



STATE OF NORTH CAROLINA

UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

CHARLOTTE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

CHARLOTTE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

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THE UNIVERSITY OF NORTH CAROLINA

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, University of North Carolina at Charlotte

We have completed a financial statement audit of the University of North Carolina at Charlotte for the year ended June 30, 2008, 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 the 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.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

February 19, 2009

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>	45
AUDIT FINDINGS AND RESPONSES	49
ORDERING INFORMATION	51



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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 the 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, 2008, 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 16 percent, and .5 percent, respectively, of the 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.

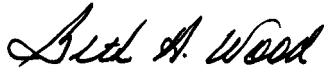
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of North Carolina at Charlotte and its discretely presented component unit as of June 30, 2008, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2009 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.



Beth A. Wood, CPA
State Auditor

January 29, 2009

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 2008. The emphasis of discussion about these statements is on current year data and material changes occurring between prior and current years.

There are three financial statements presented:

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

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

Statement of Net Assets

The Statement of Net Assets (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 For the Fiscal Year Ended June 30, 2008

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Percentage Change</u>
Assets:				
Current Assets	\$ 142,072,178	\$ 124,661,131	\$ 17,411,047	14%
Capital Assets, Net	550,369,185	499,044,421	51,324,764	10%
Other Assets	<u>137,982,088</u>	<u>145,767,554</u>	<u>(7,785,466)</u>	-5%
Total Assets	<u>830,423,451</u>	<u>769,473,106</u>	<u>60,950,345</u>	8%
Liabilities:				
Current Liabilities	28,381,871	27,334,888	1,046,983	4%
Noncurrent Long-Term	<u>180,692,563</u>	<u>185,758,567</u>	<u>(5,066,004)</u>	-3%
Total Liabilities	<u>209,074,434</u>	<u>213,093,455</u>	<u>(4,019,021)</u>	-2%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	422,517,858	390,633,078	31,884,780	8%
Restricted for:				
Expendable	52,708,240	42,414,597	10,293,643	24%
Nonexpendable	31,587,834	28,976,757	2,611,077	9%
Unrestricted	<u>114,535,085</u>	<u>94,355,219</u>	<u>20,179,866</u>	21%
Total Net Assets	<u>\$ 621,349,017</u>	<u>\$ 556,379,651</u>	<u>\$ 64,969,366</u>	12%

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 2008. Some of the highlights of the University's Statement of Net Assets are listed below:

- Total Current Assets increased by \$17.4 million, or 14 percent, during fiscal year 2008, largely due to an increase in Cash and Cash Equivalents and Restricted Cash and Cash Equivalents of \$24.8 million, offset by a decrease in Receivables, Net, and Notes Receivable of \$8.4 million and \$500 thousand, respectively. The majority of the increase in Cash and Cash Equivalents can be attributed to a \$10 million increase in dining and parking services, due to increased enrollment and fee increases and the opening of an additional parking deck. The decrease in Receivables is attributable to increased collection of receivables, the elimination of receivables related to unearned revenue, and increases in the allowance for doubtful accounts.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Total Noncurrent Assets increased by \$43.5 million, or 6.7 percent, during fiscal year 2008. The majority of this increase can be attributed to Capital Assets, which increased \$51.4 million or 10 percent over the prior year due to building expansion and equipment acquisitions as well as an increase of \$17.3 million, or 131 percent, in Restricted Cash. The increase in Restricted Cash is mainly attributed to funds received for the construction of the Energy Product Infrastructure Center in the amount of \$22.6 million. These increases were offset by a decrease in Investments of \$24.3 million or 19 percent, largely attributable to the use of debt service funds in construction of the new Student Union building.
- Liabilities decreased \$4 million or 2 percent in 2008. Accounts Payable increased \$1.2 million and Notes Payable increased \$2.7 million related to construction. There was a \$1.7 million increase in compensated absences due to increases in salary and personnel. These increases were offset when unearned revenue decreased \$1.9 million with the elimination of a liability related to summer school 2008, Deposits Payable decreased \$1.2 million with the disbursement of dining deposits, and bond and certificates of participation liabilities decreased \$6.2 because of current year payments.
- Net Assets experienced an increase in fiscal year 2008 by \$65 million, or 12 percent. This growth is primarily due to a \$31.9 million or 8.2 percent increase in Invested in Capital Assets, Net of Related Debt. The increase in this category represents the amount of growth the University has experienced over fiscal year 2007 in capital asset additions of \$51 million less the related debt liabilities, primarily in buildings, equipment and infrastructure. In addition, Capital Projects increased \$15.5 million or 147 percent due to various projects defined in the Capital Asset and Debt Administration section. Unrestricted Net Assets increased \$20.2 million, or 21.4 percent, primarily due to an increase of \$15.9 million in State Appropriations.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Please refer to Exhibit A-2 of the Notes to the Financial Statements for additional information regarding the University's SRENCA for fiscal year 2008.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets June 30, 2008

