



# **STATE OF NORTH CAROLINA**

**THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE**

**CHARLOTTE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE**

**CHARLOTTE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

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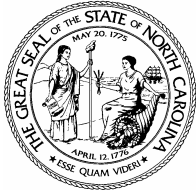
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STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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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, 2006, 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.

*Leslie W. Merritt, Jr.*

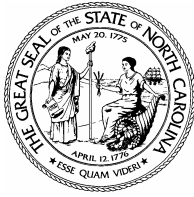
Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

January 24, 2007

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**INDEPENDENT AUDITOR'S REPORT**

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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 unit, as of and for the year ended June 30, 2006, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 17 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 unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based on the report 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 report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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of June 30, 2006, and the respective changes in financial position and cash flows, where 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. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, during the year ended June 30, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2006, 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.*

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

November 21, 2006

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

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### **Overview of the Financial Statements and Financial Analysis**

The University of North Carolina at Charlotte (University) is pleased to present its financial statements for fiscal year 2006. The emphasis of discussion about these statements is on current year data and material changes occurring between prior and current years.

There are three financial statements presented:

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

This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year.

### **Statement of Net Assets**

The Statement of Net Assets (SNA) presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The SNA is a point-in-time financial statement. The purpose of the SNA is to present to the readers of the financial statements a fiscal snapshot of 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 institutions. Finally, the SNA provides a picture of the net assets (assets minus liabilities) 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 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 are divided into two categories, expendable and nonexpendable. The corpus of nonexpendable restricted resources is available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.

Unrestricted assets are available to the University for any lawful purpose of the University.

### Statement of Net Assets June 30, 2006

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>Percentage Change</u>
<b>Assets:</b>				
Current Assets	\$ 123,984,837	\$ 115,253,735	\$ 8,731,102	8%
Capital Assets, Net	460,723,941	412,697,263	48,026,678	12%
Other Assets	<u>75,163,565</u>	<u>88,749,450</u>	<u>(13,585,885)</u>	-15%
<b>Total Assets</b>	659,872,343	616,700,448	43,171,895	7%
<b>Liabilities:</b>				
Current Liabilities	25,306,955	21,616,765	3,690,190	17%
Noncurrent Long-Term Liabilities	<u>124,113,125</u>	<u>131,595,895</u>	<u>(7,482,770)</u>	-6%
<b>Total Liabilities</b>	149,420,080	153,212,660	(3,792,580)	-2%
<b>Net Assets:</b>				
Invested in Capital Assets, Net of Related Debt	374,862,266	334,656,150	40,206,116	12%
Restricted for:				
Expendable	21,756,319	21,734,834	21,485	0%
Nonexpendable	37,800,700	33,351,392	4,449,308	13%
Unrestricted	<u>76,032,978</u>	<u>73,745,412</u>	<u>2,287,566</u>	3%
<b>Total Net Assets</b>	<u>\$ 510,452,263</u>	<u>\$ 463,487,788</u>	<u>\$ 46,964,475</u>	10%

Please refer to Exhibit A-1 and the Notes to the Financial Statements for additional detail for the Statement of Net Assets for fiscal year 2006. Some of the highlights of the University's Statement of Net Assets are listed below:

- Total Current Assets increased by \$8,731,102 during fiscal year 2006. Current Restricted Cash and Cash Equivalents increased by \$6,502,749 because there was construction related current liabilities in plant funds. Current Notes Receivable, Net experienced a decrease, from \$1,456,575 in fiscal year 2004-2005 to \$1,212,211 in fiscal year 2005-2006. The decrease in Current Notes Receivable, Net is attributed to a decrease in Perkins Loans Advances.
- Capital Assets, Net increased \$48,026,678 primarily due to \$9,983,445 increase in construction in progress and \$30,887,332 increase in buildings; net the increase in accumulated depreciation.
- Total Other Assets (noncurrent) decreased \$13,585,885 primarily due to the recording of restricted cash as current as previously stated.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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- Liabilities decreased by \$3,792,580 during fiscal year 2006. The Long-Term Liabilities account decreased \$7,482,770 due to decreases in bonds payable, certificates of participation payable and an increase in compensated absences payable. There were also changes in Funds Held for Others during fiscal year 2006 which resulted from an approximate \$1 million withdrawal from the Foundation of the University of North Carolina at Charlotte, Inc., and \$4 million in modifications to prior year classifications.
- Total Net Assets experienced an increase in fiscal year 2006 by \$46,964,475 primarily due to a \$40,206,116 increase in Invested in Capital Assets, Net of Related Debt. The increase in this category is a clear reflection of the amount of growth the University has experienced over fiscal year 2006 in capital asset additions discussed previously.

### **Statement of Revenues, Expenses, and Changes in Net Assets**

Changes in total net assets, as presented on the SNA, 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 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.

