

STATE OF NORTH CAROLINA

UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

CHARLOTTE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

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, 2009

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

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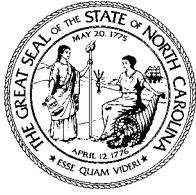
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves 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, 2009, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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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, 2009, 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'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 11 percent of the assets 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.

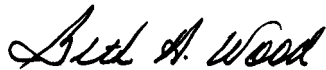
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of North Carolina at Charlotte and its discretely presented component unit as of June 30, 2009, 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. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2010 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, 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

June 24, 2010

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 (University) is pleased to present its annual financial statement report for the fiscal year ended June 30, 2009.

The University's financial report includes five financial statements and related notes:

- Statement of Net Assets for the University of North Carolina at Charlotte
- Statement of Revenues, Expenses, and Changes in Net Assets for the University of North Carolina at Charlotte
- Statement of Cash Flows for the University of North Carolina at Charlotte
- Statement of Financial Position for The Foundation of the University of North Carolina at Charlotte, Inc.
- Statement of Activities for The Foundation of the University of North Carolina at Charlotte, Inc.

The University's financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. Please note that although the University's foundation identified under guidance from GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, is reported in the component unit financial statements, this Management's Discussion and Analysis excludes it except where specifically noted.

This discussion and analysis provides an overview of the University's financial position and activities for the year ended June 30, 2009, emphasizing current year data and material changes between the prior and current fiscal year. Comparative information for the year ended June 30, 2008, has been provided where applicable. This overview has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements that are included in this annual report.

Statement of Net Assets

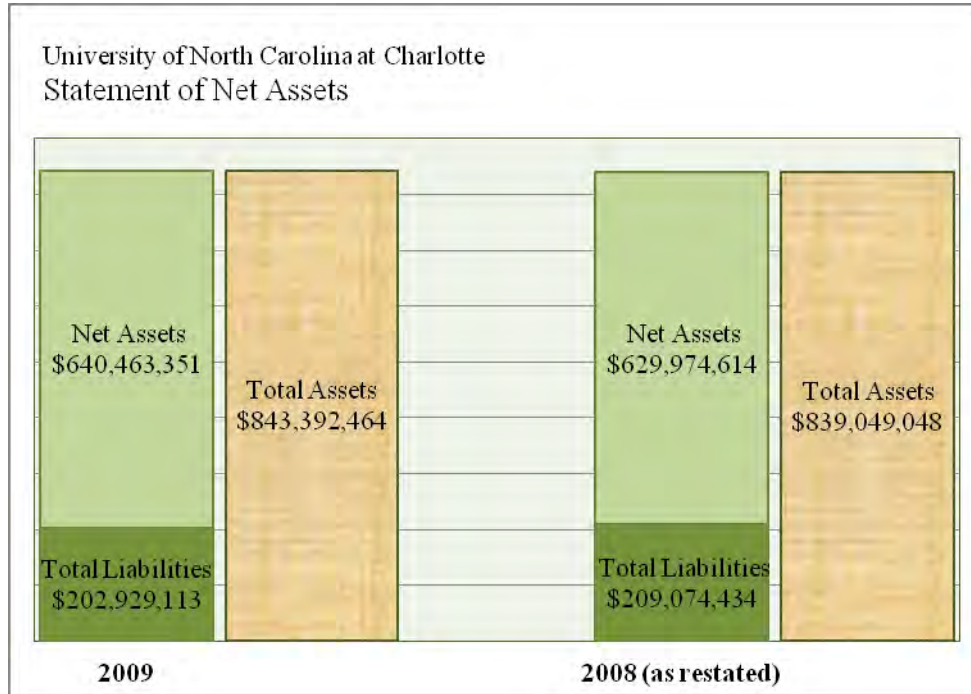
The Statement of Net Assets (SNA) summarizes the financial position of the University by presenting the assets, liabilities, and net assets as of the end of the fiscal year. The SNA is a point-in-time financial statement, the purpose of which is to present a fiscal snapshot of the University.

The SNA presents a summary of all assets available to continue the operations of the University. The statement also presents a summary of all liabilities, or amounts owed to vendors, investors, and lending institutions. Finally, the SNA provides a picture of the net assets, which represent the residual interest in the University's assets net of its liabilities, and

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

their availability for expenditure by the University. The change in net assets is an indicator of whether the overall financial condition of the University has improved or worsened during the year.

A comparison of net assets, as well as the total assets and total liabilities as elements of net assets, at June 30, 2009, and June 30, 2008, is presented below:



Net assets are divided into three major categories:

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

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

Restricted net assets are divided into two categories: expendable and nonexpendable. The corpus of nonexpendable restricted resources is available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following table summarizes and compares the University's assets, liabilities, and net assets on June 30, 2009, and June 30, 2008.

Condensed Statement of Net Assets	2009	2008 (as restated)	Increase (Decrease)	
			Amount	Percent
Assets:				
Current Assets	\$ 150,721,886	\$ 142,072,178	\$ 8,649,708	6.1%
Noncurrent Assets:				
Endowment and Other Investments	58,880,875	101,315,083	(42,434,208)	-41.9%
Capital Assets, Net	606,261,328	558,994,782	47,266,546	8.5%
Other Noncurrent Assets	27,528,375	36,667,005	(9,138,630)	-24.9%
Total Assets	843,392,464	839,049,048	4,343,416	0.5%
Liabilities:				
Current Liabilities	34,747,000	28,381,871	6,365,129	22.4%
Noncurrent Liabilities:				
Funds Held in Trust	5,521,658	7,892,423	(2,370,765)	-30.0%
Long-Term Liabilities	157,019,275	165,259,934	(8,240,659)	-5.0%
Other Noncurrent Liabilities	5,641,180	7,540,206	(1,899,026)	-25.2%
Total Liabilities	202,929,113	209,074,434	(6,145,321)	-2.9%
Net Assets:				
Invested in Cap Assets, Net of Related Debt	454,828,116	431,143,455	23,684,661	5.5%
Restricted:				
Expendable	45,197,709	52,708,240	(7,510,531)	-14.2%
Nonexpendable	33,042,687	31,587,834	1,454,853	4.6%
Unrestricted	107,394,839	114,535,085	(7,140,246)	-6.2%
Total Net Assets	\$ 640,463,351	\$ 629,974,614	\$ 10,488,737	1.7%

This condensed statement reflects continued growth and financial strength of the University. Refer to University Exhibit A-1 and the accompanying notes for additional detail related to the Statement of Net Assets for fiscal year 2009. Some highlights of the information presented on the SNA include:

- Total current assets increased by \$8.6 million, or 6.1 percent, to \$150.7 million during fiscal year 2009, predominantly as a result of an increase in current cash and cash equivalents of \$8.9 million, or 6.9 percent. The increase in current cash is attributable to the reclassification from noncurrent to current cash of \$12.25 million for forthcoming payments related to construction-related costs on the Energy Product Infrastructure Center. Funds received in fiscal year 2008 amounted to \$22.6 million and were classified as restricted noncurrent cash at June 30, 2008. Minor changes in net receivables, current notes receivable, and prepaid items had minimal net effect on the overall change in current assets.
- Total noncurrent assets decreased by \$4.3 million, or 0.6 percent, during fiscal year 2009. This change is due in part to an increase in capital assets of \$47.3 million, or 8.5 percent, for new construction and other capital acquisitions. This increase was offset by: a decrease in endowment investments of \$17.9 million, or 31.2 percent, due to market

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

performance; a decrease in other investments of \$24.5 million, or 55.8 percent, largely due to the use of debt service proceeds to construct the new Student Union building; and a decrease in noncurrent restricted cash and cash equivalents of \$9.1 million, or 29.5 percent, due to the reclassification of cash related to the Energy Product Infrastructure Center, as noted above.