	2008	2007	Change	Percentage Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 111,030,264	\$ 100,596,017	\$ 10,434,247	10%
Federal Contracts and Grants	35,104,138	33,739,769	1,364,369	4%
Sales and Services	41,135,606	35,527,479	5,608,127	16%
Other Operating Revenues	9,665,539	10,931,851	(1,266,312)	-12%
Total Operating Revenues	196,935,547	180,795,116	16,140,431	9%
Operating Expenses:				
Salaries and Benefits	228,438,927	201,944,279	26,494,648	13%
Supplies and Materials	27,766,453	38,183,849	(10,417,396)	-27%
Services	59,624,978	57,289,052	2,335,926	4%
Scholarships and Fellowships	11,895,360	10,341,618	1,553,742	15%
Utilities	10,597,693	9,433,670	1,164,023	12%
Depreciation	17,751,306	19,207,610	(1,456,304)	-8%
Total Operating Expenses	356,074,717	336,400,078	19,674,639	6%
Nonoperating Revenues (Expenses):				
State Appropriations	175,169,465	159,232,953	15,936,512	10%
Noncapital Gifts	7,421,835	8,111,383	(689,548)	-9%
Other Nonoperating Revenues	7,820,653	14,193,374	(6,372,721)	-45%
Total Nonoperating Revenues	190,411,953	181,537,710	8,874,243	5%
Nonoperating Expenses	7,657,548	5,484,262	2,173,286	40%
Excess Before Contributions	23,615,235	20,448,486	3,166,749	15%
Capital Grants	11,667,669	13,236,339	(1,568,670)	-12%
Capital Appropriations	18,912,857	5,060,700	13,852,157	274%
Capital Contributions	5,396,948	6,285,021	(888,073)	-14%
Additions to Endowment	743,835	896,842	(153,007)	-17%
Increase in Net Assets	60,336,544	45,927,388	14,409,156	31%
Net Assets at Beginning of Year (As Restated - Note 17)	561,012,473	510,452,263	50,560,210	10%
Net Assets at End of Year	\$ 621,349,017	\$ 556,379,651	\$ 64,969,366	12%

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

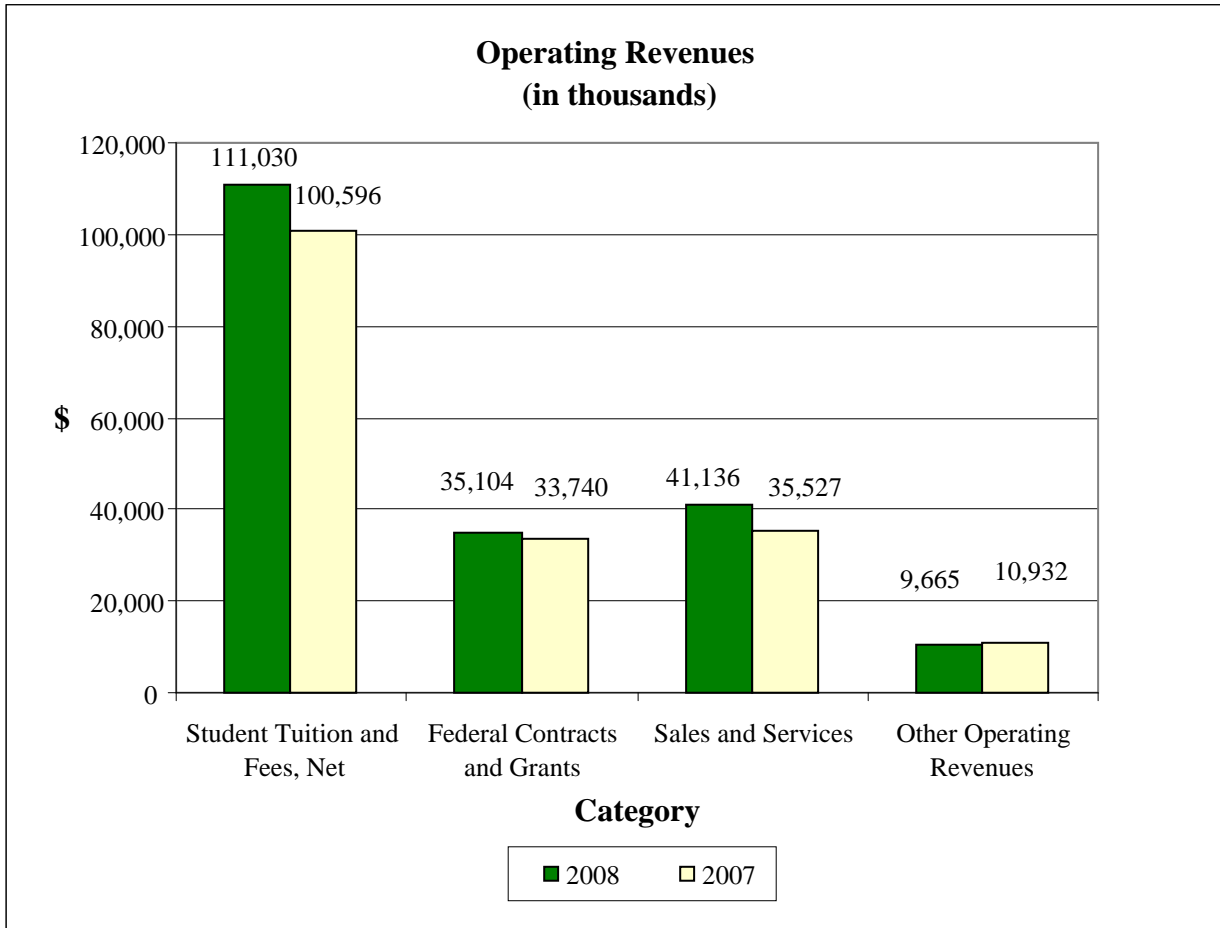
- Total Operating Revenues increased by \$16 million, or 9 percent, during fiscal year 2008. The majority of this increase can be attributed to the \$10.4 million increase, or 10 percent, in Student Tuition and Fees, Net, due to enrollment growth and approved tuition and fee rate increases. Sales and Services increased \$5.6 million or 16 percent due to housing and

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

dining increases and increased number of students using housing and dining services in fiscal year 2008.

- Total Operating Expenses increased by \$19.7 million, or 6 percent, up to \$356.0 million in 2008 from \$336.4 million in 2007. The majority of this increase is related to increases in Salaries and Benefits of \$26.5 million or 13 percent. This is due to a legislative increase of four percent and the addition of 500 employees. This increase was offset by a decrease in Supplies and Materials of \$10.4 million or 27 percent from the prior year. This decrease is directly related to purchases of noncapitalized furniture and equipment for new buildings and library acquisitions in the prior year.
- Nonoperating Revenues increased by \$8.9 million, or 5 percent, from \$181.5 million in 2007 to \$190.4 million in 2008. The majority of this increase is due to the \$15.9 million or 10 percent increase in State Appropriations during the fiscal year. The appropriations increase was provided to support enrollment growth, enhance doctoral programs and fund salary increases. Other nonoperating revenues decreased \$6.4 million or 45 percent because of a \$5.7 million decrease in investment income due to market declines.