Please refer to Exhibit A-2 and the Notes to the Financial Statements for additional information regarding the University's SRECNA for fiscal year 2006.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Revenues, Expenses, and Changes in Net Assets June 30, 2006

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>Percentage Change</u>
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 90,866,154	\$ 76,253,896	\$ 14,612,258	19%
Federal Contracts and Grants	28,593,513	30,888,617	(2,295,104)	-7%
Sales and Services	34,758,189	30,561,339	4,196,850	14%
Other Operating Revenues	<u>9,627,427</u>	<u>9,411,777</u>	<u>215,650</u>	2%
<b>Total Operating Revenues</b>	<u>163,845,283</u>	<u>147,115,629</u>	<u>16,729,654</u>	11%
<b>Nonoperating Revenues:</b>				
State Appropriations	130,781,747	115,154,358	15,627,389	14%
Noncapital Gifts	6,136,247	5,358,260	777,987	15%
Other Nonoperating Revenues	<u>10,841,860</u>	<u>6,254,182</u>	<u>4,587,678</u>	73%
<b>Total Nonoperating Revenues</b>	<u>147,759,854</u>	<u>126,766,800</u>	<u>20,993,054</u>	17%
Total Revenues	<u>311,605,137</u>	<u>273,882,429</u>	<u>37,722,708</u>	14%
<b>Operating Expenses</b>	293,339,971	253,712,357	39,627,614	16%
<b>Nonoperating Expenses</b>	4,771,490	4,831,767	(60,277)	-1%
Capital Appropriations and Grants	29,994,756	61,041,550	(31,046,794)	-51%
Capital Contributions	3,196,066	2,018,117	1,177,949	58%
Additions to Endowment	<u>279,977</u>	<u>2,081,590</u>	<u>(1,801,613)</u>	-87%
Increase in Net Assets	46,964,475	80,479,562	(33,515,087)	-42%
Net Assets at Beginning of Year	463,487,788	383,623,786	79,864,002	21%
Restatement		<u>(615,560)</u>	<u>615,560</u>	-100%
<b>Net Assets at Beginning of Year (Restated)</b>	<u>463,487,788</u>	<u>383,008,226</u>	<u>80,479,562</u>	21%
<b>Net Assets at End of Year</b>	<u>\$ 510,452,263</u>	<u>\$ 463,487,788</u>	<u>\$ 46,964,475</u>	10%

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

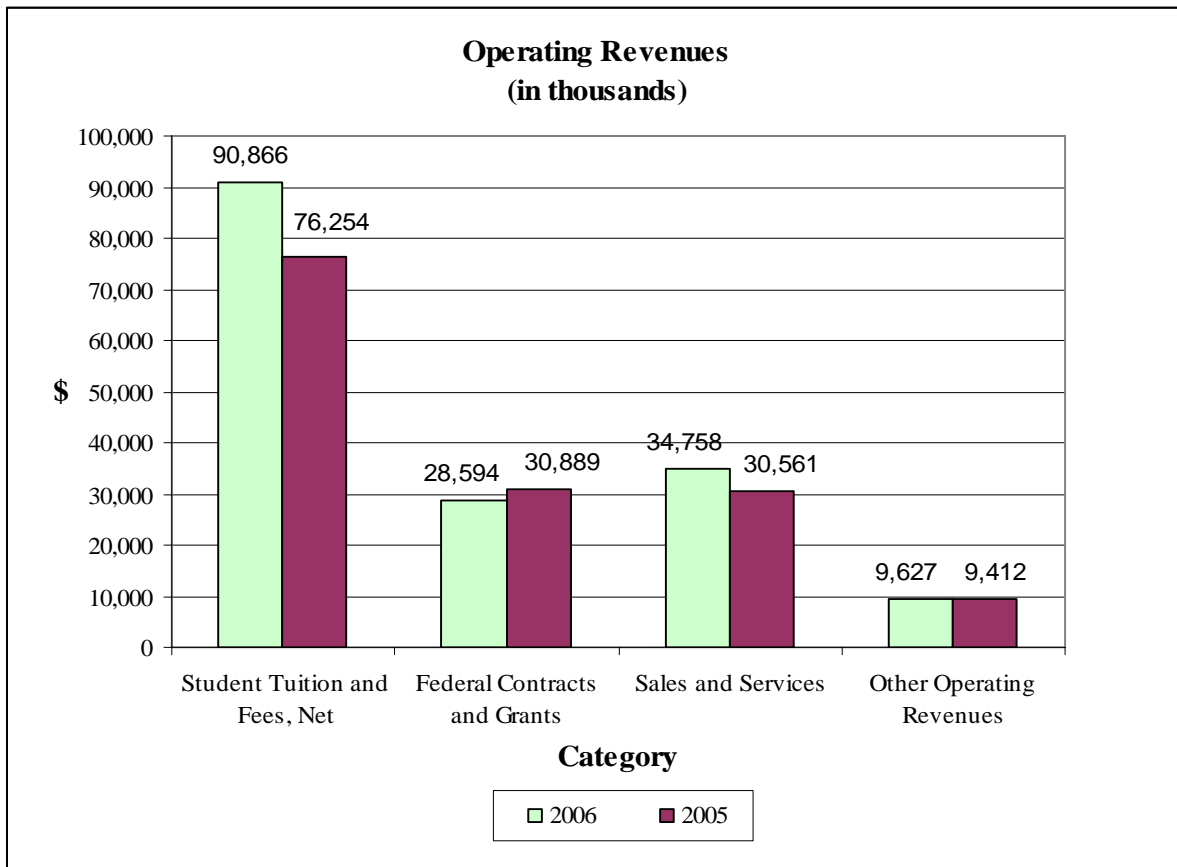
- Total Operating Revenues increased by \$16,729,655 during fiscal year 2006. The majority of this increase can be attributed to the \$14,612,259 increase in Student Tuition and Fees, Net. The increase in Student Tuition and Fees are a result of increased tuition and fee rates during fiscal year 2006 and an increase in enrollment.
- Total Operating Expenses increased by \$39,627,614, up to \$293,339,971 in 2006 from \$253,712,357 in 2005. The majority of this increase is related to Personal Services, which increased \$17,750,700 during the fiscal year. The increase noted in Personal Services consists of an approximate \$12 million increase in salaries and an approximate \$5 million increase in benefits. These salary increases are due to an annual 2% pay increase in