- Total liabilities decreased by \$6.1 million, or 2.9 percent, due to principal payments of \$6.3 million on bonds payable and certificates of participation throughout the fiscal year, offset by minor changes in other liabilities.
- Net assets increased slightly from the prior fiscal year by \$10.5 million, or 1.7 percent, to \$640 million. This growth is primarily due to a \$23.7 million, or 5.5 percent, increase in net assets invested in capital assets, net of related debt. The increase in this category represents the amount of growth the University has experienced this fiscal year in capital asset additions, primarily construction in progress. Restricted nonexpendable net assets also increased by \$1.4 million, or 4.6 percent, due mainly to a new \$1.0 million endowment permanently restricted to scholarship and fellowship related purposes. These increases were offset by: a decrease of \$7.5 million, or 14.2 percent, in restricted expendable net assets due to market performance, and a decrease in unrestricted net assets of \$7.1 million, or 6.2 percent, because of the \$10.0 million decrease in state appropriations and state aid received this year (\$165 million) as compared to the prior year (\$175 million).
- The University's liquidity remains strong. The current ratio (current assets divided by current liabilities) of 4.34 indicates that the University, if needed, could satisfy payment of its current liabilities more than four times before current assets are exhausted. Total working capital (current assets less current liabilities) of \$116 million at June 30, 2009, increased by 2.0 percent from the prior year, providing additional assurance of the University's ability to meet short-term demands as the overall economy rebounds.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets, as presented in the Statement of Net Assets, are based on activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA). The purpose of this statement is to present the operating and nonoperating revenues received by the University, and the operating and nonoperating expenses paid by the University. Other revenues, expenses, gains, and losses received or spent by the University and not classified as operating or nonoperating are presented separately on the statement.

Generally, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues that support the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. Certain significant recurring sources of the University's revenues, including state appropriations, are classified as nonoperating because they are provided to the University without the provider directly receiving commensurate goods and services for those revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following table summarizes and compares the University's results of operations for the fiscal years ended June 30, 2009, and June 30, 2008.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	2009	2008 (as restated)	Increase (Decrease)	
			Amount	Percent
Operating Revenues:				
Student Tuition and Fees, Net	\$ 118,952,286	\$ 111,030,264	\$ 7,922,022	7.1%
Grants and Contracts	30,188,201	44,065,026	(13,876,825)	-31.5%
Sales and Services, Net	39,454,069	41,135,606	(1,681,537)	-4.1%
Other Operating Revenues	2,280,935	704,651	1,576,284	223.7%
Total Operating Revenues	190,875,491	196,935,547	(6,060,056)	-3.1%
Operating Expenses:				
Salaries and Benefits	250,626,868	228,438,927	22,187,941	9.7%
Supplies and Materials	23,996,749	27,766,453	(3,769,704)	-13.6%
Services	62,723,653	59,624,978	3,098,675	5.2%
Scholarships and Fellowships	11,750,510	11,895,360	(144,850)	-1.2%
Utilities	10,788,083	10,597,693	190,390	1.8%
Depreciation	21,818,285	17,751,306	4,066,979	22.9%
Operating Expenses	381,704,148	356,074,717	25,629,431	7.2%
Operating Loss	(190,828,657)	(159,139,170)	(31,689,487)	19.9%
Nonoperating Revenues (Expenses):				
State Appropriations and State Aid	165,144,982	175,169,465	(10,024,483)	-5.7%
Noncapital Gifts and Grants	26,884,759	7,803,897	19,080,862	244.5%
Investment Gain (Loss), Net	(7,439,213)	7,389,971	(14,829,184)	-200.7%
Interest and Fees on Debt	(7,905,873)	(7,657,548)	(248,325)	3.2%
Other Nonoperating Revenues (Expenses)	(608,256)	48,620	(656,876)	-1351.0%
Total Nonoperating Revenues	176,076,399	182,754,405	(6,678,006)	-3.7%
Income before other changes	(14,752,258)	23,615,235	(38,367,493)	-162.5%
Capital Appropriations (Net of Refunds)	(1,145,130)	18,912,857	(20,057,987)	-106.1%
Capital Grants	23,895,083	11,667,669	12,227,414	104.8%
Capital Gifts	1,612,534	5,396,948	(3,784,414)	-70.1%
Additions to Endowment	878,508	743,835	134,673	18.1%
Increase in Net Assets	10,488,737	60,336,544	(49,847,807)	-82.6%
Net Assets, Beginning of Year (as restated)	629,974,614	569,638,070	60,336,544	10.6%
Net Assets, End of Year	\$ 640,463,351	\$ 629,974,614	\$ 10,488,737	1.7%

Refer to University Exhibit A-2 and the accompanying notes for additional information regarding the University's Statement of Revenues, Expenses, and Changes in Net Assets for fiscal year 2009. Some highlights of the information presented on the SRECNA are as follows:

- Total operating revenues decreased by \$6.1 million, or 3.1 percent, during fiscal year 2009. This net decrease is attributable to the change in reporting of financial aid funds implemented during the fiscal year in accordance with the Governmental Accounting Standards Board's clarification of GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, which classifies federal student aid funding as a nonexchange transaction. Thus, \$19.5 million of federal financial aid was classified as nonoperating revenue this year, whereas the commensurate \$16.1 million received during fiscal year 2008 was classified as operating revenue

