



STATE OF NORTH CAROLINA

UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

CHARLOTTE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

CHARLOTTE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

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STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of University of North Carolina at Charlotte for the year ended June 30, 2007, 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 disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Responses section of this report. The University's response is included following each finding.

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

Leslie W. Merritt, Jr.

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

February 5, 2008

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
University Exhibits	
A-1 Statement of Net Assets	9
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	11
A-3 Statement of Cash Flows	12
Component Unit Exhibits	
B-1 Statement of Financial Position	14
B-2 Statement of Activities	15
Notes to the Financial Statements	17
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 <i>GOVERNMENT AUDITING STANDARDS</i>	43
AUDIT FINDINGS AND RESPONSES	47
ORDERING INFORMATION	49



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of University of North Carolina at Charlotte, a constituent institution of the multi-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, 2007, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University of North Carolina at Charlotte's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., which represent 17.6 percent, 0 percent, and 6.4 percent, respectively of the assets, net assets, and revenues of the University; nor the financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., the University's discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., and The Foundation of the University of North Carolina at Charlotte, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

of June 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2008, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



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

January 30, 2008

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

Overview of the Financial Statements and Financial Analysis

The University of North Carolina at Charlotte (hereinafter referred to as the "University") is pleased to present its financial statements for fiscal year 2007. The emphasis of discussion about these statements is on current year data and material changes occurring between prior and current years.

The three basic financial statements include the following:

- 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. This discussion does not include the Statement of Cash Flows.

Statement of Net Assets

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

From the data presented, readers of the SNA are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors, investors, and lending 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 Net Assets

Invested in capital assets, net of related debt, provides the University's equity in property, plant, and equipment owned by the University.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 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, 2007

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>Percentage Change</u>
Assets:				
Current Assets	\$ 124,661,131	\$ 123,984,837	\$ 676,294	1%
Capital Assets, Net	499,044,421	460,723,941	38,320,480	8%
Other Assets	<u>145,767,554</u>	<u>75,163,565</u>	<u>70,603,989</u>	94%
Total Assets	769,473,106	659,872,343	109,600,763	17%
Liabilities:				
Current Liabilities	27,334,888	25,306,956	2,027,932	8%
Noncurrent Long-Term Liabilities	<u>185,758,567</u>	<u>124,113,125</u>	<u>61,645,442</u>	50%
Total Liabilities	213,093,455	149,420,081	63,673,374	43%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	390,633,078	374,862,266	15,770,812	4%
Restricted for:				
Expendable	42,414,597	21,756,319	20,658,278	95%
Nonexpendable	28,976,757	37,800,700	(8,823,943)	-23%
Unrestricted	<u>94,355,219</u>	<u>76,032,978</u>	<u>18,322,241</u>	24%
Total Net Assets	<u>\$ 556,379,651</u>	<u>\$ 510,452,263</u>	<u>\$ 45,927,388</u>	9%

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 2007. Some of the highlights of the University's Statement of Net Assets are listed below:

- Total Current Assets increased slightly by \$676,294, or 1 percent, during fiscal year 2007. Receivables, Net increased \$5,325,660, or 40 percent, that was mostly offset by Cash and Cash Equivalents, Restricted Cash and Cash Equivalents, and Short-term Investments that decreased \$4,616,893 or 4 percent.
- Total Noncurrent Assets increased by \$108,924,469, or 20 percent, during fiscal year 2007. The majority of this increase can be attributed to Endowment and Other Investments. Other Investments increased \$64,250,673 primarily from the investment of \$55,000,000 of new bond proceeds. Endowment Investments increased \$8,836,473 or

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

18 percent due to the reinvestment of returns on endowment investments. The \$38,320,480 increase in Capital Assets occurred due to building expansion and equipment acquisitions.

- Liabilities increased by \$63,673,374, or 43 percent, during fiscal year 2007. The primary contributors to this increase were bond sales during 2007 for the new Student Union building totaling \$54,400,000 and for the new Parking Deck "G" totaling \$10,545,000.
- Net Assets experienced an increase of \$45,927,388, or 9 percent. This is primarily due to Investment in Capital Assets, Net of Related Debt, increasing \$15,770,812 or 4 percent. The increase in this category represents the amount of growth the University has experienced over fiscal year 2006 in capital asset additions of buildings, equipment, and infrastructure. Unrestricted Net Assets increased \$18,322,241, or 24 percent, primarily due to net revenue of the Auxiliary Enterprises totaling \$11.5 million. There was also a \$8,823,943 decrease in Nonexpendable Restricted Net Assets. This is due to the University's re-evaluation of the classification of earnings on Investments. Earnings on permanent endowments in excess of the corpus are classified as Expendable Restricted Net Assets in the current year. In the prior year they were classified as nonexpendable.