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

July 2005 coupled with additional salary increases of \$6.4 million and increases in faculty and staff during the fiscal year.

- Nonoperating Revenues increased by \$20,993,054, from \$126,766,800 in 2005 to \$147,759,854 in 2006. The majority of this increase is due to the \$15,627,389 increase in State Appropriations during the fiscal year. The University also received approximately \$3 million in Special Collections and Art, which is reflected as capital gifts.

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



### 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 2005-06 the University completed projects valued at \$40,358,164. These included parking decks, additions to buildings, renovation and new construction to academic and administrative facilities. Construction in progress totals \$53,070,179, an increase of \$9.9 million over fiscal year 2004-05, and outstanding commitments on construction contracts were \$35,545,312. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the University.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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### **Banner Project**

The University converted to the SCT Banner system on July 1, 2005. During fiscal year 2006, the University migrated finance, payroll, and human resources to the newly implemented Banner system. The University's student account module of Banner went live on July 17, 2006 (fiscal year 2007). The University is scheduled to upgrade to Banner 7.0 during the 2006-2007 year. There are no significant operational changes due to the Banner system conversion.

### **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, 2006***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 74,176,450
Restricted Cash and Cash Equivalents	17,151,861
Short-Term Investments	17,843,216
Receivables, Net (Note 4)	13,294,586
Inventories	296,838
Notes Receivable, Net (Note 4)	1,212,211
Other Assets	9,675
	<hr/>
Total Current Assets	123,984,837
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	15,137,997
Restricted Due from Primary Government	2,487,365
Endowment Investments	49,755,442
Other Long-Term Investments	2,831,648
Notes Receivable, Net (Note 4)	4,951,113
Capital Assets - Nondepreciable (Note 5)	75,361,552
Capital Assets - Depreciable, Net (Note 5)	385,362,389
	<hr/>
Total Noncurrent Assets	535,887,506
	<hr/>

Total Assets	659,872,343
	<hr/>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	13,702,868
Deferred Revenue	4,921,365
Interest Payable	280,892
Long-Term Liabilities - Current Portion (Note 7)	6,401,830
	<hr/>
Total Current Liabilities	25,306,955
	<hr/>

Noncurrent Liabilities:

Deposits Payable	3,239,116
Funds Held for Others	1,072,021
U. S. Government Grants Refundable	5,533,665
Funds Held in Trust for Pool Participants	6,785,971
Long-Term Liabilities (Note 7)	107,482,352
	<hr/>
Total Noncurrent Liabilities	124,113,125
	<hr/>

Total Liabilities	149,420,080
	<hr/>

*University of North Carolina at Charlotte*  
*Statement of Net Assets*  
*June 30, 2006*

*Exhibit A-1*  
*Page 2*

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	374,862,266
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,118,412
Endowed Professorships	26,970,798
Departmental Uses	3,468,616
Loans	1,694,280
Other	1,548,594
Expendable:	
Scholarships and Fellowships	3,301,994
Research	1,374,869
Departmental Uses	1,627,957
Capital Projects	8,907,602
Debt Service	6,543,897
Unrestricted	<u>76,032,978</u>
Total Net Assets	<u>\$ 510,452,263</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, 2006***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 90,866,154
Federal Grants and Contracts	28,593,513
State and Local Grants and Contracts	4,452,993
Nongovernmental Grants and Contracts	3,565,877
Sales and Services, Net (Note 9)	34,758,189
Interest Earnings on Loans	60,536
Other Operating Revenues	1,548,021
	<hr/>
Total Operating Revenues	163,845,283
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	179,639,624
Supplies and Materials	26,445,893
Services	55,621,827
Scholarships and Fellowships	8,884,625
Utilities	9,195,563
Depreciation	13,552,439
	<hr/>
Total Operating Expenses	293,339,971
	<hr/>
Operating Loss	(129,494,688)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	130,781,747
Noncapital Gifts	6,136,247
Investment Income (Net of Investment Expense of \$155,821)	10,261,890
Interest and Fees on Debt	(4,771,490)
Other Nonoperating Revenues	579,970
	<hr/>
Net Nonoperating Revenues	142,988,364
	<hr/>
Income Before Other Revenues	13,493,676
	<hr/>
Capital Grants	27,023,156
Capital Appropriations	2,971,600
Capital Gifts	3,196,066
Additions to Endowments	246,977
Special Items	33,000
	<hr/>
Increase in Net Assets	46,964,475
	<hr/>