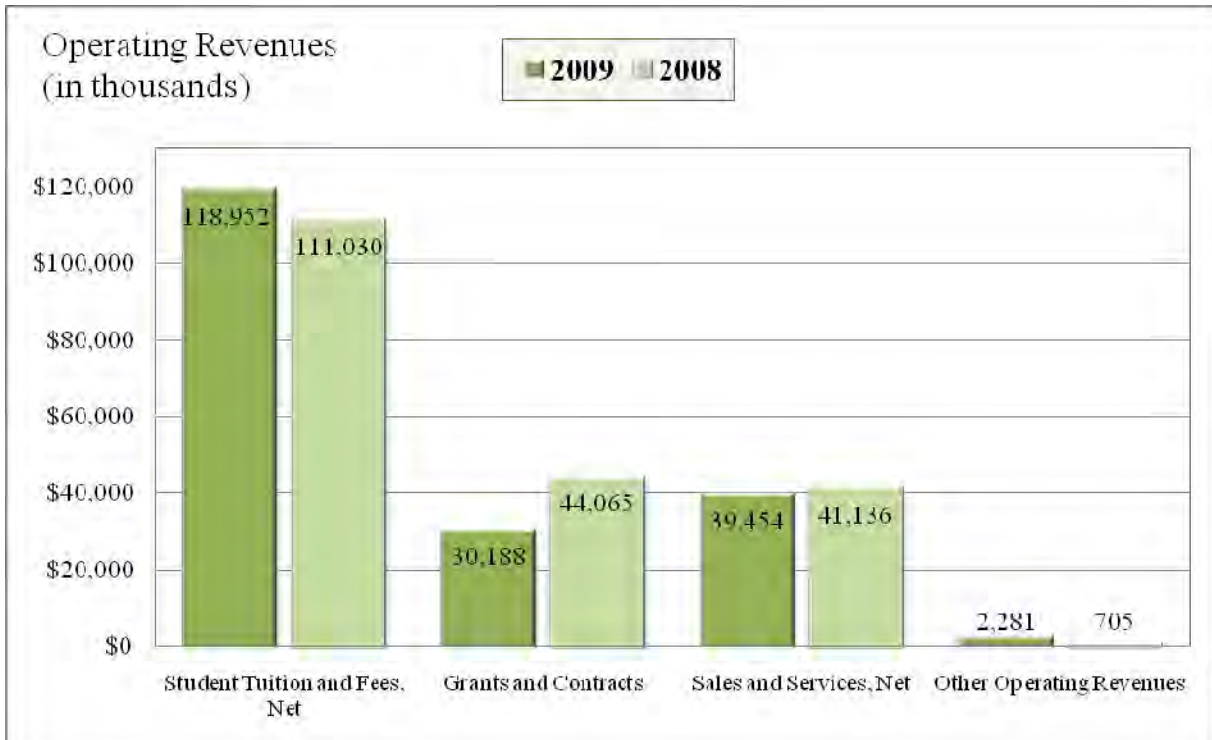
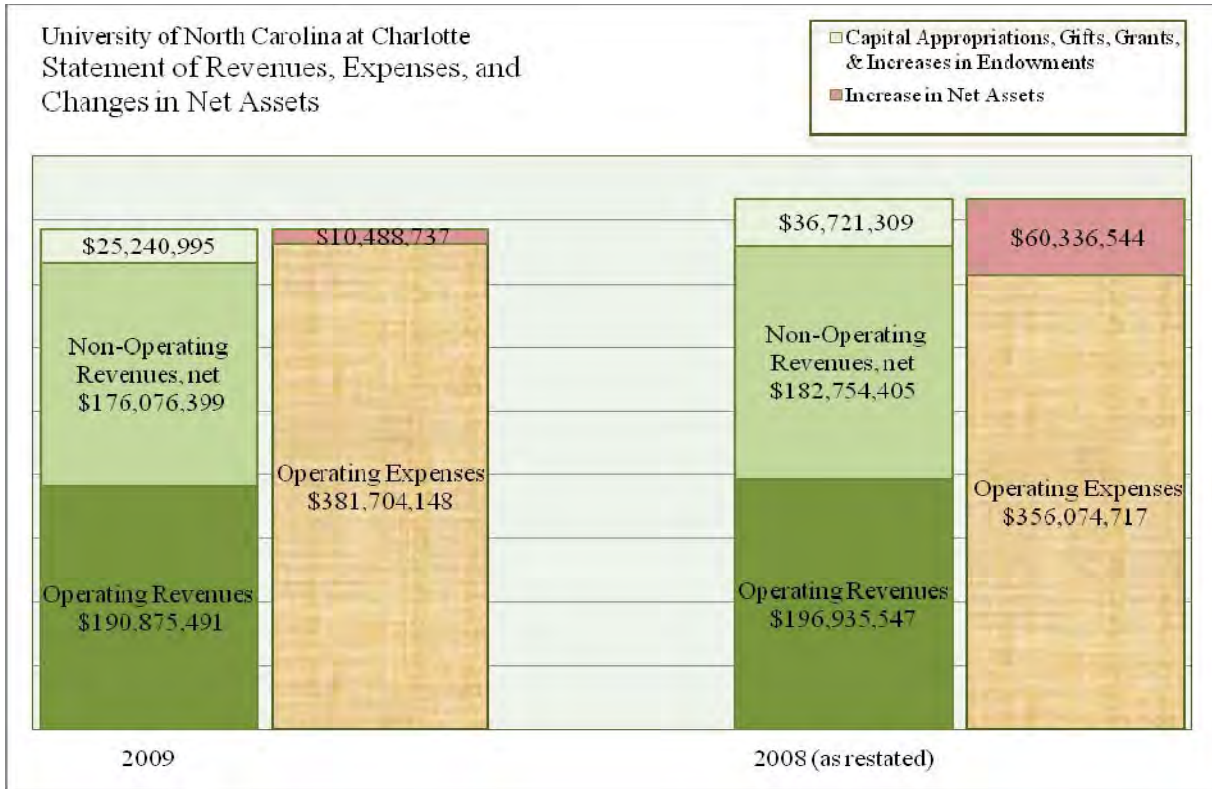
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

reported with federal grants and contracts. After accounting for the effect of the reporting change, operating revenues increased by \$10 million, or 5.5 percent, which is mainly attributable to the \$7.9 million, or 7.1 percent, increase in student tuition and fees resulting from continued enrollment growth and approved tuition and fee rate increases.