Statement of Revenues, Expenses, and Changes in Net Assets

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

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 SRENCA for fiscal year 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets June 30, 2007

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>Percentage Change</u>
Operating Revenues:				
Student Tuition and Fees, Net	\$ 100,596,017	\$ 90,866,154	\$ 9,729,863	11%
Federal Contracts and Grants	33,739,769	28,593,513	5,146,256	18%
Sales and Services	35,527,479	34,758,189	769,290	2%
Other Operating Revenues	10,931,851	9,627,427	1,304,424	14%
Total Operating Revenues	180,795,116	163,845,283	16,949,833	10%
Nonoperating Revenues:				
State Appropriations	159,232,953	130,781,747	28,451,206	22%
Noncapital Gifts	8,111,383	6,136,247	1,975,136	32%
Other Nonoperating Revenues	14,193,374	10,841,860	3,351,514	31%
Total Nonoperating Revenues	181,537,710	147,759,854	33,777,856	23%
Total Revenues	362,332,826	311,605,137	50,727,689	16%
Operating Expenses	336,400,078	293,339,971	43,060,107	15%
Nonoperating Expenses	5,484,262	4,771,490	712,772	15%
Capital Grants	13,236,339	27,023,156	(13,786,817)	-51%
Capital Appropriations	5,060,700	2,971,600	2,089,100	70%
Capital Contributions	6,285,021	3,196,066	3,088,955	97%
Additions to Endowment	896,842	279,977	616,865	220%
Increase in Net Assets	45,927,388	46,964,475	(1,037,087)	-2%
Net Assets at Beginning of Year	510,452,263	463,487,788	46,964,475	10%
Net Assets at End of Year	\$ 556,379,651	\$ 510,452,263	\$ 45,927,388	9%

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

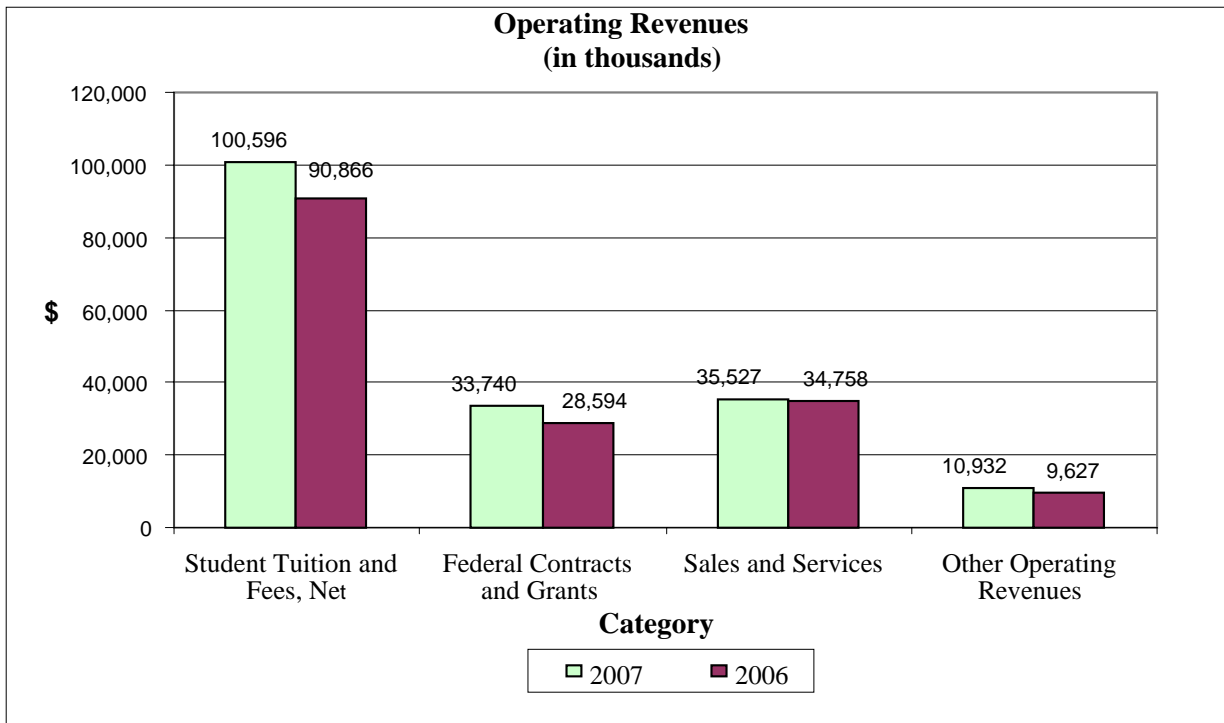
- Total Operating Revenues increased by \$16,949,833, or 10 percent, during fiscal year 2007. The majority of this increase can be attributed to the \$9,729,863 increase, or 11 percent, in Student Tuition and Fees, Net, because of enrollment growth and approved tuition and fee rate increases. Federal Grants and Contracts also experienced a \$5,146,256 increase or 18 percent, primarily due to increased federal student aid revenue and grants from U.S. Department of Education and the U.S. Department of Defense.
- Total Operating Expenses increased by \$43,060,107, or 15 percent, up to \$336,400,078 in 2007 from \$293,339,971 in 2006. The majority of this increase is related to Salaries and Benefits, which increased \$22,304,655, or 12 percent, during the fiscal year. Supplies and

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Materials increased \$11,737,956 or 44 percent over the prior year that resulted primarily from the purchases of noncapitalized furniture and equipment for new buildings and library acquisitions. Depreciation increased \$5,655,171 million or 42 percent over the prior year that resulted from first year depreciation on new buildings and equipment.

- Nonoperating Revenues increased by \$33,777,856, or 23 percent, from \$147,759,854 in 2006 to \$181,537,710 in 2007. The majority of this increase is due to the \$28,456,206 increase, or 22 percent, in State Appropriations during the fiscal year. The appropriation increase primarily resulted from enrollment growth, support of doctoral programs, and salary increases.

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 2006-07 the University completed projects valued at \$47,278,251. These included parking decks, additions to buildings, renovation and new construction to academic and administrative facilities. Construction in progress totaled \$50,126,873, a decrease of \$2,943,306 over fiscal year 2005-06. Outstanding commitments on construction contracts were \$57,402,630. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the University. During the fiscal year capital debt of \$68,307,308 in the form of two new bond issuances were obtained. The issuances, General Revenue Bonds, Series 2006 for \$12,465,000 will finance a new

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

parking deck and partially refund Phase VII apartments. General Revenue Bonds, Series 2007A and 2007B for \$18,140,000 and \$36,260,000 will finance the Student Union.