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 2007-08, the University completed projects valued at \$35 million. These projects included a parking deck, additions to buildings, renovations to and new construction on academic, administrative and athletic facilities. Construction in progress totaled \$51.3 million, an increase of \$1.5 million over fiscal year 2006-07. Outstanding commitments on construction contracts were \$58.8 million. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the University.

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.

Elizabeth A. Hardin
Vice Chancellor for Business Affairs

The University of North Carolina at Charlotte
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 107,554,089
Restricted Cash and Cash Equivalents	21,783,601
Receivables, Net (Note 4)	10,182,069
Inventories	327,330
Notes Receivable, Net (Note 4)	796,560
Prepaid items	1,428,529
	<hr/>
Total Current Assets	142,072,178
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	30,777,867
Restricted Due from Primary Government	102,820
Bond Issuance Costs	312,873
Endowment Investments	57,345,273
Other Investments	43,969,810
Notes Receivable, Net (Note 4)	5,473,445
Capital Assets - Nondepreciable (Note 5)	81,692,675
Capital Assets - Depreciable, Net (Note 5)	468,676,510
	<hr/>
Total Noncurrent Assets	688,351,273
	<hr/>

Total Assets	830,423,451
	<hr/>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	14,952,664
Deposits Payable	1,190,690
Funds Held for Others	52,005
Unearned Revenue	4,363,199
Interest Payable	252,715
Long-Term Liabilities - Current Portion (Note 7)	7,570,598
	<hr/>
Total Current Liabilities	28,381,871
	<hr/>

Noncurrent Liabilities:

Funds Held for Others	1,949,010
U. S. Government Grants Refundable	5,591,196
Funds Held in Trust for Pool Participants	7,892,423
Long-Term Liabilities (Note 7)	165,259,934
	<hr/>

Total Noncurrent Liabilities	180,692,563
	<hr/>

Total Liabilities	209,074,434
	<hr/>

The University of North Carolina at Charlotte
Statement of Net Assets
June 30, 2008

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	422,517,858
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,206,794
Research	2,574,020
Endowed Professorships	18,453,747
Departmental Uses	3,516,616
Loans	1,765,672
Other	70,985
Expendable:	
Scholarships and Fellowships	4,601,817
Research	1,591,569
Endowed Professorships	9,350,143
Departmental Uses	3,175,265
Capital Projects	26,163,492
Debt Service	7,092,302
Other	733,652
Unrestricted	<u>114,535,085</u>
Total Net Assets	<u><u>\$ 621,349,017</u></u>

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

The University of North Carolina at Charlotte
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2008

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 111,030,264
Federal Grants and Contracts	35,104,138
State and Local Grants and Contracts	4,751,838
Nongovernmental Grants and Contracts	4,209,050
Sales and Services, Net (Note 9)	41,135,606
Interest Earnings on Loans	80,502
Other Operating Revenues	624,149
	<hr/>
Total Operating Revenues	196,935,547
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	228,438,927
Supplies and Materials	27,766,453
Services	59,624,978
Scholarships and Fellowships	11,895,360
Utilities	10,597,693
Depreciation	17,751,306
	<hr/>
Total Operating Expenses	356,074,717
	<hr/>
Operating Loss	(159,139,170)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	175,169,465
Noncapital Grants	382,062
Noncapital Gifts	7,421,835
Investment Income (Net of Investment Expense of \$144,740)	7,389,971
Interest and Fees on Debt	(7,657,548)
Other Nonoperating Revenues	48,620
	<hr/>
Net Nonoperating Revenues	182,754,405
	<hr/>
Income Before Other Revenues	23,615,235
	<hr/>
Capital Appropriations	22,419,000
Refund of Prior Year Capital Appropriations	(3,506,143)
Capital Grants	11,667,669
Capital Gifts	5,396,948
Additions to Endowments	743,835
	<hr/>
Increase in Net Assets	60,336,544
	<hr/>

NET ASSETS

Net Assets - July 1, 2007, as restated Note 17	561,012,473
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Net Assets - June 30, 2008	\$ 621,349,017
	<hr/> <hr/>

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

The University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 202,535,411
Payments to Employees and Fringe Benefits	(227,178,531)
Payments to Vendors and Suppliers	(99,498,457)
Payments for Scholarships and Fellowships	(11,895,360)
Loans Issued	(1,172,213)
Collection of Loans	745,379
Interest Earned on Loans	85,909
Student Deposits Received	4,597,012
Student Deposits Returned	(6,000,844)
Other Payments	(1,225,847)
	<hr/>
Net Cash Used by Operating Activities	(139,007,541)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	175,169,465
Noncapital Grants	493,134
Noncapital Gifts	7,590,650
Additions to Endowments	743,835
External Participation in Investment Fund	(107,120)
Other Receipts	2,024,935
	<hr/>
Net Cash Provided by Noncapital Financing Activities	185,914,899

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	2,747,550
State Capital Appropriations	22,419,000
Refund of Prior Year's Capital Appropriations	(3,506,143)
Capital Grants	13,388,706
Capital Gifts	315,085
Proceeds from Sale of Capital Assets	45,972
Acquisition and Construction of Capital Assets	(58,149,974)
Principal Paid on Capital Debt	(6,135,000)
Interest and Fees Paid on Capital Debt	(7,669,847)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(36,544,651)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	40,099,482
Investment Income	10,607,375
Purchase of Investments and Related Fees	(18,856,015)
	<hr/>
Net Cash Provided by Investing Activities	31,850,842
	<hr/>
Net Increase in Cash and Cash Equivalents	42,213,549
Cash and Cash Equivalents - July 1, 2007	117,902,008
	<hr/>
Cash and Cash Equivalents - June 30, 2008	\$ 160,115,557