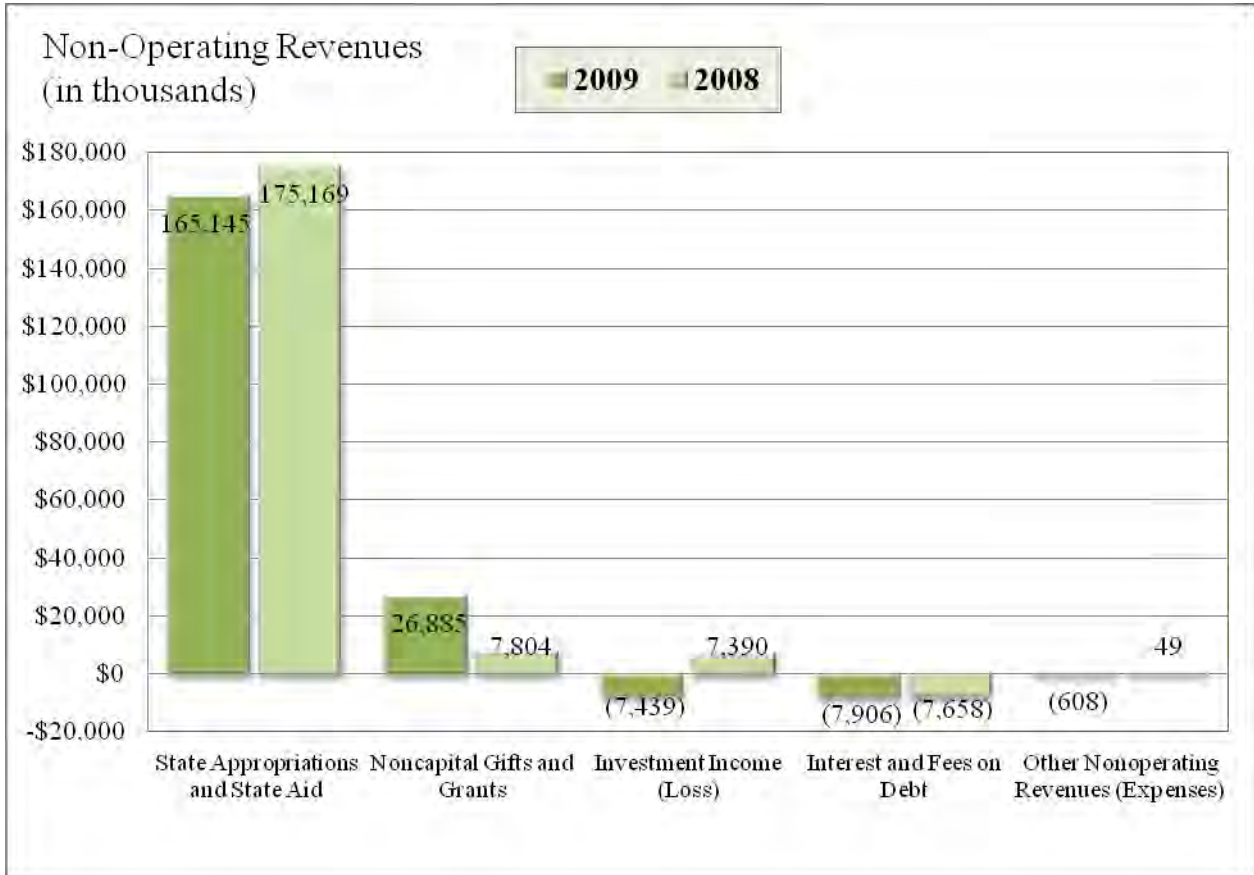
- Total operating expenses increased by \$25.6 million, or 7.2 percent, from the prior year. Salaries and benefits increased by \$22.2 million, or 9.7 percent, attributable to increases in faculty and staff to support continued enrollment growth, and legislative increases, both effective July 2008, and strategic increases for career banded staff, effective January 2009. Depreciation of capital assets also increased by \$4.1 million, or 22.9 percent, in large part due to the reevaluation and adjustment of the useful lives of various asset types, which resulted in a higher net book value to depreciate and, thus, additional depreciation expense. These increases were offset by a decrease in supplies and materials expended of \$3.8 million, or 13.6 percent, as operations-related spending decreased due to budget restrictions and the overall economic condition.
- Net nonoperating revenues decreased by \$6.7 million, or 3.7 percent, from \$182.8 million in 2008 to \$176.1 million in 2009. As discussed in the analysis of operating revenues, when the effect of the reporting change for federal student aid is neutralized, the actual decrease in net nonoperating revenues is \$22.7 million, or 11.4 percent. The majority of this decrease is a result of the \$14.7 million, or 8.4 percent decrease in state appropriations as compared to the prior fiscal year. Total state appropriations and state aid of \$165.1 million were received this year, while the total budgeted state appropriations expected to be received at the beginning of the fiscal year were \$192.2 million. Due to the global economic recession and its impact on state resources, the state withheld \$31.7 million of the original budgeted appropriations. Partly offsetting this withholding, state aid of \$4.65 million, funded by the American Recovery and Reinvestment Act of 2009 (ARRA) federal economic stimulus package, was also received during the fiscal year. The overall decrease in expected state funding of \$27.0 million was a significant contributing factor to the \$49.8 million decrease in overall performance from the prior year. In addition, the economic recession had a significant impact on the University's investment holdings, amounting to a total realized loss of \$7.2 million and a total unrealized loss of \$7.0 million during the fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Comparisons of the operating and nonoperating components of the changes in net assets for the fiscal years ended June 30, 2009, and June 30, 2008, are presented below:



MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)



Capital Asset and Debt Administration

The University remains committed to providing quality education, research, residential life, and other services to the community as student enrollment steadily increases each year, information technology continues to advance, and community needs continue to evolve. A major factor in meeting these commitments is the University’s ability to expand and improve its facilities and other capital assets.

During fiscal year 2009, the University’s capital assets continued to grow significantly. Buildings completed and capitalized during the year totaled \$6.4 million, including the completion of the Applied Optics Lab within Grigg Hall and the installation of a fire sprinkler system in Oak Residence Hall. Residence hall fire sprinkler system projects will continue each summer through 2012. Projects that were in progress at June 30, 2009, included the 196,678 square foot Student Union and the Bioinformatics Building (which both opened in August 2009), contributing to the total construction in progress at the end of the year of \$107.1 million, an increase of \$55.9 million over fiscal year 2008.

Gross state capital appropriations decreased by \$22.4 million, or 100 percent, from the prior fiscal year, and an additional \$1.1 million was refunded to the state from prior year capital appropriations. Capital grants increased by \$12.2 million to \$23.9 million to help fund specific future capital projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

In September 2009, the University proposed to its Board of Trustees a final draft of its new campus master plan, considered a blueprint to guide the campus's growth over the next ten to fifteen years. The plan anticipates a campus with up to 35,000 students by the year 2020 and proposes significant capital additions, including additional academic space, residence halls, and infrastructure development. The final plan is pending formal approval.

Outstanding commitments on construction contracts were \$14.6 million at June 30, 2009. There have been no changes in credit ratings or debt limitations during the fiscal year that may affect future financing for the University.

Economic Outlook

The University has experienced unprecedented challenges this fiscal year amid the economic recession. The downturn in the state's economy had an impact on the University's financial operations, resulting in limited spending, hiring freezes, and reductions in force. Faculty and staff responded quickly and appropriately to state mandates, mitigating the impact on the daily operations of the University and our services to students. Throughout these challenges, the University remained resilient. Management is prepared for similar challenges in the forthcoming year while maintaining its focus on the University's overall goals and purpose.

The University continues to grow in size - with current enrollment now at approximately 24,700 students - and in its sphere of influence as an integral part of the Charlotte community. The University remains the largest institution of higher education in the Charlotte region offering doctoral, master, and bachelor degree programs. The state of North Carolina has committed to supporting higher education, and the University continues to work with state leaders and other key stakeholders to ensure that we provide quality services in education, research, and public service.

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

University of North Carolina at Charlotte
Statement of Net Assets
June 30, 2009

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 123,559,687
Restricted Cash and Cash Equivalents	14,722,322
Receivables, Net (Note 4)	11,225,679
Inventories	327,827
Notes Receivable, Net (Note 4)	852,358
Prepaid Items	34,013
	<hr/>
Total Current Assets	150,721,886

Noncurrent Assets:

Restricted Cash and Cash Equivalents	21,686,411
Restricted Due from Primary Government	9,136
Bond Issuance Costs	266,521
Endowment Investments	39,436,533
Other Investments	19,444,342
Notes Receivable, Net (Note 4)	5,566,307
Capital Assets - Nondepreciable (Note 5)	138,632,820
Capital Assets - Depreciable, Net (Note 5)	467,628,508
	<hr/>
Total Noncurrent Assets	692,670,578

Total Assets	<hr/> <hr/> 843,392,464
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	15,665,911
Due to Primary Government	1,784,444
Deposits Payable	1,189,352
Funds Held for Others	177,114
Unearned Revenue	5,163,252
Interest Payable	321,822
Long-Term Liabilities - Current Portion (Note 7)	10,445,105
	<hr/>
Total Current Liabilities	34,747,000

Noncurrent Liabilities:

Funds Held for Others	144,966
U. S. Government Grants Refundable	5,496,214
Funds Held in Trust for Pool Participants	5,521,658
Long-Term Liabilities (Note 7)	157,019,275
	<hr/>
Total Noncurrent Liabilities	168,182,113

Total Liabilities	<hr/> <hr/> 202,929,113
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University of North Carolina at Charlotte
Statement of Net Assets
June 30, 2009

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	454,828,116
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	6,227,593
Research	2,574,020
Endowed Professorships	18,453,747
Departmental Uses	3,516,616
Loans	2,042,214
Other	228,497
Expendable:	
Scholarships and Fellowships	2,766,663
Research	5,132,555
Endowed Professorships	1,239,186
Departmental Uses	2,217,380
Capital Projects	20,960,190
Debt Service	10,783,582
Other	2,098,153
Unrestricted	<u>107,394,839</u>
Total Net Assets	<u><u>\$ 640,463,351</u></u>

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

University of North Carolina at Charlotte
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2009

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 118,952,286
Federal Grants and Contracts	21,393,117
State and Local Grants and Contracts	4,418,175
Nongovernmental Grants and Contracts	4,376,909
Sales and Services, Net (Note 9)	39,454,069
Interest Earnings on Loans	134,524
Other Operating Revenues	2,146,411
	<hr/>
Total Operating Revenues	190,875,491

EXPENSES

Operating Expenses:

Salaries and Benefits	250,626,868
Supplies and Materials	23,996,749
Services	62,723,653
Scholarships and Fellowships	11,750,510
Utilities	10,788,083
Depreciation	21,818,285
	<hr/>
Total Operating Expenses	381,704,148

Operating Loss (190,828,657)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	160,493,260
State Aid- Federal Recovery Funds	4,651,722
Noncapital Grants - Federal Student Financial Aid	19,531,195
Other Noncapital Grants	1,587,617
Noncapital Gifts	5,765,947
Investment Loss (Including Investment Expense of \$131,289)	(7,439,213)
Interest and Fees on Debt	(7,905,873)
Other Nonoperating Expenses	(608,256)
	<hr/>
Net Nonoperating Revenues	176,076,399

Income Before Other Revenues (14,752,258)

Refund of Prior Years Capital Appropriations	(1,145,130)
Capital Grants	23,895,083
Capital Gifts	1,612,534
Additions to Endowments	878,508
	<hr/>

Increase in Net Assets 10,488,737

NET ASSETS

Net Assets - July 1, 2008, as Restated (Note 17)	<u>629,974,614</u>
Net Assets - June 30, 2009	<u><u>\$ 640,463,351</u></u>

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

University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 188,080,034
Payments to Employees and Fringe Benefits	(249,817,042)
Payments to Vendors and Suppliers	(95,809,082)
Payments for Scholarships and Fellowships	(11,750,510)
Loans Issued	(1,131,231)
Collection of Loans	997,234
Interest Earned on Loans	104,280
Student Deposits Received	3,388,747
Student Deposits Returned	(3,390,085)
Other Receipts	1,835,501
	<hr/>
Net Cash Used by Operating Activities	(167,492,154)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	160,493,260
State Aid - Federal Recovery Funds	4,651,722
Noncapital Grants - Federal Student Financial Aid	19,436,213
Other Noncapital Grants	1,587,617
Noncapital Gifts	5,765,947
Additions to Endowments	878,508
Other Receipts	812,305
	<hr/>
Cash Provided by Noncapital Financing Activities	193,625,572

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Refund of Prior Years Capital Appropriations	(1,145,130)
Capital Grants	23,988,767
Proceeds from Sale of Capital Assets	37,480
Acquisition and Construction of Capital Assets	(67,740,701)
Principal Paid on Capital Debt	(6,335,000)
Interest and Fees Paid on Capital Debt	(7,841,579)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(59,036,163)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	58,909,033
Investment Income	6,910,304
Purchase of Investments and Related Fees	(33,063,729)
	<hr/>
Net Cash Provided by Investing Activities	32,755,608
	<hr/>
Net Decrease in Cash and Cash Equivalents	(147,137)
Cash and Cash Equivalents - July 1, 2008	160,115,557
	<hr/>
Cash and Cash Equivalents - June 30, 2009	\$ 159,968,420

University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Exhibit A-3
Page 2

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

Operating Loss	\$ (190,828,657)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	21,818,285
Allowances, Write-Offs, and Amortizations	1,178,345
Changes in Assets and Liabilities:	
Receivables (Net)	(2,478,683)
Inventories	(497)
Prepaid Items	1,394,516
Accounts Payable and Accrued Liabilities	(394,191)
Unearned Revenue	800,053
Compensated Absences	1,020,013
Deposits Payable	(1,338)
	<u>(167,492,154)</u>
Net Cash Used by Operating Activities	<u>\$ (167,492,154)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 123,559,687
Restricted Cash and Cash Equivalents	14,722,322
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>21,686,411</u>
Total Cash and Cash Equivalents - June 30, 2009	<u>\$ 159,968,420</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 1,612,534
Change in Fair Value of Investments	(6,987,247)
Loss on Disposal of Capital Assets	1,565,266

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, 2009

Exhibit B-1

ASSETS

Investments	\$ 65,790,644
Assets Held in Charitable Trusts	7,078,628
Interest Receivable	67,015
Accounts Receivable	4,764
Notes Receivable	2,364,146
Pledges Receivable	9,946,174
Cash Surrender Value of Life Insurance	631,093
Equipment, Net of Accumulated Depreciation	62,643
Property Held for Investment	3,041,164
Prepaid Expense	12,660
	<hr/>
Total Assets	88,998,931
	<hr/>

LIABILITIES

Accounts Payable and Accrued Expenses	11,767
Interest Payable	15,241
Funds Held for Others	104,686
Long-Term Note Payable, Current	201,383
Long-Term Note Payable, Noncurrent	3,910,306
	<hr/>
Total Liabilities	4,243,383
	<hr/>

NET ASSETS

Unrestricted	8,693,947
Temporarily Restricted	40,251,675
Permanently Restricted	35,809,926
	<hr/>
Total Net Assets	\$ 84,755,548
	<hr/> <hr/>

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

The Foundation of the University of North Carolina at Charlotte, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Exhibit B-2

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Support:				
Public Contributions	\$ 3,892,584	\$ 9,632,595	\$ 1,977,676	\$ 15,502,855
Revenue:				
Dividends and Interest Income	433,512	261,799		695,311
Endowment Income	798,226	1,407,111		2,205,337
Distributions of Endowment Income	(498,355)	498,355		
Rental Income and Other Income	346,283	221,520		567,803
Net Loss on Investments	(8,842,057)	(16,595,460)		(25,437,517)
Subtotal Revenue and Support	(3,869,807)	(4,574,080)	1,977,676	(6,466,211)
Transfers to/from Other Funds	(3,301,984)	3,320,967	(18,983)	
Net Assets Released from Restrictions	7,034,251	(7,034,251)		
Total Revenue and Support	(137,540)	(8,287,364)	1,958,693	(6,466,211)
EXPENSES				
Program Services:				
Contributions to the University of North Carolina at Charlotte	6,740,850			6,740,850
Distributions to Donors	133,130			133,130
Capital Projects	78,457			78,457
Grants and Research Administration	374,789			374,789
Other Program Support	268,997			268,997
Total Program Services	7,596,223			7,596,223
Supporting Services:				
Professional Fees	106,557			106,557
Investment Fees	250,571			250,571
Other General and Administrative Expenses	478,645			478,645
Interest Expense	164,448			164,448
Total Supporting Services	1,000,221			1,000,221
Total Expenses	8,596,444			8,596,444
Change in Net Assets	(8,733,984)	(8,287,364)	1,958,693	(15,062,655)
Net Assets, Beginning of Year	17,427,931	48,539,039	33,851,233	99,818,203
Net Assets, End of Year	<u>\$ 8,693,947</u>	<u>\$ 40,251,675</u>	<u>\$ 35,809,926</u>	<u>\$ 84,755,548</u>