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, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 90,055,787
Restricted Cash and Cash Equivalents	14,498,847
Receivables, Net (Note 4)	18,451,431
Due from University Component Units	168,815
Inventories	177,342
Notes Receivable, Net (Note 4)	1,298,967
Other Assets	9,942

Total Current Assets	124,661,131
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	13,347,374
Restricted Due from Primary Government	1,823,857
Bond Issuance Costs	359,224
Endowment Investments	58,591,916
Other Investments	67,082,321
Notes Receivable, Net (Note 4)	4,562,862
Capital Assets - Nondepreciable (Note 5)	74,942,030
Capital Assets - Depreciable, Net (Note 5)	424,102,391

Total Noncurrent Assets	644,811,975
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Total Assets	769,473,106
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	13,784,206
Unearned Revenue	6,217,946
Interest Payable	255,832
Long-Term Liabilities - Current Portion (Note 7)	7,076,904

Total Current Liabilities	27,334,888
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Noncurrent Liabilities:

Deposits Payable	4,748,953
Funds Held for Others	26,340
U. S. Government Grants Refundable	5,480,124
Funds Held in Trust for Pool Participants	7,999,543
Long-Term Liabilities (Note 7)	167,503,607

Total Noncurrent Liabilities	185,758,567
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Total Liabilities	213,093,455
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University of North Carolina at Charlotte
Statement of Net Assets
June 30, 2007

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	390,633,078
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,016,792
Endowed Professorships	18,522,520
Departmental Uses	3,617,553
Loans	1,691,855
Other	128,037
Expendable:	
Scholarships and Fellowships	3,344,682
Research	1,760,949
Endowed Professorships	9,894,538
Departmental Uses	2,569,183
Capital Projects	10,611,129
Debt Service	9,864,666
Other	4,369,450
Unrestricted	94,355,219
Total Net Assets	<u>\$ 556,379,651</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, 2007***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 100,596,017
Federal Grants and Contracts	33,739,769
State and Local Grants and Contracts	2,831,862
Nongovernmental Grants and Contracts	6,679,429
Sales and Services, Net (Note 9)	35,527,479
Interest Earnings on Loans	88,752
Other Operating Revenues	1,331,808
	<hr/>
Total Operating Revenues	180,795,116
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	201,944,279
Supplies and Materials	38,183,849
Services	57,289,052
Scholarships and Fellowships	10,341,618
Utilities	9,433,670
Depreciation	19,207,610
	<hr/>
Total Operating Expenses	336,400,078
	<hr/>
Operating Loss	(155,604,962)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	159,232,953
Noncapital Grants	317,611
Noncapital Gifts	8,111,383
Investment Income (Net of Investment Expense of \$118,809)	13,112,027
Interest and Fees on Debt	(5,484,262)
Other Nonoperating Revenues	763,736
	<hr/>
Net Nonoperating Revenues	176,053,448
	<hr/>
Income Before Other Revenues	20,448,486
	<hr/>
Capital Appropriations	5,060,700
Capital Grants	13,236,339
Capital Gifts	6,285,021
Additions to Endowments	896,842
	<hr/>
Increase in Net Assets	45,927,388

NET ASSETS

Net Assets - July 1, 2006	<hr/> 510,452,263
Net Assets - June 30, 2007	<hr/> <hr/> \$ 556,379,651

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, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 175,546,924
Payments to Employees and Fringe Benefits	(201,322,301)
Payments to Vendors and Suppliers	(106,240,583)
Payments for Scholarships and Fellowships	(10,341,618)
Loans Issued	(1,121,507)
Collection of Loans	1,378,838
Interest Earned on Loans	85,740
Other Receipts	1,331,541
	<hr/>
Net Cash Used by Operating Activities	(140,682,966)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	159,232,953
Noncapital Grants	264,070
Noncapital Gifts	8,111,384
Additions to Endowments	896,842
External Participation in Investment Fund	1,213,572
Other Payments	(75,651)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	169,643,170

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	68,377,172
State Capital Appropriations	5,060,700
Capital Grants	13,899,846
Capital Gifts	17,192
Proceeds from Sale of Capital Assets	31,478
Acquisition and Construction of Capital Assets	(51,371,541)
Principal Paid on Capital Debt and Leases	(7,510,000)
Interest and Fees Paid on Capital Debt and Leases	(5,041,066)
Other Payments	(555,683)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	22,908,098

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	21,525,508
Investment Income	7,054,804
Purchase of Investments and Related Fees	(69,012,914)
	<hr/>
Net Cash Provided by Investing Activities	(40,432,602)
	<hr/>
Net Increase in Cash and Cash Equivalents	11,435,700
Cash and Cash Equivalents - July 1, 2006	106,466,308
	<hr/>
Cash and Cash Equivalents - June 30, 2007	\$ 117,902,008