The University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Exhibit A-3

Page 2

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

Operating Loss	\$ (159,139,170)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	17,751,306
Allowances, Write-Offs, and Amortizations	899,060
Changes in Assets and Liabilities:	
Receivables (Net)	6,870,351
Inventories	(149,988)
Prepaid Items	(1,428,529)
Accounts Payable and Accrued Liabilities	(2,241,496)
Unearned Revenue	(1,854,747)
Compensated Absences	1,689,504
Deposits Payable	(1,403,832)
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (139,007,541)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 107,554,089
Restricted Cash and Cash Equivalents	21,783,601
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	30,777,867
	<hr/>
Total Cash and Cash Equivalents - June 30, 2008	<u>\$ 160,115,557</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 5,081,863
Change in Fair Value of Investments	(4,084,644)
Loss on Disposal of Capital Assets	(306,074)

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, 2008

Exhibit B-1

ASSETS

Investments	\$ 90,051,092
Assets Held in Charitable Trusts	7,481,911
Interest Receivable	71,651
Accounts Receivable	3,251
Notes Receivable	2,393,776
Pledges Receivable	4,298,445
Cash Surrender Value of Life Insurance	541,952
Equipment, Net of Accumulated Depreciation	101,895
Leasehold Improvements, Net of Accumulated Depreciation	19,622
Property Held for Investment	3,041,164
Prepaid Expense	2,485
	<hr/>
Total Assets	\$ 108,007,243
	<hr/> <hr/>

LIABILITIES AND NET ASSETS

Accounts Payable and Accrued Expenses	\$ 46,432
Interest Payable	75,083
Funds Held for Others	94,323
Long-Term Note Payable, Current	3,861,126
Long-Term Note Payable, Noncurrent	4,112,077
	<hr/>
Total Liabilities	8,189,041
Unrestricted Net Assets	17,427,930
Temporarily Restricted Net Assets	48,539,038
Permanently Restricted Net Assets	33,851,234
	<hr/>
Total Net Assets	99,818,202
	<hr/> <hr/>
Total Liabilities and Net Assets	\$ 108,007,243
	<hr/> <hr/>

The Foundation of the University of North Carolina at Charlotte, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2008

Exhibit B-2

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Support:				
Public Contributions	\$ 802,184	\$ 3,820,492	\$ 3,002,810	\$ 7,625,486
Revenue:				
Investment and Other Interest Income	540,596	238,622	7,177	786,395
Endowment Income	1,597,968	3,070,274		4,668,242
Distributions of Endowment Income	(465,270)	465,270		
Rental Income	520,386			520,386
Miscellaneous and Other Income		312,962		312,962
Net Loss on Investments	(1,941,981)	(4,020,520)		(5,962,501)
Subtotal Revenue and Support	<u>1,053,883</u>	<u>3,887,100</u>	<u>3,009,987</u>	<u>7,950,970</u>
Transfers to/from Other Funds	(55,063)	55,063		
Net Assets Released from Restrictions	<u>6,249,288</u>	<u>(6,249,288)</u>		
Total Revenue and Support	<u>7,248,108</u>	<u>(2,307,125)</u>	<u>3,009,987</u>	<u>7,950,970</u>
EXPENSES				
Program Services:				
Contributions to the University of North Carolina at Charlotte	5,301,975			5,301,975
Distributions to Donors	134,798			134,798
Capital Construction Projects	250,739			250,739
Grants	483,649			483,649
Other Program Support	<u>527,392</u>			<u>527,392</u>
Program Services	<u>6,698,553</u>			<u>6,698,553</u>
Supporting Services:				
Professional Fees	194,975			194,975
Investment Fees	269,605			269,605
Other General and Administrative Expenses	502,879			502,879
Interest Expense	<u>403,030</u>			<u>403,030</u>
Supporting Services	<u>1,370,489</u>			<u>1,370,489</u>
Total Expenses	<u>8,069,042</u>			<u>8,069,042</u>
Excess (Deficiency) of Revenue and Support over Expenses	(820,934)	(2,307,125)	3,009,987	(118,072)
Net Assets at Beginning of Period	<u>18,248,864</u>	<u>50,846,163</u>	<u>30,841,247</u>	<u>99,936,274</u>
Net Assets at End of Period	<u>\$ 17,427,930</u>	<u>\$ 48,539,038</u>	<u>\$ 33,851,234</u>	<u>\$ 99,818,202</u>

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UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

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. 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 are 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 a three to nine member board consisting of three ex officio directors and the elected directors. For fiscal year ended June 30, 2008 the board had seven members. The purpose of the FDC is to enhance the educational mission of the University including assisting with the acquisition and financing of capital assets. Because three ex officio directors and one director of the FDC are administrators of the University or are appointed by the University of North Carolina at Charlotte's Board of Trustees, and the FDC's primary purpose is to benefit the University, its financial statements have been blended with those of the University.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Investment Fund is governed by a board consisting of four ex officio directors and three elected directors. 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's Board of Trustees and the Investment Fund's primary purpose is to benefit University, its financial statements have been blended with those of the University.

Separate financial statements for FDC and the Investment Fund may be obtained by contacting Sheila Hamm at 704-687-6232 or sbhamm@uncc.edu.

Discretely Presented Component Units – 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 a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 40 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, which the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2008, the Foundation distributed cash support totaling \$5,308,007 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Sheila Hamm at 704-687-5806 or sbhamm@uncc.edu.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

- 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 at 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 method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 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** – Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.
- 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, notes payable and compensated absences that will not be paid within the next fiscal year.