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

UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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 (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Charlotte is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are either blended or discretely presented in the University's financial statements. The blended component units, although legally separate, are, in substance, part of the University's operations and therefore, are reported as if they were part of the University. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Blended Component Units - Although legally separate, the University of North Carolina at Charlotte Facilities Corporation, Inc. (FDC) and the University of North Carolina at Charlotte Investment Fund, Inc. (Investment Fund), component units of the University, are reported as if they were part of the University.

The FDC is governed by an eight-member board consisting of three ex officio directors and five elected directors. The sole purpose is to assist the University in financing, constructing and equipping a student housing project on campus. The University operated and manages the project under the terms of agreement between the University and the FDC. Because the elected directors of the FDC are appointed by the members of the University of North Carolina at Charlotte Board of Trustees and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

because the FDC's primary purpose is to benefit University, its financial statements have been blended with those of the University.

The Investment Fund is governed by a board consisting of four ex officio directors and three elected directors. The purpose of the Investment Fund is to support the University by operating an investment fund for nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Its member investors include the University, the Foundation, and the Athletic Foundation (see Note 15). Because four of the seven directors of the Investment Fund are administrators of the University and the elected directors are appointed by the University's Board of Trustees, and because the Investment Fund's sole purpose is to benefit the University, the financial activity for the University's share of the Investment Fund has been blended with the University's financial statements.

Separate financial statements for the FDC and the Investment Fund for the most recent reporting period can be obtained from the University Controller's Office, at controller@uncc.edu, or by calling (704) 687-5759.

Discretely Presented Component Unit - The Foundation of the University of North Carolina at Charlotte, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of their 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 36 officers and directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereof, that the Foundation holds and invests is 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2009, the Foundation distributed cash support totaling \$5,815,956 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Controller's Office at controller@uncc.edu, or by calling (704) 687-5759.

- 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-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.

- 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories held by the University are valued at cost using the last invoice cost method. Inventories consist of expendable supplies, postage, fuel held for consumption, and other merchandise for resale.
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 15 to 75 years for general infrastructure, 50 years for buildings, and 3 to 20 years for equipment.

The University's art, literature, and artifacts collections are capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

- I. Restricted Assets** - 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, certificates of participation, 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 method. The deferred losses on refunds are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs are expensed.

Cost of issuance for the FDC's certificates of participation is amortized over ten years. Unamortized cost of issuance is reported as Bond Issuance Cost.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$157,142,180 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.8 years as of June 30, 2009. 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2009 was \$60,965. The carrying amount of the University's deposits not with the State Treasurer was \$2,765,275 and the bank balance was \$2,841,813. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2009, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Bank	<u>\$ 2,841,813</u>
---------------------------------------	---------------------

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 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 Foundation and Investment Fund, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 the Foundation, a separate entity and discrete component unit included in the University's reporting entity, represent the pool's internal participants. 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 monthly period. The external portion of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

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

The pool is managed by several external investment managers. These managers provide the University with monthly statements defining

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 from the Controller's Office at controller@unc.edu, or by calling (704) 687-5759.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, for the External Investment Pool.

External Investment Pool

	Fair Value	Investment Maturities (in Years) Less Than 1
Investment Type		
Debt Securities		
Money Market Mutual Funds	\$ 68,175,579	\$ 68,175,579
Total Debt Securities		\$ 68,175,579
Other Securities		
UNC Investment Fund	5,792,636	
International Mutual Funds	4,447,517	
Hedge Funds	14,512,979	
Total External Investment Pool	\$ 92,928,711	

At June 30, 2009, investments in the External Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa
Money Market Mutual Funds	\$ 68,175,579	\$ 68,175,579

Rating Agency: Moody's / Standard & Poor's

UNC Investment Fund, LLC - At June 30, 2009, the University's investments include \$5,792,636, of which \$2,258,259 represents the University's equity position and \$3,534,377 represents the Foundation's equity position in the UNC Investment Fund, LLC (System Fund). The System Fund, 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 12.70 years as of June 30, 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Asset and ownership interests of the System Fund are determined on a market unit valuation basis each month. Investment risks associated with the System Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from the UNC CH Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, for the University's 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	\$ 813,608	\$ 141,765	\$ 416,784	\$ 255,059	\$ 0
U.S. Agencies	483,903	96,228	253,542	102,769	31,364
Mortgage Pass Throughs	328,323		15,051	31,651	281,621
Collateralized Mortgage Obligations	48,397				48,397
Repurchase Agreements	7,294,516	7,294,516			
Money Market Mutual Funds	3,357,582	3,357,582			
Domestic Corporate Bonds	369,373		152,593	147,510	69,270
Total Debt Securities	12,695,702	\$ 10,890,091	\$ 837,970	\$ 536,989	\$ 430,652
Other Securities					
Investments in Real Estate	8,953,283				
Domestic Stocks	980,466				
Other	22,328				
Total Non-Pooled Investments	\$ 22,651,779				

At June 30, 2009, 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	\$ 483,903	\$ 483,903	\$ 0	\$ 0	\$ 0	\$ 0
Mortgage Pass Throughs	328,323	303,694				24,629
Collateralized Mortgage Obligations	48,397	48,397				
Repurchase Agreements	7,294,516					7,294,516
Money Market Mutual Funds	3,357,582	3,357,582				
Domestic Corporate Bonds	369,373		114,159	187,944	67,270	

Rating Agency: Moody's/Standard & Poor's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total Investments - The following table presents the fair value of the total investments at June 30, 2009:

Investment Type	Fair Value
Debt Securities	
U.S. Treasuries	\$ 813,608
U.S. Agencies	483,903
Mortgage Pass Throughs	328,323
Collateralized Mortgage Obligations	48,397
Repurchase Agreements	7,294,516
Money Market Mutual Funds	71,533,161
Domestic Corporate Bonds	369,373
Total Debt Securities	80,871,281
Other Securities	
UNC Management Company, Inc.	5,792,636
Investments in Real Estate	8,953,283
International Mutual Funds	4,447,517
Hedge Funds	14,512,979
Domestic Stocks (Common & Preferred)	980,466
Other - Cash Surrender Value Life Insurance	22,328
Total Investments	\$ 115,580,490

Total investments include \$56,699,615 held in the University of North Carolina at Charlotte Investment Fund, Inc., for the component unit that is discretely presented in the accompanying financial statements. The University's reporting entity, including the discretely presented component unit, comprises 94% of The University of North Carolina at Charlotte Investment Fund, Inc.