University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Exhibit A-3

Page 2

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

Operating Loss	\$ (155,604,962)
Adjustments to Reconcile Operating Loss to Net Cash Usec by Operating Activities:	
Depreciation Expense	19,207,610
Allowances, Write-Offs, and Amortizations	(32,787)
Changes in Assets and Liabilities:	
Receivables (Net)	(6,691,239)
Inventories	119,496
Other Assets	(267)
Accounts Payable and Accrued Liabilities	(403,818)
Unearned Revenue	1,296,581
Compensated Absences	(83,417)
Deposits Payable	1,509,837
	<u>1,509,837</u>
Net Cash Used by Operating Activities	<u>\$ (140,682,966)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 90,055,787
Restricted Cash and Cash Equivalents	14,498,847
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	13,347,374
	<u>13,347,374</u>
Total Cash and Cash Equivalents - June 30, 2007	<u>\$ 117,902,008</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 6,267,829
Change in Fair Value of Investments	4,819,798
Loss on Disposal of Capital Assets	2,154,933

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, 2007

Exhibit B-1

ASSETS

Investments	\$ 91,939,609
Interest Receivable	66,890
Accounts Receivable	3,422
Notes Receivable	2,421,963
Pledges Receivable	4,048,079
Cash Surrender Value of Life Insurance	502,260
Equipment, Net	141,148
Leasehold Improvements, Net	58,866
Property Held for Investment, Net	9,275,106
Prepaid Expenses	33,542
	<hr/>
Total Assets	<u>108,490,885</u>

LIABILITIES

Accounts Payable and Accrued Expenses	65,945
Interest Payable	5,841
Due to UNC Charlotte	168,515
Funds Held for Others	80,157
Long-Term Debt	8,234,153
	<hr/>
Total Liabilities	<u>8,554,611</u>

NET ASSETS

Unrestricted	18,248,864
Temporarily Restricted	50,846,163
Permanently Restricted	30,841,247
	<hr/>
Total Net Assets	<u><u>\$ 99,936,274</u></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, 2007

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS:

Revenue, Support and Gains:	
Dividends & Interest Income	\$ 742,821
Transfer of Endowment Income	(552,590)
Rental & Other Income	869,344
Net Gain on Investment	3,448,511
Other Investment Income	448,100
	<hr/>
Subtotal:	4,956,186
Net Assets Released from Restrictions	5,535,129
	<hr/>
Total Revenue, Support and Gains	10,491,315
	<hr/>
Expenses:	
Program Services:	
Contributions to UNC Charlotte	4,258,313
Distributions to Donors	114,881
Capital Projects	1,281,951
	<hr/>
Total Program Services	5,655,145
	<hr/>
Supporting Services:	
Professional Fees	110,145
Other General & Administrative Expenses	1,158,633
Interest Expense	518,185
	<hr/>
Total Supporting Services	1,786,963
	<hr/>
Total Expenses	7,442,108
	<hr/>
Transfers to Other Funds	(287,141)
	<hr/>
Increase in Unrestricted Net Assets	2,762,066
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:

Revenue, Support and Gains:	
Support-Public Contributions	3,633,557
Revenue:	
Other Investment Income	249,282
Dividends & Interest Income	2,248,564
Transfer of Endowment Income	552,590
Rental & Other Income	205,353
Net Gain on Investment	6,557,721
	<hr/>
Subtotal:	13,447,067
Net Assets Released from Restrictions	(5,535,129)
	<hr/>
Total Revenue, Support and Gains	7,911,938
Transfers from Other Funds	401,742
	<hr/>
Increase in Temporarily Restricted Net Assets	8,313,680
	<hr/>

The Foundation of the University of North Carolina at Charlotte, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2007

Exhibit B-2

Page 2

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Revenue, Support and Gains:	
Support-Public Contributions	822,857
Revenue:	
Rental & Other Income	<u>504</u>
Total Revenue, Support and Gains	<u>823,361</u>
Transfers to Other Funds	<u>(114,601)</u>
Increase in Permanently Restricted Net Assets	<u>708,760</u>
Change in Net Assets	11,784,506
Net Assets, July 1, 2006	<u>88,151,768</u>
Net Assets, June 30, 2007	<u>\$ 99,936,274</u>

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

UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Charlotte is a constituent institution of the multi-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 units, although legally separate, are, in substance, part of the University’s operations and therefore, are reported as if they 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 – Although legally separate, the University of North Carolina at Charlotte Facilities Development Corporation, Inc. (FDC) and the University of North Carolina at Charlotte Investment Fund, Inc. (Investment Fund), component units of the University, are reported as if they were part of the University.

The FDC is governed by an eight-member board consisting of three ex officio directors and 5 elected directors. The sole purpose of FDC is to assist the University in financing, acquisition, construction and equipping a student housing project on campus. The University operates and manages the project under the terms of the agreement between the University and the FDC. Because the FDC’s sole purpose is to benefit University of North Carolina at Charlotte, its financial statements have

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

been blended with those of the University. A copy of the audited financial statements for the FDC for the most recent reporting period can be obtained by contacting Cindy Trevisan at 704-687-6141 or cmweber@uncc.edu.

The Investment Fund is governed by a board consisting of four ex officio directors and three elected directors. The sole purpose of the Investment Fund is to operate exclusively for the benefit of the University. The Investment Fund is a governmental external investment pool. Because four of the seven directors of the Investment Fund are administrators of the University or are appointed by the University of North Carolina at Charlotte Board of Trustees, and because the Investment Fund's sole purpose is to benefit University of North Carolina at Charlotte, its financial statements have been blended with those of the University. A copy of the audited financial statements for the Investment Fund for the most recent reporting period can be obtained by contacting Cindy Trevisan at 704-687-6141 or cmweber@uncc.edu.

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

The Foundation is tax-exempt and 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 thirty-nine officers and directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereof, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit, of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

During the year ended June 30, 2007, the Foundation distributed cash support totaling \$4,258,813 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Cindy Trevisan at 704-687-6141 or cmweber@uncc.edu.