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

- L. Compensated Absences** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 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 leave carried forward described above and is not subject to conversion to sick leave.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$157,352,651 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 2.9 years as of June 30, 2008. 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, 2008 was \$52,765. The carrying amount of the University's deposits not with the State Treasurer, was \$2,710,141 and the bank balance was \$2,902,493. 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, 2008, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Bank	\$ <u>2,902,493</u>
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B. Investments

University - 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,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the University's component units, the University of North Carolina at Charlotte Foundation and the University of North Carolina at Charlotte Investment Fund, are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

External Investment Pool - The external investment pool sponsored by the University was established in 2002. The pool is utilized to manage the investments for charitable, nonprofit organizations, associations, trusts, endowments and funds that are organized and operated primarily to support the University. Endowment funds and a separate entity, which is a component unit included in the University's reporting entity, the Foundation represent the pool's internal participant. An 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 its pro rata share of the fair market value of the investment pool at the beginning of each month. The external portion of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

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

The pool is managed by several external investment managers. These managers provide 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 Sheila Hamm at (704) 687-5806 or sbhamm@uncc.edu.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the External Investment Pool.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 29,736,276	\$ 594,725	\$ 7,374,597	\$ 16,830,732	\$ 4,936,222
Money Market Mutual Funds	4,402,932	4,402,932			
	34,139,208	<u>\$ 4,997,657</u>	<u>\$ 7,374,597</u>	<u>\$ 16,830,732</u>	<u>\$ 4,936,222</u>
Other Securities					
UNC Management Company	7,247,122				
International Mutual Funds	40,679,527				
Other Mutual Funds	35,900,219				
Hedge Funds	16,555,213				
Domestic Stocks	586				
Total External Investment Pool	<u>\$ 134,521,875</u>				

At June 30, 2008, investments in the External Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below
Mutual Bond Funds	\$ 29,736,276	\$ 20,755,921	\$ 2,408,638	\$ 4,103,606	\$ 2,259,957	\$ 208,154
Money Market Mutual Funds	4,402,932	4,402,932				

Rating Agency: Moody's

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the University's non-pooled investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 379,387	\$ 101,158	\$ 111,307	\$ 104,569	\$ 62,353
U.S. Agencies	264,603		165,358	38,498	60,747
Mortgage Pass Throughs	338,109			19,808	318,301
Collateralized Mortgage Obligations	96,836				96,836
State and Local Government	30,426			19,540	10,886
Repurchase Agreements	31,884,683	31,884,683			
Mutual Bond Funds	19,897	19,897			
Money Market Mutual Funds	3,350,940	3,350,940			
Domestic Corporate Bonds	382,817		148,651	161,597	72,569
Foreign Government Bonds	10,074	10,074			
		<u>\$ 35,366,752</u>	<u>\$ 425,316</u>	<u>\$ 344,012</u>	<u>\$ 621,692</u>
Other Securities					
Investment in Real Estate	8,953,283				
Domestic Stocks	2,080,143				
Other	19,367				
Total Non-Pooled Investments	<u>\$ 47,810,565</u>				

At June 30, 2008, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	Unrated
U.S. Agencies	\$ 264,603	\$ 264,603	\$ 0	\$ 0	\$ 0	\$ 0
Mortgage Pass Throughs	338,109	338,109				
Collateralized Mortgage Obligations	96,836	96,836				
Domestic Corporate Bonds	382,817	24,738	104,046	183,613	70,420	
Foreign Government Bonds	10,074		10,074			

Rating Agency: Moody's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total Investments – The following table presents the fair value of the total investments at June 30, 2008:

Investment Type	Fair Value
Debt Securities	
U.S. Treasuries	\$ 379,387
U.S. Agencies	264,603
Mortgage Pass Throughs	338,109
Collateralized Mortgage Obligations	96,836
State and Local Governments	30,426
Repurchase Agreements	31,884,683
Mutual Bond Funds	29,756,173
Money Market Funds	7,753,872
Domestic Corporate Bonds	382,817
Foreign Government Bonds	10,074
Other Securities	
UNC Management Company	7,247,122
Other Mutual Funds	35,900,218
Investments in Real Estate	8,953,283
International Mutual Funds	40,679,527
Hedge Funds	16,555,213
Domestic Stocks	2,080,729
Other - Cash Surrender Value Life Insurance	19,367
Total Investments	\$ 182,332,440

Total investments include \$81,017,357 held in the University of North Carolina at Charlotte Investment Fund, Inc. for a component unit that is discretely presented in the accompanying financial statements.

Component Units - Investments of the University’s discretely presented component unit, the Foundation, is subject to and restricted by G.S. 36B “Uniform Management of Institutional Funds Act” (UMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required.

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University’s endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University’s endowment funds are based on a preset rate as approved by the Board of Trustees of the Endowment Fund. The payout rate for the period

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ending June 30, 2008 was 5% 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 expendable net asset endowment balances to make up the difference. At June 30, 2008, net appreciation of \$28,584,244 was available to be spent, of which \$16,201,481 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 6,023,475	\$ 1,010,375	\$ 5,013,100
Accounts	2,191,950		2,191,950
Intergovernmental	2,585,262		2,585,262
Investment Earnings	139,314		139,314
Interest on Loans	83,248		83,248
Other	169,195		169,195
Total Current Receivables	\$ 11,192,444	\$ 1,010,375	\$ 10,182,069
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 671,220	\$ 35,239	\$ 635,981
Institutional Student Loan Programs	170,726	10,147	160,579
Total Notes Receivable - Current	\$ 841,946	\$ 45,386	\$ 796,560
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 5,050,156	\$ 264,440	\$ 4,785,715
Institutional Student Loan Programs	728,816	41,086	687,730
Total Notes Receivable - Noncurrent	\$ 5,778,971	\$ 305,526	\$ 5,473,445