**NET ASSETS**

Net Assets - July 1, 2005	463,487,788
	<hr/>
Net Assets - June 30, 2006	\$ 510,452,263
	<hr/> <hr/>

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, 2006***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 164,567,753
Payments to Employees and Fringe Benefits	(178,054,688)
Payments to Vendors and Suppliers	(89,107,315)
Payments for Scholarships and Fellowships	(8,884,625)
Loans Issued	(14,848,026)
Collection of Loans	14,699,432
Student Deposits Received	577,450
Other Receipts	1,606,455
	<hr/>
Net Cash Used by Operating Activities	(109,443,564)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	130,781,747
Noncapital Grants	6,136,247
Other Payments	(3,584,269)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	133,333,725

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES**

State Capital Appropriations	2,971,600
Capital Grants	27,023,156
Proceeds from Sale of Capital Assets	648,828
Acquisition and Construction of Capital Assets	(47,835,295)
Principal Paid on Capital Debt and Leases	(4,834,152)
Interest and Fees Paid on Capital Debt and Leases	(4,795,316)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(26,821,179)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	6,246,523
Investment Income	4,948,124
Purchase of Investments and Related Fees	(8,292,920)
	<hr/>
Net Cash Provided by Investing Activities	2,901,727

Net Decrease in Cash and Cash Equivalents	(29,291)
Cash and Cash Equivalents - July 1, 2005	106,495,599
	<hr/>
Cash and Cash Equivalents - June 30, 2006	\$ 106,466,308



**University of North Carolina at Charlotte**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2006**

**Exhibit A-3**  
**Page 2**

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

Operating Loss	\$ (129,494,688)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	13,552,439
Changes in Assets and Liabilities:	
Receivables (Net)	(3,817,143)
Due from Primary Government	6,347,496
Notes Receivable	554,948
Other Assets	(2,102)
Inventories	12,530
Accounts Payable and Accrued Liabilities	1,439,896
Deferred Revenue	(199,326)
Compensated Absences	1,584,936
Deposits Payable	577,450
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (109,443,564)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 74,176,450
Restricted Cash and Cash Equivalents	17,151,861
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	15,137,997
	<hr/>
Total Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 106,466,308</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through a Gift	\$ 3,196,066
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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, 2006***

***Exhibit B-1***

	<b>Expendable Funds</b>	<b>Endowment and Similar Funds</b>	<b>Total</b>
<b>ASSETS</b>			
Investments	\$ 7,120,099	\$ 70,973,987	\$ 78,094,086
Interest receivable	66,890	60,143	127,033
Accounts receivables	42,904		42,904
Notes receivable	2,448,779		2,448,779
Pledges receivable	3,689,774	2,519,930	6,209,704
Cash surrender value of life insurance	388,066	87,278	475,344
Equipment, net	123,044		123,044
Leasehold improvements, net	98,111		98,111
Property held for investments, net	3,034,504	6,255,147	9,289,651
Prepaid expenses	1,642		1,642
Total Assets	<u>17,013,813</u>	<u>79,896,485</u>	<u>96,910,298</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	185,008	825	185,833
Interest payable	45,663		45,663
Funds held for others	73,738		73,738
Other long-term liabilities	13,979		13,979
Long-term debt	4,653,623	3,785,694	8,439,317
Total Liabilities	<u>4,972,011</u>	<u>3,786,519</u>	<u>8,758,530</u>
<b>NET ASSETS</b>			
Unrestricted	4,167,608	11,319,190	15,486,798
Temporarily restricted	7,874,194	34,658,289	42,532,483
Permanently restricted		30,132,487	30,132,487
Total Net Assets	<u>\$ 12,041,802</u>	<u>\$ 76,109,966</u>	<u>\$ 88,151,768</u>

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 Activities***  
***For the Fiscal Year Ended June 30, 2006***