- 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, regardless of the timing of the cash flows.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 fixed income investments, repurchase agreements, 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 (decrease) in the fair value of investments is recognized as a component of investment income.

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

- F. Receivables** – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using last invoice cost method. Merchandise for resale is valued using the retail inventory method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University's Art, Literature and Artifacts collection is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is 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, certificates of participation payable and compensated absences that will not be paid within the next fiscal year.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

leave carried forward described above and is not subject to conversion to sick leave.

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$115,710,013 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 1.6 years as of June 30, 2007. 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, 2007, was \$51,870. The carrying amount of the University's deposits not with the State Treasurer was \$2,140,125 and the bank balance was \$2,238,838. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2007, the University's bank balance was exposed to custodial credit risk as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Uninsured and Uncollateralized	\$ 308,886.00
Uninsured and Collateral Held by Bank	<u>1,929,952.00</u>
Total	<u><u>\$ 2,238,838.00</u></u>

B. Investments – The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina, to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

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

Investments are subject to the following risks.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 addressing 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 addressing custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The University does not have a formal policy addressing concentration of 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 addressing foreign currency risk.

External Investment Pool – The University of North Carolina Investment Fund, Inc., is an external investment pool sponsored by the University and 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 University's discretely presented component unit, The Foundation of the University of North Carolina at Charlotte, Inc., represent the pool's internal participants. Another affiliated organization not included in the University's reporting entity, The University of North Carolina at Charlotte Athletic Foundation, Inc., 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

implementation and investment performance. The Board has chosen not to make individual security selection decisions. The Board's primary role is to oversee the allocation of the pool's portfolio among the asset classes, investment vehicles, and investment managers.

Wachovia Corporation is the custodian for the pool and provides the University with monthly statements defining income and fair value information, which is then allocated among the fund's participants. There are no involuntary participants in the pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the pool's investments. The annual financial report for the external investment pool may be obtained by contacting Cindy Trevisan at 704-687-6141 or cmweber@uncc.edu.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2007, for the External Investment Pool. Interest rate risk is the risk that interest rate variances may affect the fair value of investments. The External Investment Pool Board of Directors does not have a formal policy addressing 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	\$ 29,541,791	\$ 583,684	\$ 10,172,091	\$ 13,523,589	\$ 5,262,427
Money Market Mutual Funds	2,256,769	2,256,769			
	31,798,560	<u>\$ 2,840,453</u>	<u>\$ 10,172,091</u>	<u>\$ 13,523,589</u>	<u>\$ 5,262,427</u>
Other Securities					
UNC Investment Fund	5,466,585				
International Mutual Funds	23,805,437				
Other Mutual Funds	50,383,749				
Hedge Funds	24,204,151				
Domestic Stocks	553				
Total External Investment Pool	<u>\$ 135,659,035</u>				

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2007, 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
Mutual Bond Funds	\$ 29,541,792	\$ 23,928,850	\$ 1,329,381	\$ 2,274,718	\$ 2,008,843
Money Market Mutual Funds	2,256,769	2,256,769			

Rating Agency: Moody's

At June 30, 2007, the University's investments in the External Investment Pool were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty	Held by Counterparty's Trust Dept or Agent not in University's Name
Other Mutual Funds (Large Cap)	Bank of America	\$ 28,517,185
Mutual Funds (Bonds)	Wachovia Bank	29,541,791
Other Mutual Funds (Non US)	Bank of America	7,696,643
Other Mutual Funds (Non US)	Wachovia Bank	7,921,520
Total		\$ 73,677,139

Concentration of Credit Risk: The External Investment Pool Board places no limit on the amount that may be invested in any one issuer. Investments are subject to credit and market risk associated with the creditworthiness of the underlying issuer, and fluctuations in market value are inherent with changes in economic conditions. At June 30, 2007, more than 5% of the long-term investment pool investments are in Bank of America Large Cap, Evergreen Bond Fund, Wellington Diversified Fund and Rock Creek Diversified Fund. These funds represent 21.0%, 21.7%, 7.7% and 5.8%, respectively, of the External Investment Pool's total investments.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. The External Investment Pool Board of Directors does not have a formal policy addressing foreign currency risk. As of June 30, 2007, the External Investment Pool's exposure to foreign currency risk is as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment	Currency	Fair Value (U.S. Dollars)
Foreign Mutual Funds	Euro	\$ 7,591,048.00
Foreign Mutual Funds	Yen	8,257,674.00
Foreign Mutual Funds	Pound	1,898,884.00
Foreign Mutual Funds	Franc	1,753,920.00
Foreign Mutual Funds	Won	639,721.00
Foreign Mutual Funds	Krone	590,541.00
Foreign Mutual Funds	Australian Dollar	343,481.00
Foreign Mutual Funds	Hong Kong Dollar	338,714.00
Foreign Mutual Funds	Ruble	301,018.00
Foreign Mutual Funds	Real	279,328.00
Foreign Mutual Funds	Canadian Dollar	235,497.00
Foreign Mutual Funds	New Dollar	210,283.00
Foreign Mutual Funds	Peso	186,743.00
Foreign Mutual Funds	Singapore Dollar	173,454.00
Foreign Mutual Funds	Bermuda Dollar	146,686.00
Foreign Mutual Funds	Zloty	142,587.00
Foreign Mutual Funds	New Zealand Dollar	61,573.00
Foreign Mutual Funds	New Shekel	55,451.00
Foreign Mutual Funds	Baht	39,608.00
Total Foreign Mutual Funds		
Traded in Foreign Currency		<u>\$ 23,246,211.00</u>