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	\$ 6,392,958	\$ 93,285	\$ 0	\$ 6,486,243
Art, Literature and Artifacts	18,781,423	5,081,863		23,863,286
Construction in Progress	49,767,649	50,712,265	49,136,768	51,343,146
Total Capital Assets, Nondepreciable	74,942,030	55,887,413	49,136,768	81,692,675
Capital Assets, Depreciable:				
Buildings	418,017,237	35,196,456		453,213,693
Machinery and Equipment	67,261,478	9,179,380	2,845,584	73,595,274
General Infrastructure	82,207,054	13,668,813		95,875,867
Total Capital Assets, Depreciable	567,485,769	58,044,649	2,845,584	622,684,834
Less Accumulated Depreciation/Amortization for:				
Buildings	89,384,201	8,969,247		98,353,448
Machinery and Equipment	35,037,618	7,020,681	2,493,538	39,564,761
General Infrastructure	14,328,737	1,761,378		16,090,115
Total Accumulated Depreciation	138,750,556	17,751,306	2,493,538	154,008,324
Total Capital Assets, Depreciable, Net	428,735,213	40,293,343	352,046	468,676,510
Capital Assets, Net	\$ 503,677,243	\$ 96,180,756	\$ 49,488,814	\$ 550,369,185

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	\$ 9,669,623
Accrued Payroll	1,251,493
Contract Retainage	3,945,888
Intergovernmental Payables	3,890
Other	81,770
Total Accounts Payable and Accrued Liabilities	\$ 14,952,664

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, 2008, is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Revenue Bonds Payable	\$ 141,729,000	\$ 0	\$ 5,200,000	\$ 136,529,000	\$ 5,370,000
Certificates of Participation	21,190,000		935,000	20,255,000	965,000
Add/Deduct Premium/Discount	3,551,102		223,425	3,327,677	
Deduct Deferred Charge on Refunding	(2,088,276)		(171,392)	(1,916,884)	
Total Bonds and Certificates of Participation Payable	164,381,826		6,187,033	158,194,793	6,335,000
Notes Payable		2,747,550		2,747,550	
Compensated Absences	10,198,685	8,220,472	6,530,968	11,888,189	1,235,598
Total Long-Term Liabilities	\$ 174,580,511	\$ 10,968,022	\$ 12,718,001	\$ 172,830,532	\$ 7,570,598

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, 2008	Principal Outstanding June 30, 2008
Revenue Bonds Payable						
General Revenue Bonds Payable						
Partial Refund of Housing Phase VII	2006 A	4.25%-5%	2014	\$ 1,920,000	\$ 35,000	\$ 1,885,000
Parking Deck G	2006 A	4%-5%	2036	10,545,000	450,000	10,095,000
Student Union - Taxable	2007-A	5.02%-5.68%	2023	18,140,000	765,000	17,375,000
Student Union Non-Taxable	2007-B	4.25%-5%	2037	36,260,000	0	36,260,000
Total General Revenue Bonds				<u>66,865,000</u>	<u>1,250,000</u>	<u>65,615,000</u>
Housing and Dining Bonds						
Martin Village	F	3%-3%	2018	2,175,000	1,370,000	805,000
Phase III	H	3%-3%	2019	1,568,000	959,000	609,000
Sandford & Moore Halls	B	3%-3%	2008	1,650,000	1,650,000	
Total Housing and Dining Bonds				<u>5,393,000</u>	<u>3,979,000</u>	<u>1,414,000</u>
Student Cone Center Bonds						
Cone Center Addition	C	6.9%-7%	2010	2,300,000	1,990,000	310,000
Total Student Cone Center Bonds				<u>2,300,000</u>	<u>1,990,000</u>	<u>310,000</u>
Parking System Bonds						
Parking Deck F	2002	3.25%-5.125%	2027	10,900,000	2,505,000	8,395,000
Total Parking System Bonds				<u>10,900,000</u>	<u>2,505,000</u>	<u>8,395,000</u>
The University of North Carolina System Pool Revenue Bonds						
Phase VII Apartments	1998B	4%-5.25%	2024	15,875,000	5,695,000	10,180,000
Recreational Playing Fields	1998B	4%-4%	2009	1,105,000	975,000	130,000
Phase 8 Apartments	2002A	4%-5.375%	2027	21,115,000	2,180,000	18,935,000
Student Health Center	2003A	2%-5.25%	2028	6,055,000	800,000	5,255,000
Refinance Portion of SAC 1995 Bonds	2003A	2%-5.25%	2016	8,770,000	345,000	8,425,000
Refinance Portion of H&D Series M	2003A	2%-5%	2015	8,635,000	3,570,000	5,065,000
Refinance Parking Series 1996	2004A	3%-4%	2021	4,480,000	845,000	3,635,000
Refinance Balance of SAC 1995 Bonds	2005A	3%-5.25%	2021	11,855,000	2,685,000	9,170,000
Total The University of North Carolina System Pool Revenue Bonds				<u>77,890,000</u>	<u>17,095,000</u>	<u>60,795,000</u>
Certificates of Participation						
Banner COPS		3%-5%	2014	5,925,000	1,775,000	4,150,000
Greek Village COPS		3%-4.75%	2035	16,745,000	640,000	16,105,000
Total Certificates of Participation				<u>22,670,000</u>	<u>2,415,000</u>	<u>20,255,000</u>
Total Bonds Payable and Certificates of Participation (principal only)				<u>\$ 186,018,000</u>	<u>\$ 29,234,000</u>	<u>\$ 156,784,000</u>
Less: Unamortized Loss on Refunding						1,916,884
Less: Unamortized Discount						312,377
Plus: Unamortized Premium						<u>3,640,054</u>
Total Bonds Payable and Certificates of Participation						<u>\$ 158,194,793</u>
(A) The University of North Carolina System Pool Revenue Bonds, Series 1998B						
(B) The University of North Carolina System Pool Revenue Bonds, Series 2002, 2003, 2004 and 2005						

