,768</u>				

Credit Risk: The University does not have a formal policy that addresses credit risk. As of June 30, 2005, the University's non-pooled investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	B	Exempt
U.S. Agencies	\$ 71,584	\$ 64,280	\$ 0	\$ 0	\$ 0	\$ 7,304	\$ 0
Mortgage Pass Throughs	227,011						227,011
Collateralized Mortgage Obligations	25,115						25,115
Domestic Corporate Bonds	292,296	27,499	96,610	98,936	69,250		

Rating Agency: The rating agency used for these non-pooled investments was Moody's.

- C. Reverse Repurchase Agreements** - A reverse repurchase agreement refers to the sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. As of June 30, 2005, the University did not participate in any reverse repurchase agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 preset rate as approved by the Board of Trustees for the Endowment Fund. The payout rate for the period ending June 30, 2005, was 4.0% of a 12-quarter 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, 2005, net appreciation of \$4,998,682 was available to be spent, of which \$263,017 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 6,051,427	\$ 70,913	\$ 5,980,514
Accounts	757,425		757,425
Local Governments	99,784		99,784
Federal Agencies	2,176,237		2,176,237
Investment Earnings	141,756		141,756
Other	336,945		336,945
Total Current Receivables	\$ 9,563,574	\$ 70,913	\$ 9,492,661
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 1,746,698	\$ 290,123	\$ 1,456,575
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 4,790,959	\$ 0	\$ 4,790,959
Institutional Student Loan Programs	500,998	30,261	470,738
Total Notes Receivable - Noncurrent	\$ 5,291,957	\$ 30,261	\$ 5,261,697

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	\$ 5,350,620	\$ 1,042,338	\$ 0	\$ 0	\$ 6,392,958
Art, Literature, and Artifacts	12,835,217		230,649		13,065,866
Construction in Progress	67,848,047	(79,371,148)	54,609,835		43,086,734
Total Capital Assets, Nondepreciable	86,033,884	(78,328,810)	54,840,484		62,545,558
Capital Assets, Depreciable:					
Buildings	269,212,974	75,115,043	2,425,429	712,577	346,040,869
Machinery and Equipment	51,978,567		9,174,951	2,288,036	58,865,482
General Infrastructure	61,528,936	3,213,767			64,742,703
Total Capital Assets, Depreciable	382,720,477	78,328,810	11,600,380	3,000,613	469,649,054
Less Accumulated Depreciation/Amortization for:					
Buildings	67,319,536		6,184,477	206,648	73,297,365
Machinery and Equipment	29,908,026		6,130,471	1,794,606	34,243,891
General Infrastructure	11,059,053		897,040		11,956,093
Total Accumulated Depreciation	108,286,615		13,211,988	2,001,254	119,497,349
Total Capital Assets, Depreciable, Net	274,433,862	78,328,810	(1,611,608)	999,359	350,151,705
Capital Assets, Net	\$ 360,467,746	\$ 0	\$ 53,228,876	\$ 999,359	\$ 412,697,263

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	\$ 4,115,646
Accrued Payroll	792,373
Contract Retainage	5,314,086
Other	2,048
Total Accounts Payable and Accrued Liabilities	\$ 10,224,153