***Exhibit B-2***

	<b>Expendable Funds</b>	<b>Endowment and Similar Funds</b>	<b>Total</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>			
Revenue, Support and Gains:			
Support-public Contributions	\$ 376,009	\$ 0	\$ 376,009
Revenue:			
Endowment Income		834,672	834,672
Transfer of Endowment Income	558,884	(863,597)	(304,713)
Rental and Other Income	907,195		907,195
Net Gain on Investment		3,388,258	3,388,258
Other Investment Income	499,384		499,384
Subtotal Unrestricted Revenues and Gains	2,341,472	3,359,333	5,700,805
Net Assets Released from Restrictions	4,399,247	374,025	4,773,272
Total Revenue, Support and Gains	6,740,719	3,733,358	10,474,077
Expenses:			
Program Services:			
Contributions to the University of North Carolina at Charlotte	2,627,850		2,627,850
Distributions to Donors		98,256	98,256
Capital Project	2,252,908		2,252,908
Total Program Services	4,880,758	98,256	4,979,014
Supporting Services:			
Professional Fees	240,331		240,331
Other General and Administrative Expenses	746,697	482,092	1,228,789
Interest Expense	164,417		164,417
Total Supporting Services	1,151,445	482,092	1,633,537
Total Expenses	6,032,203	580,348	6,612,551
Transfers to (from) Other Funds	(456,254)	53,802	(402,452)
Increase in Unrestricted Net Assets	252,262	3,206,812	3,459,074
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>			
Revenue, Support and Gains:			
Support-public Contributions	2,454,433	374,549	2,828,982
Revenue:			
Other Investment and Interest Income	68,349	53,880	122,229
Endowment Income		1,151,677	1,151,677
Transfer of Endowment Income	1,463,112	(1,158,399)	304,713
Rental and Other Income	50,180		50,180
Net Gain on Investment	3,395	4,557,737	4,561,132
Subtotal	4,039,469	4,979,444	9,018,913
Net Assets Released from Restrictions	(4,399,247)	(374,025)	(4,773,272)
Total Revenue, Support and Gains	(359,778)	4,605,419	4,245,641
Transfers from (to) Other Funds	214,684	188,475	403,159
Increase in Temporarily Restricted Net Assets	(145,094)	4,793,894	4,648,800

***The Foundation of the University of North Carolina at Charlotte, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2006***

***Exhibit B-2***

***Page 2***

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Revenue, Support and Gains:			
Support-public Contributions		2,092,259	2,092,259
Revenue:			
Rental and Other Income		5,030	5,030
Total Revenue, Support and Gains		2,097,289	2,097,289
Transfers from Other Funds		(706)	(706)
Increase in Permanently Restricted Net Assets		2,096,583	2,096,583
Change in Net Assets	107,168	10,097,289	10,204,457
Net Assets at Beginning of Year	11,934,634	66,012,677	77,947,311
Net Assets at End of Year	\$ 12,041,802	\$ 76,109,966	\$ 88,151,768

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

**THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**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 (the University) 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)

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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 Trevisan, employed by the University of North Carolina at Charlotte, Controller's Office, or at 704-687-6141.

The University of North Carolina at Charlotte Facilities Development Corporation, Inc., (Development Corp), is a component unit of the University, and is reported as if it was part of the University. The Development Corp is a legally separate, 501 (c) (3) entity and is governed by an eight member board consisting of three ex officio members. The ex officio members include Vice Chancellor for Student Affairs, Associate General Counsel and the Vice Chancellor for Business Affairs. The sole purpose of the Development Corp is to assist the University in the financing, acquisition, construction and equipping a student housing project on the campus. The University operates and manages the project under the terms of agreement between the University and the Development Corp. Because the Development Corp'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 the Development Corp for the most recent reporting period can be obtained by contacting Cindy Trevisan, 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., (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 501 (c) (3), 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 incomes 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2006, the Foundation distributed \$2,627,850 on a cash basis to the University for both restricted and unrestricted purposes. Audited financial statements for the Foundation can be obtained from Cindy Trevisan, employed by the University of North Carolina at Charlotte, Controller's Office, at 704-687-6141.

- B. Basis of Presentation** – The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the University's activities is considered to be a single business-type activity 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment 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 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 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. These assets are also classified as noncurrent since they cannot be used for current operations. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Funds Held in Trust for Pool Participants** – Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.
- K. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include principal amounts of bonds payable and compensated absences that will not be paid within the next fiscal year.

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. 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 year-end 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

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

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

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

**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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

At June 30, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$97,629,229 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. 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.

Cash on hand at June 30, 2006 was \$7,447,483. The carrying amount of the University's deposits not with the State Treasurer was \$1,389,598 and the bank balance was \$3,104,447. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2006, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 2,904,447</u>
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- 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 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Investments are subject to the following risks.

*Interest Rate Risk:* Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University does not have a formal policy that addresses interest rate risk.

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy that addresses credit risk.

*Custodial Credit Risk:* 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 University does not have a formal policy for custodial credit risk.

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have a formal policy for foreign currency risk.

**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. The University Endowment funds and The Foundation of the University of North Carolina at Charlotte, Inc., represent the pool’s internal participants. The University of North Carolina at Charlotte Athletic Foundation is not included in the University’s reporting entity and represents the pool’s external participant. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2005 fiscal year, but received proceeds during fiscal year 2006 due to a class action lawsuit settlement from stock once held in the account. Academy Funds, LLC is the custodian for the pool of funds invested in the Academy Venture Funds. 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 annual financial report for the external investment pool may be obtained from Cindy Trevisan, Controller's Office at 704-687-6141.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2006, 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*

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
Mutual Bond Funds	\$ 26,202,333	\$ 393,035	\$ 9,066,007	\$ 12,053,073	\$ 4,690,218
Money Market Funds	221,650	221,650			
		<u>\$ 614,685</u>	<u>\$ 9,066,007</u>	<u>\$ 12,053,073</u>	<u>\$ 4,690,218</u>
Other Securities					
UNC Investment Fund	4,428,968				
Other Mutual Funds	77,956,181				
	<u>4,428,968</u>				
Total External Investment Pool	<u>\$ 108,809,132</u>				

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2006, investments in the External Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB Ba
Mutual Bond Funds	\$ 26,202,333	\$ 21,512,115	\$ 1,336,319	\$ 1,388,724	\$ 1,860,366	\$ 104,809

Rating Agency: All ratings were obtained from Standards and Poor's

**Non-Pooled Investments** – The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2006, for the University's non-pooled investments.