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2007, 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
Debt Securities					
U.S. Treasuries	\$ 402,318	\$ 94,944	\$ 166,056	\$ 96,539	\$ 44,779
U.S. Agencies	349,779		52,436	93,232	204,111
Mortgage Pass Throughs	191,151			5,493	185,658
Collateralized Mortgage Obligations	37,227			24,341	12,886
Repurchase Agreements	55,729,554	55,729,554			
Mutual Bond Funds	19,439	371	6,693	8,899	3,476
Money Market Mutual Funds	3,451,595	3,451,595			
Domestic Corporate Bonds	356,923		184,516	62,381	110,026
		<u>\$ 59,276,464</u>	<u>\$ 409,701</u>	<u>\$ 290,885</u>	<u>\$ 560,936</u>
Other Securities					
Investments in Real Estate	8,953,283				
Domestic Stocks	2,525,077				
Foreign Stocks	16,457				
Total Non-Pooled Investments	<u>\$ 72,032,803</u>				

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2007, 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
Repurchase Agreements	\$ 55,729,554	\$ 55,729,554	\$ 0	\$ 0	\$ 0
Mutual Bond Funds	19,439	15,746	875	1,497	1,321
Money Market Mutual Funds	3,451,595	3,451,595			
Domestic Corporate Bonds	356,923	79,849	120,492	101,157	55,425

Rating Agency: Moody's

Total Investments – The following table presents the fair value of the total investments at June 30, 2007:

Investment Type	Fair Value
Debt Securities	
U.S. Treasuries	\$ 402,318
U.S. Agencies	349,779
Mortgage Pass Throughs	191,151
Collateralized Mortgage Obligations	37,227
Repurchase Agreements	55,729,554
Mutual Bond Funds	29,561,230
Money Market Funds	5,708,364
Domestic Corporate Bonds	356,923
Other Securities	
UNC Investment Fund	5,466,585
Other Mutual Funds	50,383,749
Investments in Real Estate	8,953,283
International Mutual Funds	23,805,437
Hedge Funds	24,204,151
Domestic Stocks	2,525,632
Other Mutual Funds	16,457
Total Investments	\$ 207,691,840

Total investments include \$82,017,603 held in The University of North Carolina at Charlotte Investment Fund, Inc., for component unit that is 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 expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on a preset rate as approved by the Board of Trustees of the Endowment Fund. The payout for the period ending June 30, 2007, 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 the 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, 2007, net appreciation of \$6,544,875 was available to be spent, of which \$5,423,516 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 7,717,875	\$ 111,315	\$ 7,606,560
Accounts	4,051,513		4,051,513
Intergovernmental	4,549,590		4,549,590
Investment Earnings	241,015		241,015
Interest on Loans	88,672		88,672
Other	1,914,081		1,914,081
Total Current Receivables	\$ 18,562,746	\$ 111,315	\$ 18,451,431
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	1,589,231	290,263	1,298,967
Total Notes Receivable - Current	\$ 1,589,231	\$ 290,263	\$ 1,298,967
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 3,930,674	\$ 0	\$ 3,930,674
Institutional Student Loan Programs	674,180	41,992	632,188
Total Notes Receivable - Noncurrent	\$ 4,604,854	\$ 41,992	\$ 4,562,862

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 6,392,958	\$ 0	\$ 0	\$ 6,392,958
Art, Literature, and Artifacts	15,898,415	2,883,008		18,781,423
Construction in Progress	53,070,179	43,975,721	47,278,251	49,767,649
Total Capital Assets, Nondepreciable	75,361,552	46,858,729	47,278,251	74,942,030
Capital Assets, Depreciable:				
Buildings	383,879,367	35,349,883	1,212,013	418,017,237
Machinery and Equipment	63,944,382	5,498,109	2,181,013	67,261,478
General Infrastructure	67,262,368	14,944,686		82,207,054
Total Capital Assets, Depreciable	515,086,117	55,792,678	3,393,026	567,485,769
Less Accumulated Depreciation/Amortization for:				
Buildings	80,248,540	9,135,661		89,384,201
Machinery and Equipment	36,326,990	8,891,410	5,547,960	39,670,440
General Infrastructure	13,148,198	1,180,539		14,328,737
Total Accumulated Depreciation	129,723,728	19,207,610	5,547,960	143,383,378
Total Capital Assets, Depreciable, Net	385,362,389	36,585,068	(2,154,934)	424,102,391
Capital Assets, Net	\$ 460,723,941	\$ 83,443,797	\$ 45,123,317	\$ 499,044,421

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 8,452,197
Accrued Payroll	1,720,064
Contract Retainage	3,611,945
Total Accounts Payable and Accrued Liabilities	\$ 13,784,206

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, 2007, is presented as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Revenue Bonds Payable	\$ 81,469,000	\$ 66,865,000	\$ (6,605,000)	\$ 141,729,000	\$ 5,200,000
Certificates of Participation	22,095,000		(905,000)	21,190,000	935,000
Add/Deduct Premium/Discount	2,227,885	1,512,172	(188,956)	3,551,102	
Deduct Deferred Charge on Refunding	(2,189,804)	(69,863)	171,392	(2,088,276)	
Total Bonds and Certificates of Participation Payable	103,602,081	68,307,309	(7,527,564)	164,381,826	6,135,000
Compensated Absences	10,282,101	6,312,358	(6,395,774)	10,198,685	941,904
Total Long-Term Liabilities	\$ 113,884,182	\$ 74,619,666	\$ (13,923,338)	\$ 174,580,511	\$ 7,076,904