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University has pledged future revenues, net of specific operating expenses, to repay revenue bonds and certificates of participation as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal & Interest	Estimate of % of Revenues Pledged
(1)	Cone Center	\$ 332,050	\$ 3,695,792	\$ 166,600	4.49%
(2)	Housing	16,321,389	20,040,395	1,138,608	5.43%
(3)	Parking	12,141,406	5,707,466	891,894	11.82%
(4)	Banner	4,757,250	1,190,198	793,713	66.62%
(5)	Greek Village	28,567,738	157,331	1,059,394	32.74%
(6)	Recreational Fields	132,600	1,076,816	137,800	12.31%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2008, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Certificates of Participation		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 5,370,000	\$ 6,621,577	\$ 965,000	\$ 890,056	\$ 0	\$ 0
2010	5,515,000	6,380,525	995,000	858,044	2,747,550	147,635
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	5,475,000	5,621,541	1,115,000	733,063		
2014-2018	29,450,000	23,887,920	2,920,000	3,164,669		
2019-2023	28,619,000	16,356,469	2,655,000	2,635,413		
2024-2028	21,805,000	10,088,278	3,315,000	1,969,256		
2029-2033	15,100,000	5,723,288	4,215,000	1,078,600		
2034-2038	14,365,000	1,655,725	1,975,000	138,056		
Total Requirements	\$ 136,529,000	\$ 88,343,617	\$ 20,255,000	\$ 13,069,988	\$ 2,747,550	\$ 147,635

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

Prior Year Defeasances – During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University’s financial statements. At June 30, 2008, the outstanding balance of prior year defeased bonds was \$1,880,000.

E. Notes Payable - The University was indebted for notes payable for the purposes shown in the following table:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2008	Principal Outstanding June 30, 2008
Housing Phase 9 Design	Bank of America	3.10%	01/15/2010	\$ 2,747,550	\$ 0	\$ 2,747,550

The University plans to refinance the notes maturing on January 15, 2010 with other long-term financing.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for classroom and warehouse space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 245,751
2010	19,200
2011	6,400
Total Minimum Lease Payments	<u>\$ 271,351</u>

Rental expense for all operating leases during the year was \$239,886.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

A summary of eliminations and allowances by revenue classification is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 126,472,386	\$ 0	\$ 15,382,390	\$ 59,731	\$ 111,030,264
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 17,401,632	\$ 399,982	\$ 2,550,049	\$ 13,551	\$ 14,438,050
Dining	13,697,869	79,318	1,291,567	11,888	12,315,096
Student Union Services	1,756,500	755,995		5,451	995,054
Health, Physical Education, and Recreation Services	1,754,291	15,739		11,392	1,727,160
Parking	5,693,844	219,017		3,857	5,470,970
Athletics	2,005,509	19,349		4,286	1,981,874
Facilities Management	10,903,482	10,808,836			94,646
ITS Telecom	2,915,807	2,577,524			338,283
Other	3,357,101	1,975,474		9,268	1,372,359
Sales and Services of Education and Related Activities	3,475,453	1,073,339			2,402,114
Total Sales and Services	<u>\$ 62,961,488</u>	<u>\$ 17,924,573</u>	<u>\$ 3,841,616</u>	<u>\$ 59,693</u>	<u>\$ 41,135,606</u>

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	\$ 131,962,080	\$ 8,929,200	\$ 15,926,178	\$ 819,212	\$ 1,012	\$ 0	\$ 157,637,682
Research	10,989,304	562,350	9,172,442	510,237			21,234,333
Public Service	1,427,057	200,457	458,074	135,631			2,221,219
Academic Support	15,930,340	7,382,313	2,316,409	242,397	1,600		25,873,059
Student Services	11,340,197	547,423	2,421,519	7,005	1,612		14,317,756
Institutional Support	18,619,532	906,397	6,645,035	501			26,171,465
Operations and Maint. of Plant	16,570,024	4,197,597	4,401,396		7,525,492	182,509	32,877,018
Student Financial Aid	672,791	1,321	493,116	7,985,053			9,152,281
Auxiliary Enterprises	20,927,602	5,039,395	17,790,809	2,195,324	3,067,977		49,021,107
Depreciation						17,568,797	17,568,797
Total Operating Expenses	<u>\$ 228,438,927</u>	<u>\$ 27,766,453</u>	<u>\$ 59,624,978</u>	<u>\$ 11,895,360</u>	<u>\$ 10,597,693</u>	<u>\$ 17,751,306</u>	<u>\$ 356,074,717</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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$187,152,149, of which \$75,384,848 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$2,299,238 and \$4,523,091, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$2,299,238, \$1,792,093 and \$1,440,271, 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 or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008, 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 current fiscal year, the University had a total payroll of \$187,152,149, of which \$84,407,788 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$5,773,493 and \$5,064,468, 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 \$531,764 for the year ended June 30, 2008.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

year ended June 30, 2008, were \$60,346. The voluntary contributions by employees amounted to \$1,249,868 for the year ended June 30, 2008.

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 \$3,142,118 for the year ended June 30, 2008.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the current fiscal year the University contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$6,551,498, \$5,358,112, and \$4,816,333, respectively. 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*. 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.

- B. Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$830,922, \$733,215, and \$659,077, respectively. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 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. Several buildings and the contents have purchased extended coverage. Extended coverage includes the perils of windstorm, hail, explosion, smoke, aircraft or vehicles, riot or civil commotion.

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, except theft losses are subject to a \$1,000 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

A separate policy underwritten by Medical Mutual Insurance has been purchased for the Physicians Professional Liability. The limit of liability is \$1,000,000 per claim; \$3,000,000 annual aggregate.

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 \$58,823,587.
- B. Pending Litigation and Claims** – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 15 - RELATED PARTIES

Foundations - There are two separately incorporated nonprofit foundations associated with the University. These foundations are The University of North Carolina at Charlotte Athletic Foundation, Inc. and The Ben Craig Center, Inc.

The Athletic Foundation serves as the primary fundraising arm of the University's Athletic Department through which individuals, corporations, and other organizations support University Athletic programs by providing scholarships, salary supplements, and unrestricted funds. The University's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundation, except for support from each organization to the University. This support approximated \$2,395,499 for the year ended June 30, 2008.