Component Unit - Investments of the University's discretely presented component unit, the Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) 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. The following is an analysis of investments by type:

Investment Type	Fair Value
Money Market Funds	\$ 47,457,989
Debt Securities	3,085,134
Equity Securities	15,247,521
Total Investments	\$ 65,790,644

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable 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 ended June 30, 2009 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 principal. If current year earnings do not meet the payout requirements, the University uses accumulated income from expendable net asset endowment balances to make up the difference. At June 30, 2009, endowment net assets of \$12,084,281 were available to be spent, of which \$3,047,173 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 5,846,700	\$ 954,638	\$ 4,892,062
Accounts	2,689,078		2,689,078
Intergovernmental	3,376,351		3,376,351
Investment Earnings	31,246		31,246
Interest on Loans	113,492		113,492
Other	123,450		123,450
Total Current Receivables	\$ 12,180,317	\$ 954,638	\$ 11,225,679
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 773,643	\$ 22,640	\$ 751,003
Institutional Student Loan Programs	109,329	7,974	101,355
Total Notes Receivable - Current	\$ 882,972	\$ 30,614	\$ 852,358
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 5,147,516	\$ 275,938	\$ 4,871,578
Institutional Student Loan Programs	724,426	29,697	694,729
Total Notes Receivable - Noncurrent	\$ 5,871,942	\$ 305,635	\$ 5,566,307

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Balance July 1, 2008 (as restated)	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 6,486,243	\$ 195,027	\$ 0	\$ 6,681,270
Art, Literature and Artifacts	23,863,286	1,020,869		24,884,155
Construction in Progress	51,147,699	65,002,470	9,082,774	107,067,395
Total Capital Assets, Nondepreciable	81,497,228	66,218,366	9,082,774	138,632,820
Capital Assets, Depreciable:				
Buildings	453,213,695	6,448,909		459,662,604
Machinery and Equipment	73,595,271	4,424,006	5,265,440	72,753,837
General Infrastructure	95,875,867	2,641,590	109,667	98,407,790
Total Capital Assets, Depreciable	622,684,833	13,514,505	5,375,107	630,824,231
Less Accumulated Depreciation/Amortization for:				
Buildings	98,369,609	11,781,547		110,151,156
Machinery and Equipment	32,719,652	6,244,904	3,707,899	35,256,657
General Infrastructure	14,098,018	3,791,834	101,942	17,787,910
Total Accumulated Depreciation	145,187,279	21,818,285	3,809,841	163,195,723
Total Capital Assets, Depreciable, Net	477,497,554	(8,303,780)	1,565,266	467,628,508
Capital Assets, Net	\$ 558,994,782	\$ 57,914,586	\$ 10,648,040	\$ 606,261,328

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	\$ 10,453,469
Accrued Payroll	1,006,384
Contract Retainage	4,126,958
Other	79,100
Total Accounts Payable and Accrued Liabilities	\$ 15,665,911

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, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Revenue Bonds Payable	\$ 136,529,000	\$ 0	\$ (5,370,000)	\$ 131,159,000	\$ 5,515,000
Certificates of Participation	20,255,000		(965,000)	19,290,000	995,000
Add/Deduct Premium/Discount	3,327,677		(222,557)	3,105,120	
Deduct Deferred Charge on Refunding	(1,916,884)		171,392	(1,745,492)	
Total Bonds and Certificates of Participation Payable	158,194,793		(6,386,165)	151,808,628	6,510,000
Notes Payable	2,747,550			2,747,550	2,747,550
Compensated Absences	11,888,189	8,047,667	(7,027,654)	12,908,202	1,187,555
Total Long-Term Liabilities	\$ 172,830,532	\$ 8,047,667	\$ (13,413,819)	\$ 167,464,380	\$ 10,445,105

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Bonds Payable and Certificates of Participation - The University was indebted for 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, 2009	Principal Outstanding June 30, 2009	See Table Below
Revenue Bonds Payable							
General Revenue Bonds Payable							
Partial Refund of Housing Phase VII	2006 A	4.25%-5%	2014	\$ 1,920,000	\$ 40,000	\$ 1,880,000	
Parking Deck G	2006 A	4%-5%	2036	10,545,000	635,000	9,910,000	
Student Union Taxable	2007-A	5.02%-5.68%	2023	18,140,000	1,605,000	16,535,000	
Student Union Non-Taxable	2007-B	4.25%-5%	2037	36,260,000		36,260,000	
Total General Revenue Bonds				<u>66,865,000</u>	<u>2,280,000</u>	<u>64,585,000</u>	
Housing and Dining Bonds							
Martin Village	F	3%-3%	2018	2,175,000	1,440,000	735,000	(2)
Phase III	H	3%-3%	2019	1,568,000	1,009,000	559,000	(2)
Total Housing and Dining Bonds				<u>3,743,000</u>	<u>2,449,000</u>	<u>1,294,000</u>	
Student Cone Center Bonds							
Cone Center Addition	C	6.9%-7%	2010	2,300,000	2,140,000	160,000	(1)
Parking System Bonds							
Parking Deck F	2002	3.25%-5.125%	2027	10,900,000	2,985,000	7,915,000	(3)
The University of North Carolina System Pool Revenue Bonds							
Phase VII Apartments	1998 B	4%-5.25%	2024	15,875,000	6,220,000	9,655,000	(2)
Phase VIII Apartments	2002 A	4%-5.375%	2027	21,115,000	2,790,000	18,325,000	
Brocker Health Center	2003 A	2%-5.25%	2028	6,055,000	970,000	5,085,000	
Refinance Portion of SAC 1995 Bonds	2003 A	2%-5.25%	2016	8,770,000	365,000	8,405,000	
Refinance Portion of H&D Series M	2003 A	2%-5%	2015	8,635,000	4,525,000	4,110,000	
Refinance Parking Series 1996	2004 A	3%-4%	2021	4,480,000	1,070,000	3,410,000	
Refinance Balance of SAC 1995 Bonds	2005 A	3%-5.25%	2021	11,855,000	3,640,000	8,215,000	
Total The University of North Carolina System Pool Revenue Bonds				<u>76,785,000</u>	<u>19,580,000</u>	<u>57,205,000</u>	
Certificates of Participation							
Banner COPs		3%-5%	2014	5,925,000	2,405,000	3,520,000	(4)
Greek Village COPs		3%-4.75%	2035	16,745,000	975,000	15,770,000	(5)
Total Certificates of Participation				<u>22,670,000</u>	<u>3,380,000</u>	<u>19,290,000</u>	
Total Bonds Payable and Certificates of Participation (principal only)				<u>\$ 183,263,000</u>	<u>\$ 32,814,000</u>	<u>150,449,000</u>	
Less: Unamortized Loss on Refunding						(1,745,492)	
Less: Unamortized Discount						(295,039)	
Plus: Unamortized Premium						3,400,159	
Total Bonds Payable and Certificates of Participation						<u>\$ 151,808,628</u>	