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, 2005, is presented as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Bonds Payable	\$ 89,868,000	\$ 11,855,000	\$ 15,996,000	\$ 85,727,000	\$ 4,258,000
Certificates of Participation		22,670,000		22,670,000	575,000
Add/Deduct Premium/Discount	1,555,874	971,336	135,165	2,392,045	
Deduct Deferred Charge on Refunding	(1,978,690)	140,312	514,434	(2,352,812)	
Total Bonds Payable	<u>89,445,184</u>	<u>35,636,648</u>	<u>16,645,599</u>	<u>108,436,233</u>	<u>4,833,000</u>
Compensated Absences	<u>8,359,530</u>	<u>5,371,195</u>	<u>5,033,560</u>	<u>8,697,165</u>	<u>1,134,203</u>
Total Long-Term Liabilities	<u><u>\$ 97,804,714</u></u>	<u><u>\$ 41,007,843</u></u>	<u><u>\$ 21,679,159</u></u>	<u><u>\$ 117,133,398</u></u>	<u><u>\$ 5,967,203</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Cone Center Addition	C	6.9%-7%	2010	<u>2,300,000</u>	<u>1,600,000</u>	<u>700,000</u>
Total Pooled Bonds				<u>2,300,000</u>	<u>1,600,000</u>	<u>700,000</u>
Parking System Bonds						
Parking Deck F	2002	3.5%-5.125%	2027	<u>10,900,000</u>	<u>1,180,000</u>	<u>9,720,000</u>
The University of North Carolina System Pool Revenue Bonds						
Phase VII Apartments	B	4%-5.250%	2023	15,875,000	2,365,000	13,510,000
Recreational Playing Fields	B	4%-4.5%	2008	1,105,000	605,000	500,000
Phase 8 Apartments	A	4%-5.375%	2027	21,115,000	510,000	20,605,000
Brocker Health Center	A	2%-5%	2028	6,055,000	320,000	5,735,000
Refinance Portion of SAC Bonds	A	2%-5.25%	2016	8,770,000	285,000	8,485,000
Refinance H&D Series M	A	2%-5%	2015	8,635,000	900,000	7,735,000
Refinance Parking Series 1996	A	3%-4%	2021	4,480,000	205,000	4,275,000
Balance of SAC Refinancing	A	3%-5.25%	2021	<u>11,855,000</u>		<u>11,855,000</u>
Total The University of North Carolina System Pool Revenue Bonds				<u>77,890,000</u>	<u>5,190,000</u>	<u>72,700,000</u>
The University of North Carolina Foundation, Inc.						
Banner - Certificates of Participation	2004	3%-5%	2015	<u>5,925,000</u>		<u>5,925,000</u>
UNC Charlotte Facilities Development Corporation, Inc.						
Greek Village - Certificates of Participation	2005	3%-4.75%	2035	<u>16,745,000</u>		<u>16,745,000</u>
Total Bonds Payable (principal only)				<u>\$ 123,705,000</u>	<u>\$ 15,308,000</u>	108,397,000
Less: Unamortized Loss on Refunding						(2,352,812)
Less: Unamortized Discount						(262,068)
Plus: Unamortized Premium						<u>2,654,113</u>
Total Bonds Payable						<u>\$ 108,436,233</u>
(A) The University of North Carolina System Pool Revenue Bonds, Series 1998B						
(B) The University of North Carolina System Pool Revenue Bonds, Series 2000						

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, 2005, are as follows:

Fiscal Year	Annual Requirements			
	Bonds Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
2006	\$ 4,258,000	\$ 3,954,138	\$ 575,000	\$ 221,538
2007	4,420,000	3,818,220	905,000	573,334
2008	4,255,000	3,649,425	935,000	918,106
2009	4,340,000	3,498,150	965,000	890,056
2010	4,430,000	3,308,475	995,000	858,044
2011-2015	21,855,000	13,505,410	4,790,000	3,670,481
2016-2020	21,969,000	8,132,428	2,335,000	2,957,463
2021-2025	15,380,000	3,114,080	2,905,000	2,382,919
2026-2030	4,820,000	389,231	3,640,000	1,645,731
2031-2035			4,625,000	664,294
Total Requirements	<u>\$ 85,727,000</u>	<u>\$ 43,369,556</u>	<u>\$ 22,670,000</u>	<u>\$ 14,781,966</u>

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

Student Activity Center: On April 14, 2005, the University defeased \$11,925,000.00 of outstanding *Student Activity Center* Revenue Bonds, Series 1995 (original issue amount \$26,295,000.00). Securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. As a result, the University reduced its debt service requirements by \$1,093,889.76 over the next 16 years and obtained an economic gain of \$790,031.76. At June 30, 2005, the outstanding balance of the defeased *Student Activity Center* bonds was \$0.00.

1996 Parking Series: On March 30, 2004, the University defeased \$4,035,000.00 of outstanding *1996 Series Parking* Revenue Bonds. An irrevocable trust was established with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. At June 30, 2005, the outstanding balance of the defeased *1996 Series Parking* Revenue Bonds was \$3,885,000.00.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for \$744,589. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 206,025
2007	211,176
2008	216,455
2009	110,933
Total Minimum Lease Payments	<u>\$ 744,589</u>