The Ben Craig Center, Inc. serves as an economic development and business catalyst for emerging businesses in the Charlotte Mecklenburg area. The University's financial statements do not include the assets, liabilities, net assets or operational transactions of the center, except for support from the organization to the University. This support amounted to \$100,500 for the year ended June 30, 2008.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.

GASB Statement No. 50, Pension Disclosures.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB.*

GASB Statement No. 48, requires disclosures pertaining to future revenues that have been pledged in order to disclose information about which revenues will be unavailable for other purposes and how long they will continue to do so.

GASB Statement No. 50, aligns the financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 17 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2007 Net Assets as Previously Reported	\$ 556,379,651
Restatements:	
Error in Establishing Useful Live of Capital Assets	<u>4,632,822</u>
July 1, 2007 Net Assets as Restated	<u>\$ 561,012,473</u>

NOTE 18 - SUBSEQUENT EVENTS

Fair Value of Endowment Investments

External Investment Pool - The fair market value of the external endowment investment pool was \$134,521,875 at June 30, 2008 and decreased 27 percent over the four-month period ending October 31, 2008. This percentage includes a 2 percent spending distribution. The market value for the investment pool at October 31, 2008 was \$98,105,296. These changes are primarily due to the unrealized loss on these investments as a result of the volatile and unstable world-wide financial market. It is expected that this downward trend may continue into the future for an immeasurable period of time. University management along with their investment management advisors plan to continue their efforts of monitoring these investments to minimize market losses.

Non-Pooled Investments - The fair market value of the non-pooled endowment investments decreased 16 percent over the four-month period ending October 31, 2008. The market value at June 30, 2008 was \$3,860,122 which is the total of non-pooled investments of \$47,810,565 less real estate of \$8,953,283, less short term money market of \$3,112,477 and repurchase agreements of \$31,884,683. The fair value of non-pooled endowments as of October 31, 2008 was \$3,246,642. These changes are primarily due to unrealized losses on investments as a result of the current economic and financial market conditions. University management, along with their investment management advisors, will continue to monitor investments to reduce investment risks and to improve returns.



Beth A. Wood, CPA
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 the 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, 2008, which collectively comprise the University's basic financial statements and have issued our report thereon dated January 29, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

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 opinion on the financial statements, but not for the purpose of expressing an

**INDEPENDENT AUDITOR'S REPORT
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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 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, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

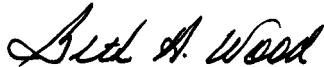
As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of

**INDEPENDENT AUDITOR'S REPORT
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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 responses to the findings identified in our audit are 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.

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.



Beth A. Wood, CPA
State Auditor

January 29, 2009

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements contained several misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers. Misstatements noted in our audit included:

- a. Student accounts receivable were overstated by at least \$890,000 as a result of failing to reasonably estimate uncollectible accounts. We examined a sample of accounts totaling \$154,000 of the \$5.9 million owed. Approximately 37% of the sampled accounts were more than a year old, and collection of accounts this old appears doubtful. The University originally reported an allowance for doubtful accounts of \$119,424, or approximately 2% of the balance. At our request, the University prepared a revised estimate of just over \$1 million, or approximately 17% of the balance. Although the revised estimate sufficiently lowered the risk of material misstatement for this year, we believe that further analysis is needed to more accurately project the true uncollectible amount in the future.
- b. Student accounts receivable and unearned revenue were overstated by \$3.4 million as a result of recognizing unearned accounts receivable for the second session of summer school. This session did not occur until after fiscal year-end, and therefore, should not have been reported as accounts receivable in the financial statements.
- c. Current unrestricted cash was overstated and restricted cash was understated by \$5.5 million. The University did not record the effect of borrowing unrestricted cash to cover deficit balances in restricted funds.
- d. The University has not periodically compared the estimated useful lives of its capital assets with actual experience. The financial statements included machinery and equipment with a cost value of \$73.7 million. However, \$20 million of this total was for machinery and equipment that had been fully depreciated. At our request, University personnel determined that a significant number of the assets were still being used and estimated an overstatement of accumulated depreciation of \$4.6 million.
- e. The University understated the increases and decreases reported in the capital assets note to the financial statements. The increases and decreases were understated for construction in progress by \$49 million.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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. Estimates should be supported by actual historical data.

University's Response: The University of North Carolina at Charlotte concurs with the findings and acknowledges the critical need for sound financial reporting procedures and practices. Though many staff within the financial reporting function are new to the University, they worked collaboratively with the state auditors to identify and support the changes made to the financial statements.

The University of North Carolina at Charlotte will address the findings in the student accounts receivable, presentation restricted cash, and capital asset recording and reporting within the current fiscal year through financial reporting improvement projects already under way under the direction of the University Controller. The University has also established a more extensive reporting management review process which will provide added oversight and quality assurance over the financial statements. Specific responses to each financial reporting deficiency are as follows:

Student Accounts Receivable Allowance for Doubtful Accounts

The calculation of the allowance for doubtful accounts will be modified for fiscal year 2009. Preliminary work and analysis has been performed to correct the allowance for 2008, but additional review of uncollectible student account balances and write-offs will be performed to provide additional assurance that the amount is fairly stated.

Student Accounts Receivable Overstatement

The revenue recognition of second summer session receivables has been corrected through modified procedures in the accounting office. A review step will be added to the financial year-end reporting calendar to serve as an added assurance step.

Interfund Borrowing

The overstatement of current unrestricted cash and understatement of current restricted cash pertain to negative cash balances in grant and contract accounts. This error will be corrected through an adjustment that will be added to the year-end calendar.

Accumulated Depreciation and Useful Lives of Fixed Assets

The University is in the process of a detailed analysis of useful lives, with additional scrutiny placed on fully depreciated assets. This analysis will provide the data for a management decision on adjusted useful lives by asset classes. Accumulated depreciation will be adjusted based upon the new useful lives for university assets.

Error to the Capital Assets Notes

These errors to the reporting entries have been identified and fixed for the coming fiscal year closing process.

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