### *Non-Pooled Investments*

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<b>Debt Securities</b>					
U.S. Treasuries	\$ 315,835	\$ 31,864	\$ 135,620	\$ 52,045	\$ 96,306
U.S. Agencies	66,128		6,967	59,161	
Mortgage Pass Throughs	339,880			7,266	332,614
Collateralized Mortgage Obligations	48,132			31,450	16,682
Money Market Funds	111,591	111,591			
Mutual Bond Funds	9,999		9,999		
Domestic Corporate Bonds	262,903	44,887	134,779	52,397	30,840
		\$ 188,342	\$ 287,365	\$ 202,319	\$ 476,442
<b>Other Securities</b>					
Other Mutual Funds	17,843,216				
Investments in Real Estate	8,953,283				
Domestic Stocks	2,306,019				
Other	13,713				
<b>Total Non-Pooled Investments</b>	<b>\$ 30,270,699</b>				



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2006, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	Unrated
U.S. Agencies	\$ 66,128	\$ 66,128	\$ 0	\$ 0	\$ 0	\$ 0
Motrgage Pass Throughs	339,880					339,880
Collateralized Mortgage Obligations	48,132					48,132
Mutual Bond Funds	9,999		9,999			
Domestic Corporate Bonds	262,903	25,847	110,631	65,833	60,592	

Rating Agency: The rating agency used for non-pooled investments was Standard and Poor's

**Total Investments** – The following table presents the fair value of the total investments at June 30, 2006:

	Fair Value
<b>Investment Type</b>	
Debt Securities	
U.S. Treasuries	\$ 315,835
U.S. Agencies	66,128
Motrgage Pass Throughs	339,880
Collateralized Mortgage Obligations	48,132
Mutual Bond Funds	26,212,332
Money Market Funds	333,241
Domestic Corporate Bonds	262,903
Other Securities	
UNC Investment Fund	4,428,968
Other Mutual Funds	95,799,397
Investments in Real Estate	8,953,283
Domestic Stocks	2,306,019
Other	13,713
<b>Total Investments</b>	<b>\$ 139,079,831</b>

Total investments include \$68,649,525 held in the External Investment Pool for component units that are discretely presented in the accompanying financial statements.

### NOTE 3 - ENDOWMENT INVESTMENTS

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on a preset rate approved by the Board of Trustees for the Endowment Fund. The payout rate for the period ending June 30, 2006, was 4% of a twelve-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, 2006, net appreciation of \$6,099,690 was available to be spent, of which \$5,444,891 was restricted to specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 6,072,525	\$ 117,376	\$ 5,955,149
Accounts	3,016,269		3,016,269
Intergovernmental	1,108,327		1,108,327
Investment Earnings	126,538		126,538
Other	3,088,303		3,088,303
<b>Total Current Receivables</b>	<u>\$ 13,411,962</u>	<u>\$ 117,376.00</u>	<u>\$ 13,294,586</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	<u>\$ 1,466,002</u>	<u>\$ 253,791</u>	<u>\$ 1,212,211</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 4,377,949	\$	\$ 4,377,949
Institutional Student Loan Programs	<u>607,463</u>	<u>34,299</u>	<u>573,164</u>
<b>Total Notes Receivable - Noncurrent</b>	<u>\$ 4,985,412</u>	<u>\$ 34,299</u>	<u>\$ 4,951,113</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 6,392,958	\$ 0	\$ 0	\$ 6,392,958
Art, Literature, and Artifacts	13,065,866	2,832,549		15,898,415
Construction in Progress	43,086,734	50,341,609	40,358,164	53,070,179
<b>Total Capital Assets, Nondepreciable</b>	<b>62,545,558</b>	<b>53,174,158</b>	<b>40,358,164</b>	<b>75,361,552</b>
Capital Assets, Depreciable:				
Buildings	346,040,869	37,838,498		383,879,367
Machinery and Equipment	58,865,482	5,262,343	183,443	63,944,382
General Infrastructure	64,742,703	2,519,665		67,262,368
<b>Total Capital Assets, Depreciable</b>	<b>469,649,054</b>	<b>45,620,506</b>	<b>183,443</b>	<b>515,086,117</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	73,297,365	6,951,175		80,248,540
Machinery and Equipment	34,243,891	5,409,159	3,326,060	36,326,990
General Infrastructure	11,956,093	1,192,105		13,148,198
<b>Total Accumulated Depreciation</b>	<b>119,497,349</b>	<b>13,552,439</b>	<b>3,326,060</b>	<b>129,723,728</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>350,151,705</b>	<b>32,068,067</b>	<b>(3,142,617)</b>	<b>385,362,389</b>
<b>Capital Assets, Net</b>	<b>\$ 412,697,263</b>	<b>\$ 85,242,225</b>	<b>\$ 37,215,547</b>	<b>\$ 460,723,941</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 8,525,914
Accrued Payroll	1,087,413
Contract Retainage	4,083,755
Other	5,786
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 13,702,868</b>