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	\$ 165,600	\$ 518,833	\$ 166,450	32%
(2)	Housing	15,186,981	8,397,457	1,134,408	13%
(3)	Parking	11,248,488	4,331,719	892,919	15%
(4)	Banner	3,961,838	1,323,181	795,413	60%
(5)	Greek Village	27,508,094	1,372,057	1,059,644	77%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2009, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Certificates of Participation		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
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	5,745,000	5,356,351	1,160,000	690,494		
2015-2019	29,739,000	22,427,911	2,245,000	3,047,869		
2020-2024	27,770,000	14,902,008	2,775,000	2,513,275		
2025-2029	19,355,000	9,077,153	3,475,000	1,813,006		
2030-2034	15,850,000	4,971,650	4,415,000	874,637		
2035-2037	10,880,000	976,606	1,010,000	46,712		
Total Requirements	\$ 131,159,000	\$ 81,722,039	\$ 19,290,000	\$ 12,179,932	\$ 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 extinguished long-term debt obligations by the issuance of new long-term debt instruments. The University defeased \$1,880,000 of outstanding University of North Carolina System Pool Revenue Bonds, Series 1998B 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. During the fiscal year ended June 30, 2009, these previously defeased bonds were paid off in full by the irrevocable trust.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009
Housing Phase IX Design	Bank of America	3.10%	01/15/2010	\$ 2,747,550	\$ 0	\$ 2,747,550

The University signed the housing facility promissory note on May 2, 2008, and plans to refinance the note maturing on January 15, 2010 with the proceeds of other long-term financing.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 248,015
2011	248,486
Total Minimum Lease Payments	<u>\$ 496,501</u>

Rental expense for all operating leases during the year was \$291,741.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Change in Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	\$ 138,631,090	\$ 0	\$ 19,059,265	\$ 619,539	\$ 118,952,286
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 19,401,848	\$ 417,521	\$ 3,190,387	\$ 131,708	\$ 15,662,232
Dining	11,642,945	19,433	1,698,904	84,587	9,840,021
Student Union Services	1,995,498	843,687			1,151,811
Health, Physical Education, and Recreation Services	1,833,842	30,836		86,107	1,716,899
Parking	6,272,192	219,120		1,692	6,051,380
Athletics	1,673,361	12,726			1,660,635
Facilities	10,881,104	10,488,417			392,687
Telecommunications	2,951,829	2,584,786			367,043
Other	2,036,157	710,548			1,325,609
Sales and Services of Education and Related Activities	<u>2,041,544</u>	<u>754,307</u>		<u>1,485</u>	<u>1,285,752</u>
Total Sales and Services	<u>\$ 60,730,320</u>	<u>\$ 16,081,381</u>	<u>\$ 4,889,291</u>	<u>\$ 305,579</u>	<u>\$ 39,454,069</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 143,385,325	\$ 3,908,232	\$ 11,611,986	\$ 0	\$ 4,531	\$ 0	\$ 158,910,074
Research	13,568,058	2,054,005	5,968,594				21,590,657
Public Service	1,532,454	98,862	303,252				1,934,568
Academic Support	17,019,283	5,878,243	9,077,795		204		31,975,525
Student Services	13,194,730	628,905	2,045,709		45		15,869,389
Institutional Support	20,758,821	609,464	6,920,638				28,288,923
Operation and Maintenance of Plant	18,021,025	5,495,000	3,898,549		7,696,941		35,111,515
Student Financial Aid				11,750,510			11,750,510
Auxiliary Enterprises	23,147,172	5,324,038	22,897,130		3,086,362		54,454,702
Depreciation						21,818,285	21,818,285
Total Operating Expenses	<u>\$ 250,626,868</u>	<u>\$ 23,996,749</u>	<u>\$ 62,723,653</u>	<u>\$ 11,750,510</u>	<u>\$ 10,788,083</u>	<u>\$ 21,818,285</u>	<u>\$ 381,704,148</u>

NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$205,557,338, of which \$84,924,137 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions for pension benefits for the year were \$2,853,451 and \$5,095,448, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$2,853,451, \$2,299,238, and \$1,792,093, 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 "Proceed directly to OSC's index page," then "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.

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, 2009, 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 \$205,557,338, of which \$92,006,094 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$6,293,217 and \$5,520,366, 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 \$680,825 for the year ended June 30, 2009.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2009, were \$62,591. The voluntary contributions by employees amounted to \$1,376,162 for the year ended June 30, 2009.

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 \$3,124,945 for the year ended June 30, 2009.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 *North Carolina General Statute 135-7* and Chapter 135, Article 3A, 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 of the 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.

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, 2008, and 2007, were 4.1% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$7,254,140, \$6,551,498, and \$5,358,112, 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 "Proceed directly to OSC's index

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

page,” then “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, 2009, 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. The required contribution rate for the years ended June 30, 2008 and 2007 was .52% for both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$920,037, \$830,922, and \$733,215, 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*.

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 per occurrence under the authority of the State Tort Claims Act. In addition, the State provides excess public officers’ and employees’ liability insurance up to \$10,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the insure broker.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. The University has purchased extended coverage for all buildings and contents within the buildings. Extended coverage includes the perils of windstorm, hail, explosion, smoke, aircraft or vehicles, riot or civil commotion.

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 \$10,000,000 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. The private insurance company pays 90% of each loss less a \$75,000 deductible.

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

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

The University retained the following risks as of June 30, 2009:

A separate liability policy underwritten by Medical Mutual Insurance has been purchased for healthcare professionals. The limit of liability is \$1,000,000 per claim and \$3,000,000 aggregate annually.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$14,609,916 at June 30, 2009.
- 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 Athletic Foundation of the University of North Carolina at Charlotte 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 financial statements do not include the assets, liabilities, net assets or operational transactions of the foundation, except for support from the organization to the University. This support amounted to \$280,034 for the year ended June 30, 2009.

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 \$99,000 for the year ended June 30, 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

In addition, beginning with the year ended June 30, 2009, the University reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB Comprehensive Implementation Guide.

NOTE 17 - NET ASSET RESTATEMENTS

As of July 1, 2008, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2008 Net Assets as Previously Reported	\$ 621,349,017
Restatement: Reevaluation and Adjustment of Useful Lives of Capital Assets	8,821,044
Restatement: Elimination of Noncapitalizable Costs from Construction in Progress	<u>(195,447)</u>
July 1, 2008 Net Assets as Restated	<u><u>\$ 629,974,614</u></u>

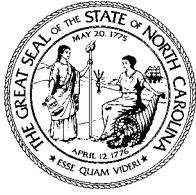
NOTE 18 - SUBSEQUENT EVENTS

The Board of Directors of the External Investment Pool and its members approved changes in the investment policy to reposition the portfolio. At June 30, 2009, \$68 million, or 74%, of the portfolio was liquidated and held in money market funds. By July 6, 2009, redemption proceeds of \$74.5 million

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

were received and reinvested within the new policy framework. This strategy will provide immediate exposure to pre-defined pools of investments with greater diversification by both manager and asset class.

In addition, the University issued \$58.1 million in general revenue bonds during December 2009. The net proceeds of the bonds are being used to construct two capital projects: \$39.1 million for the Phase IX Housing facility and \$19 million for Parking Deck H.



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, 2009, which collectively comprise the University's basic financial statements and have issued our report thereon dated June 24, 2010. 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. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

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 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.

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

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.

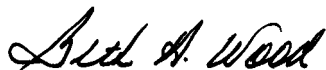
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, others within the entity, 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

June 24, 2010

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