Rental expense for all operating leases during the year was \$170,460.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	<u>\$ 90,410,167</u>	<u>\$ 0</u>	<u>\$ 14,103,116</u>	<u>\$ 53,155</u>	<u>\$ 76,253,896</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 13,628,091	\$ 411,653	\$ 2,443,209	\$ 9,486	\$ 10,763,743
Dining	9,717,410		1,317,808	4,384	8,395,218
Student Union Services	1,731,038	524,660			1,206,378
Health, Physical Education, and Recreation Services	29,460	18,864			10,596
Parking	4,414,509	173,862			4,240,647
Other	14,644,223	9,820,297		3,888	4,820,038
Sales and Services of Education and Related Activities	<u>1,124,719</u>				<u>1,124,719</u>
Total Sales and Services	<u>\$ 45,289,450</u>	<u>\$ 10,949,336</u>	<u>\$ 3,761,017</u>	<u>\$ 17,758</u>	<u>\$ 30,561,339</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 94,005,156	\$ 8,131,733	\$ 6,917,560	\$ 363,896	\$ 0	\$ 0	\$ 109,418,345
Research	8,076,327	1,744,419	6,987,608	357,281			17,165,635
Public Service	2,453,790	86,325	133,530	39,154			2,712,799
Academic Support	11,656,885	6,061,675	4,230,804	247,241			22,196,606
Student Services	7,309,586	445,567	1,766,881	5,552	944		9,528,530
Institutional Support	12,347,429	854,329	3,990,352	7,444			17,199,554
Operations and Maintenance of Plant	10,613,107	4,776,594	1,987,688		4,694,098		22,071,487
Student Financial Aid	526,966	6,058	8,197	240,682			781,903
Auxiliary Enterprises	14,899,678	3,820,575	16,962,819	2,031,577	2,326,420		40,041,070
Depreciation						12,596,428	12,596,428
Total Operating Expenses	<u>\$ 161,888,924</u>	<u>\$ 25,927,276</u>	<u>\$ 42,985,440</u>	<u>\$ 3,292,826</u>	<u>\$ 7,021,463</u>	<u>\$ 12,596,428</u>	<u>\$ 253,712,357</u>

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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the University had a total payroll of \$134,803,691, of which \$56,619,445 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$3,397,178 and \$1,228,642, respectively. The University made 100% of its annual

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$1,228,642, \$117,505, and \$0, 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 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, 2005, 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, 2005, the University had a total payroll of \$134,803,691, of which \$59,289,425 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$3,557,365 and \$4,055,397, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$298,883 for the year ended June 30, 2005.

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, 2005, were \$68,615. The voluntary contributions by employees amounted to \$913,052 for the year ended June 30, 2005.

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 \$2,831,837 for the year ended June 30, 2005.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The University participates in State-administered programs that 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 3.2% 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, 2005, the University's total contribution to the Plan was \$3,709,084. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

B. Long-Term Disability - The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System 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 .445% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the year ended June 30, 2005, the University's total contribution to the DIPNC was \$515,795. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$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.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses occurring in-State are \$500,000 per claim and \$5,000,000 per occurrence and out-of-State are \$1,000,000 per claim and \$5,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence with a \$50,000 deductible and a 10% participation in each loss above the deductible.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Treasurer and funded via employer contributions. There were no employer contributions required for the current fiscal year.

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 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 \$34,026,419 at June 30, 2005.
- B. **Pending Litigation and Claims** - The University is a party to litigation and other administrative proceedings 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. For additional information regarding pending litigation, please contact Cindy Weber, employed by the University in the Controller's Office, or at 704-687-6141.
- C. **University Improvement General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$2.5 billion 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

allotments as revenue on the accompanying financial statements. The University's remaining authorization of \$18,364,370 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 15 - RELATED PARTIES

Foundations - There is one separately incorporated nonprofit foundation associated with the University. This entity is the Athletic Foundation of the University of North Carolina at Charlotte. The Athletic Foundation is an integral part of the University of North Carolina at Charlotte Investment Fund (UNCCIF), as explained in Note 1A. Blended Component Units. Its investments represent the external portion of the external investment pool as defined in Note 2B. Investments.

This organization serves as the primary fundraising arm of the University Athletics program through which individuals, corporations, and other organizations support this University program by providing scholarships, salary supplements, and unrestricted funds to the University's Athletics program.

NOTE 16 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

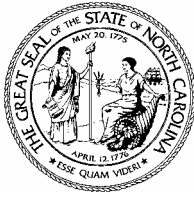
For the fiscal year ended June 30, 2005, the University implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

NOTE 17 - NET ASSET RESTATEMENTS

As of July 1, 2004, net assets as previously reported was restated as follows:

	Amount
July 1, 2004 Net Assets as Previously Reported	\$ 383,623,786
Restatement: Correct Prior Year Depreciation	(615,560)
July 1, 2004 Net Assets as Restated	<u>\$ 383,008,226</u>

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STATE OF NORTH CAROLINA
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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS 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 16-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 10, 2005. We did not audit the financial statements of The University of North Carolina at Charlotte Investment Fund Inc., which represent 15.6 percent of the assets of the University; nor the financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., which represent 100% of the University's discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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. The financial statements of The University of North Carolina at Charlotte Investment Fund, Inc. and the discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to those entities nor the discretely presented component unit.

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

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

our opinions on the financial statements and not to provide an opinion 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*

This report is intended solely for the information and use of the Audit Committee, the Board of Governors, the Board of Trustees, management 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.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

November 10, 2005

DISTRIBUTION OF AUDIT REPORT

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

EXECUTIVE BRANCH

The Honorable Michael F. Easley
The Honorable Beverly M. Perdue
The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
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February 28, 2006

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