## 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, 2006, is presented as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Bonds Payable:					
Revenue Bonds	\$ 85,727,000	\$ 0	\$ (4,258,000)	\$ 81,469,000	\$ 4,420,000
Certificates of Participation	22,670,000		(575,000)	22,095,000	905,000
Add Premium	2,392,045		(164,160)	2,227,885	
Deduct Deferred Charge on Refunding	(2,352,812)		163,008	(2,189,804)	
Total Bonds Payable	<u>108,436,233</u>		<u>(4,834,152)</u>	<u>103,602,081</u>	<u>5,325,000</u>
Compensated Absences	<u>8,697,165</u>	<u>7,030,268</u>	<u>(5,445,332)</u>	<u>10,282,101</u>	<u>1,076,830</u>
<b>Total Long-Term Liabilities</b>	<u>\$ 117,133,398</u>	<u>\$ 7,030,268</u>	<u>\$ (10,279,484)</u>	<u>\$ 113,884,182</u>	<u>\$ 6,401,830</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:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2006	Principal Outstanding June 30, 2006
<u>The University of North Carolina System Pool Revenue Bonds</u>						
Phase VII Apartments	1998	4%-5.25%	2023	\$ 15,875,000	\$ 2,825,000	\$ 13,050,000
Recreational Playing Fields	1998	4%-4.5%	2008	1,105,000	720,000	385,000
Phase 8 Apartments	2002A	4%-5.375%	2027	21,115,000	1,045,000	20,070,000
Brockner Health Center	2003A	2%-5%	2028	6,055,000	475,000	5,580,000
Refinance Portion of SAC 1995 Bonds	2003A	2%-5.25%	2016	8,770,000	305,000	8,465,000
Refinance H&D Series M	2003A	2%-5%	2015	8,635,000	1,765,000	6,870,000
Refinance Series 1996	2004A	3%-4%	2021	4,480,000	410,000	4,070,000
Balance of SAC Refinancing	Revenue Bonds	3%-5.25%		11,855,000	870,000	10,985,000
Total Pooled Bonds:				77,890,000	8,415,000	69,475,000
<u>Housing and Dining Bonds</u>						
Sandord and Moore Halls	B	3%-3%	2008	1,650,000	1,505,000	145,000
Scott Hall	C	5.875%-5.875%	2007	2,200,000	2,040,000	160,000
Holshouser Hall	D	5.2%-5.2%	2007	2,200,000	2,040,000	160,000
Martin Village	F	3%-3%	2018	2,175,000	1,230,000	945,000
Energy Conservation	G	3%-3%	2007	152,000	147,000	5,000
Phase III	H	3%-3%	2019	1,568,000	864,000	704,000
Total Housing & Dining Bonds:				9,945,000	7,826,000	2,119,000
<u>Student Cone Center Bonds</u>						
Cone Center Addition	C	6.9%-7%	2010	2,300,000	1,720,000	580,000
Total Student Cone Center Bonds:				2,300,000	1,720,000	580,000
<u>Parking System Bonds</u>						
Parking Deck F	2002	3.5%-5.125%	2027	10,900,000	1,605,000	9,295,000
Total Parking System Bonds:				10,900,000	1,605,000	9,295,000
Total Revenue Bonds:				101,035,000	17,846,000	81,469,000
<u>Certificates of Participation</u>						
Banner COPs		3%-5%	2015	5,925,000	575,000	5,350,000
Greek Village COPs		3%-4.75%	2035	16,745,000		16,745,000
Total Certificates of Participation:				22,670,000	575,000	22,095,000
Total Bonds Payable (principal only)				\$ 123,705,000	\$ 18,421,000	103,564,000
Less: Unamortized Loss on Refunding						(2,189,804)
Plus: Unamortized Premium						2,227,885
Total Bonds Payable						<u>\$ 103,602,081</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**C. Annual Requirements** – The annual requirements to pay principal and interest on the long-term obligations at June 30, 2006, are as follows:

<u>Fiscal Year</u>	Annual Requirements			
	Revenue Bonds Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
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	4,460,000	3,111,790	1,030,000	819,969
2012-2016	21,700,000	12,450,270	4,190,000	3,478,006
2017-2021	22,419,000	7,048,318	2,435,000	2,858,406
2022-2026	12,785,000	2,380,675	3,035,000	2,251,238
2027-2031	2,660,000	150,094	3,820,000	1,467,031
2032-2036			3,785,000	447,238
Total Requirements	<u>\$ 81,469,000</u>	<u>\$ 39,415,417</u>	<u>\$ 22,095,000</u>	<u>\$ 14,561,428</u>

### NOTE 8 - OPERATING LEASE OBLIGATIONS

The University did not enter into any new operating leases during fiscal year 2006. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 210,660
2008	215,926
2009	109,296
Total Minimum Lease Payments	<u>\$ 535,882</u>