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Revenue Bonds Payable and Certificates of Participation - The University was indebted for revenue bonds payable and certificates of participation 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, 2007	Principal Outstanding June 30, 2007
Pooled Bonds						
Phase VII Apartments	1998	4%-5.25%	2023	\$ 15,875,000	\$ 5,190,000	\$ 10,685,000
Recreational Playing Fields	1998	4%-4.5%	2008	1,105,000	845,000	260,000
Phase 8 Apartments	2002 A	4%-5.375%	2027	21,115,000	1,600,000	19,515,000
Brocker Health Center	2003 A	2%-5.25%	2028	6,055,000	635,000	5,420,000
Refinance Portion of SAC 1995 Bonds	2003 A	2%-5.25%	2016	8,770,000	325,000	8,445,000
Refinance H&D Series M	2003 A	2%-5%	2015	8,635,000	2,655,000	5,980,000
Refinance Series 1996	2004 A	3%-4%	2021	4,480,000	625,000	3,855,000
Balance of SAC Refinancing	Revenue Bonds	3%-5.25%	2021	<u>11,855,000</u>	<u>1,760,000</u>	<u>10,095,000</u>
Total Pooled Bonds:				77,890,000	13,635,000	64,255,000
Housing and Dining Bonds						
Sandord and Moore Halls	B	3%-3%	2008	1,650,000	1,575,000	75,000
Scott Hall	C	5.875%-5.875%	2007	2,200,000	2,200,000	
Holshouser Hall	D	5.2%-5.2%	2007	2,200,000	2,200,000	
Martin Village	F	3%-3%	2018	2,175,000	1,300,000	875,000
Energy Conservation	G	3%-3%	2007	152,000	152,000	
Phase III	H	3%-3%	2019	<u>1,568,000</u>	<u>909,000</u>	<u>659,000</u>
Total Housing & Dining Bonds:				9,945,000	8,336,000	1,609,000
Student Cone Center Bonds						
Cone Center Addition	C	6.9%-7%	2010	<u>2,300,000</u>	<u>1,850,000</u>	<u>450,000</u>
Total Student Cone Center Bonds:				2,300,000	1,850,000	450,000
Parking System Bonds						
Parking Deck F	2002	3.5%-5.125%	2027	<u>10,900,000</u>	<u>2,045,000</u>	<u>8,855,000</u>
Total Parking System Bonds:				10,900,000	2,045,000	8,855,000
General Revenue Bonds						
Partial Refund on Phase VII	2006 A	4.25%-5%	2014	1,920,000	30,000	1,890,000
Parking Deck G	2006 A	4%-5%	2036	10,545,000	275,000	10,270,000
Student Union	2007 A	5.02%-5.68%	2023	18,140,000		18,140,000
Student Union	2007 B	4.25%-5%	2037	<u>36,260,000</u>		<u>36,260,000</u>
Total General Revenue Bonds:				66,865,000	305,000	66,560,000
Total Revenue Bonds:				<u>\$ 167,900,000</u>	<u>\$ 26,171,000</u>	141,729,000
Certificates of Participation						
Banner COPs		3%-5%	2014	\$ 5,925,000	\$ 1,165,000	4,760,000
Greek Village COPs		3%-4.75%	2035	<u>16,745,000</u>	<u>315,000</u>	<u>16,430,000</u>
Total Certificates of Participation:				<u>\$ 22,670,000</u>	<u>\$ 1,480,000</u>	21,190,000
Less: Unamortized Loss on Refunding						2,088,276
Less: Unamortized Discount						329,716
Plus: Unamortized Premium						<u>3,880,818</u>
Total Bonds Payable and Certificates of Participation						<u>\$ 164,381,826</u>
(A) The University of North Carolina System Pool Revenue Bonds, Series 1998B						
(B) The University of North Carolina System Pool Revenue Bonds, Series 2000						

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2007, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
2008	\$ 5,200,000	\$ 6,744,378	\$ 935,000	\$ 918,106
2009	5,370,000	6,621,557	965,000	890,056
2010	5,515,000	6,380,525	995,000	858,044
2011	5,600,000	6,135,540	1,030,000	819,969
2012	5,230,000	5,872,754	1,070,000	782,863
2013-2017	29,075,000	25,320,762	3,570,000	3,305,438
2018-2022	29,509,000	17,865,019	2,540,000	2,750,050
2023-2027	23,770,000	11,189,496	3,170,000	2,115,356
2028-2032	14,775,000	6,457,869	4,015,000	1,276,031
2033-2037	17,685,000	2,500,075	2,900,000	272,181
Total Requirements	\$ 141,729,000	\$ 95,087,975	\$ 21,190,000	\$ 13,988,094

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

On July 27, 2006, the University issued \$1,920,000 in the University of North Carolina at Charlotte General Revenue Bonds Series 2006 refunding bonds with an average interest rate of 4.62%. The bonds were issued to advance refund \$1,880,000 of outstanding University of North Carolina at Charlotte General Revenue Bonds Series 2006 bonds with an average interest rate of 5.25%. The net proceeds of the refunding bonds along with other resources were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by \$65,820.83 over the next 6 years and resulted in an economic gain of \$57,913.69. At June 30, 2007, the outstanding balance was \$1,880,000 for the defeased University of North Carolina at Charlotte General Revenue Bonds Series 2006 bonds.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The University incurred annual rental costs of \$234,640 for the fiscal year ended June 30, 2007, for operating leases. Future minimum lease payments

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

under noncancelable operating leases consist of the following at June 30, 2007:

Fiscal Year	Amount
2008	\$ 239,886
2009	133,276
Total Minimum Lease Payments	\$ 373,162

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	
Operating Revenues:						
Student Tuition and Fees	\$ 114,126,925	\$ 0	\$ 13,524,847	\$ 6,061	\$ 100,596,017	
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 17,304,212	\$ 439,672	\$ 2,192,645	\$ 11,256	\$ 14,660,639	(A)
Dining	12,086,270	4,280,679	1,195,978	10,848	6,598,765	(A)
Student Union Services	1,489,996	630,453			859,543	(B)
Health, Physical Education, and Recreation Services	1,404,668			1,950	1,402,718	(C)
Parking	5,686,171	728,994		2,672	4,954,505	(D)
Athletic	1,835,721				1,835,721	
Other	15,769,838	13,873,385			1,896,453	
Sales and Services of Education and Related Activities	6,219,320	2,900,185			3,319,135	
Total Sales and Services	\$ 61,796,196	\$ 22,853,368	\$ 3,388,623	\$ 26,726	\$ 35,527,479	

Revenue Bonds Secured by Pledged Revenues:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 116,230,913	\$ 11,878,151	\$ 14,739,813	\$ 4,102,835	\$ 0	\$ 0	\$ 146,951,712
Research	11,124,960	2,412,269	8,943,148	1,004,306			23,484,683
Public Service	1,473,197	144,425	413,963	4,004			2,035,589
Academic Support	13,689,320	8,125,042	3,441,886	414,832			25,671,080
Student Services	9,255,288	970,758	2,185,329	20,873	1		12,432,249
Institutional Support	15,737,857	1,153,189	5,347,866	476	225		22,239,613
Operations and Maintenance of Plant	15,478,638	5,561,193	5,266,977		6,737,105		33,043,913
Student Financial Aid	604,652	1,651	262,331	2,503,764			3,372,398
Auxiliary Enterprises	18,349,454	7,937,171	16,687,739	2,290,528	2,696,339		47,961,231
Depreciation						19,207,610	19,207,610
Total Operating Expenses	<u>\$ 201,944,279</u>	<u>\$ 38,183,849</u>	<u>\$ 57,289,052</u>	<u>\$ 10,341,618</u>	<u>\$ 9,433,670</u>	<u>\$ 19,207,610</u>	<u>\$ 336,400,078</u>

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment, otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the University had a total payroll of \$166,458,850, of which \$67,371,924 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions for pension benefits for the year were \$4,042,315 and \$1,792,093, respectively. The University made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$1,792,093, \$1,440,271, and \$1,228,642, 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.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products. The Board has authorized the following carriers: Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the University contributions to the carrier of their choice. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2007, 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, 2007, the University had a total payroll of \$166,458,850, of which \$73,631,031 was covered under the Optional Retirement Program. Total employee and employer contributions for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

pension benefits for the year were \$4,417,862 and \$5,036,363, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$579,687 for the year ended June 30, 2007.

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, 2007, were \$59,649. The voluntary contributions by employees amounted to \$1,065,114 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 \$3,066,303 for the year ended June 30, 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State-administered programs that provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 3.8% 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, 2007, the University's total contribution to the Plan was \$5,358,112. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Disability Income -** 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, 2007, the University's total contribution to the DIPNC was \$733,215. The University assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to 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.

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 \$75,000 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.

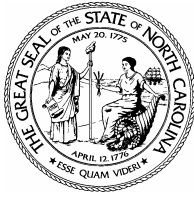
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$57,402,630 at June 30, 2007.
- B. **Pending Litigation and Claims** – The University is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.



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**

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

We have audited the financial statements of University of North Carolina at Charlotte, a constituent institution of the multi-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, 2007, which collectively comprise the University's basic financial statements and have issued our report thereon dated January 30, 2008. 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. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material

**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 (CONTINUED)**

weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiencies described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above is considered to be a material weakness.

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*.

The University's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the University's response and, accordingly, we express no opinion on it.

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

This report is intended solely for the information and use of management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, the Governor, the General Assembly, and the State Controller, 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

January 30, 2008

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting Objectives

The following audit finding was identified during the current audit and describes conditions that represent significant deficiencies in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

The notes to the financial statements prepared by the University had several misstatements. Although the errors were relatively small in relation to the financial statements taken as a whole, they are indicative of an increased risk that future financial statements may be misleading to readers should there be any further weakening of the financial reporting process. Misstatements noted in our audit included:

- a. The Statement of Cash Flows contained offsetting errors of \$8,244,640. Cash Flows from Noncapital Financing Activities were understated when deficit Other Payments were presented. Cash Flows from Investing Activities were overstated when Investment Income was overstated.
- b. The total cash reported in the Deposits note was overstated by \$2,191,995. The cash on hand and cash held in private bank accounts were reported twice, once as cash on hand and cash in private bank accounts and once as part of the equity in the State Treasurer's Short-Term Investment Fund.
- c. The Endowment Investments note contained two misstatements. The net appreciation available to be spent was overstated by \$898,432, and the amount restricted to specific purposes was overstated by \$1,121,485.
- d. The Receivables note erroneously included \$1,823,857 that was Due from Primary Government and \$168,815 Due from University Component Units. These amounts are reported on the Statement of Net Assets in individual account captions, and thus, are not part of the detail comprising the Receivables account disclosed in the note.

Recommendation: The University should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the accuracy of the financial statements and related notes.

University's Response: Management agrees with this recommendation and will allocate additional resources and implement additional internal controls to ensure that financial statements and the accompanying footnotes are in agreement and are accurate.

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