Rental expense for all operating leases during the year was \$46,631.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 103,770,152	\$ 0	\$ 12,857,535	\$ 46,463	\$ 90,866,154
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 14,676,303	\$ 0	\$ 1,867,668	\$ 6,833	\$ 12,801,802 (A)
Dining	10,842,968		1,044,357	4,599	9,794,012 (A)
Student Union Services	1,566,532	728,877			837,655 (B)
Health, Physical Education, and Recreation Services	1,040,528				1,040,528 (C)
Parking	4,771,883	109,417		587	4,661,879 (D)
Athletic	1,262,004				1,262,004
Other	15,277,942	13,127,622			2,150,320
Independent Operations	2,209,989				2,209,989
<b>Total Sales and Services</b>	<b>\$ 51,648,149</b>	<b>\$ 13,965,916</b>	<b>\$ 2,912,025</b>	<b>\$ 12,019</b>	<b>\$ 34,758,189</b>

Revenue Bonds Secured by Pledged Revenues:

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

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 104,224,508	\$ 6,336,309	\$ 11,715,301	\$ 2,289,598	\$ 3,250	\$ 0	\$ 124,568,966
Research	9,728,083	1,784,615	5,297,125	536,717			17,346,540
Public Service	1,913,052	196,128	616,727	65,248			2,791,155
Academic Support	12,185,166	6,030,728	6,502,990	311,558			25,030,442
Student Services	8,393,139	520,057	2,159,761	81,453			11,154,410
Institutional Support	13,873,268	1,469,467	5,610,170	1,000	44		20,953,949
Operations and Maintenance of Plant	13,031,505	5,542,846	3,509,863		6,519,371		28,603,585
Student Financial Aid	559,297	8,400	187,015	3,665,102			4,419,814
Auxiliary Enterprises	15,731,606	4,557,343	20,022,875	1,933,949	2,672,898		44,918,671
Depreciation						13,552,439	13,552,439
<b>Total Operating Expenses</b>	<b>\$ 179,639,624</b>	<b>\$ 26,445,893</b>	<b>\$ 55,621,827</b>	<b>\$ 8,884,625</b>	<b>\$ 9,195,563</b>	<b>\$ 13,552,439</b>	<b>\$ 293,339,971</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the University had a total payroll of \$148,958,210, of which \$61,550,034 was covered under the Teachers’ and State Employees’ Retirement System. Total employee and employer contributions for pension benefits for the year were \$3,693,002 and \$1,440,271, respectively. The University made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$1,440,271, \$1,228,642, and \$117,505, respectively.

The Teachers’ and State Employees’ Retirement System’s financial information is included in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant’s death. Administrators and eligible faculty of the University may join the Program instead of the Teachers’ and State Employees’ Retirement



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2006, 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, 2006, the University had a total payroll of \$148,958,210, of which \$65,195,577 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$3,991,735 and \$4,459,378, respectively.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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University. The voluntary contributions by employees amounted to \$456,309 for the year ended June 30, 2006.

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, 2006, were \$68,565. The voluntary contributions by employees amounted to \$968,207 for the year ended June 30, 2006.

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 \$2,887,833 for the year ended June 30, 2006.

### **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 3.8% 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, 2006, the University’s total contribution to the Plan was \$4,816,333. The University assumes no liability for retiree health care

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

- B. Long-Term Disability** – The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the year ended June 30, 2006, the University's total contribution to the DIPNC was \$659,077. The University assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 13 - RISK MANAGEMENT

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 Treasurer and funded via employer contributions. The employer contribution rate was .16% 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 \$35,545,312 at June 30, 2006.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**B. Pending Litigation and Claims** – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

### NOTE 15 - RELATED PARTIES

**Foundations** – The University benefits from and is affiliated with numerous related parties. Please refer to Note 1A Financial Reporting Entity for additional information on the blended and discretely presented component units of the University.

Additionally, there is one separately incorporated nonprofit foundation associated with the University. This is the Athletic Foundation of the University of North Carolina at Charlotte (Athletic Foundation). The Athletic Foundation is an integral part of 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.

The Athletic Foundation serves as the primary fundraising arm of the University's collegiate athletics programs, through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the related parties.

### NOTE 16 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2006, the University implemented Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes guidance for accounting and reporting for capital assets for which an unexpected decline in service utility has occurred. This statement also establishes guidance for accounting for insurance recoveries. The University has no capital asset impairments to disclose as of June 30, 2006.

## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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### **NOTE 17 - SUBSEQUENT EVENTS**

The University participated in a bond sale on June 27, 2006. A total of \$12,465,000 was received as bond proceeds upon closing on July 27, 2006. The aforementioned bond sale is the only subsequent event the University has to disclose for fiscal year 2006.



STATE OF NORTH CAROLINA  
Office of the State Auditor

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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**

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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 unit, as of and for the year ended June 30, 2006, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 21, 2006. Our report was modified to include a reference to 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. Other auditors audited the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., and the discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., and the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our 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

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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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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, and the General Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

*Leslie W. Merritt, Jr.*

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

November 21, 2006



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