

# **STATE OF NORTH CAROLINA**

**UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE**

**CHARLOTTE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2010**

**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, 2010**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

**THOMAS W. ROSS, PRESIDENT**

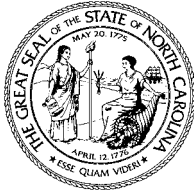
**BOARD OF TRUSTEES**

**DR. RUTH G. SHAW, CHAIRMAN**

**ADMINISTRATIVE OFFICERS**

**DR. PHILIP L. DUBOIS, CHANCELLOR**

**ELIZABETH A. HARDIN, VICE CHANCELLOR FOR BUSINESS AFFAIRS**



**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

---

**AUDITOR'S TRANSMITTAL**

---

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

We have completed a financial statement audit of the University of North Carolina at Charlotte for the year ended June 30, 2010, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a certain deficiency that is detailed in the Audit Findings and Responses section of this report. The University's response is included following the finding.

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

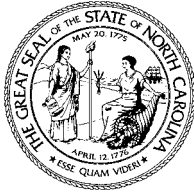
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

## TABLE OF CONTENTS

---

	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
BASIC FINANCIAL STATEMENTS	
University Exhibits	
A-1 Statement of Net Assets .....	17
A-2 Statement of Revenues, Expenses, and Changes in Net Assets .....	19
A-3 Statement of Cash Flows .....	20
Component Unit Exhibits	
B-1 Statement of Financial Position .....	22
B-2 Statement of Activities .....	23
Notes to the Financial Statements .....	25
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i> .....	55
AUDIT FINDINGS AND RESPONSES .....	59
ORDERING INFORMATION .....	61



**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

---

**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, 2010, 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 represents 10 percent and 2 percent, respectively of the assets and revenues of the University; nor the financial statements of The University of North Carolina at Charlotte Facilities Development Corporation, which represents 2 percent and less than 1 percent, respectively, of the assets and revenues of the University. In addition, we did not audit 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., The University of North Carolina at Charlotte Facilities Development Corporation, 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.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

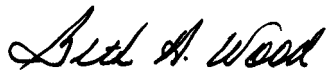
---

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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2011 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

March 25, 2011

## **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 is pleased to present its annual financial statement report for the fiscal year ended June 30, 2010.

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, 2010, emphasizing current year data and material changes between the prior and current fiscal year. Comparative information for the year ended June 30, 2009 has been provided where applicable. Certain prior year amounts have been restated to conform to current year presentations. In addition, beginning balance adjustments were made to more accurately represent the University's net assets. The reader may refer to Note 17 for additional information. 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.

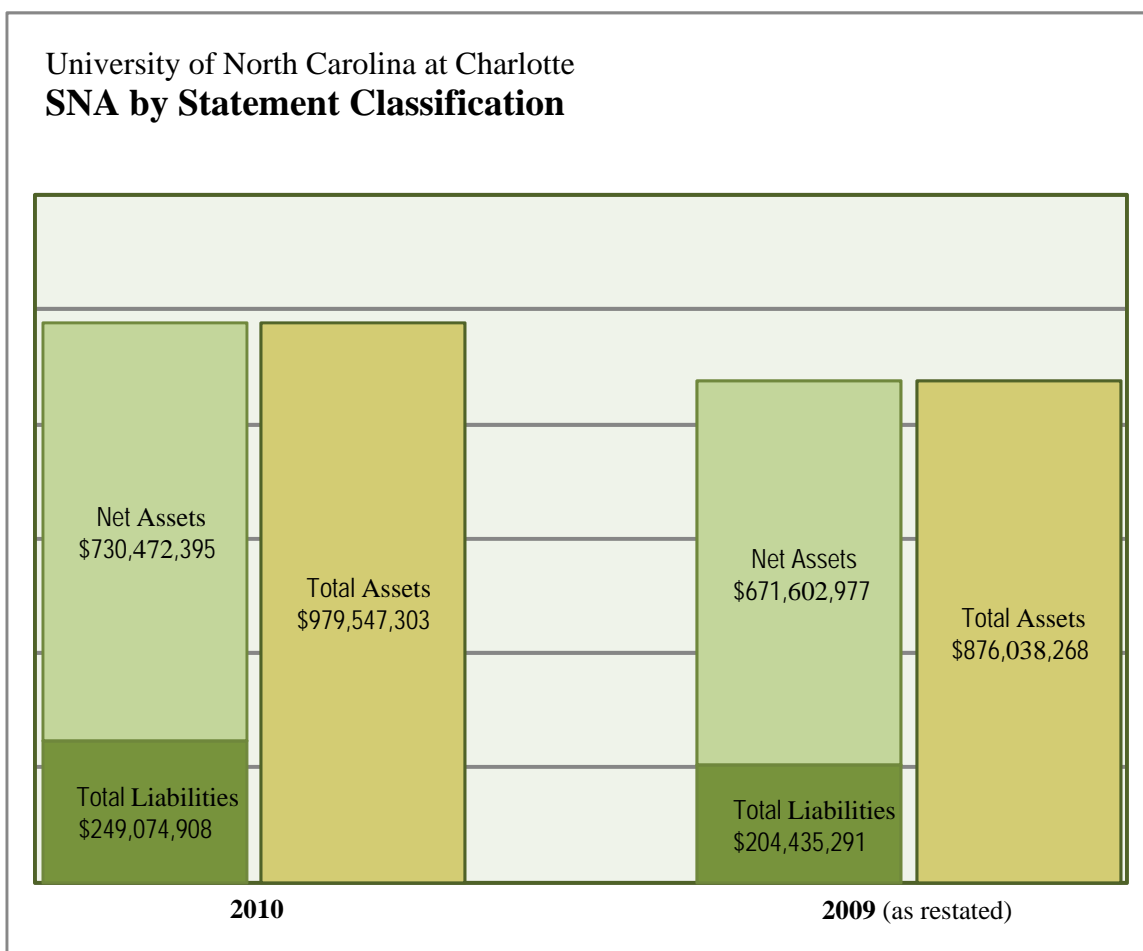
### **Statement of Net Assets**

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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 represents the residual interest in the University's assets net of its liabilities and 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, 2010, and June 30, 2009, 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



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 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.

The following table summarizes and compares the University's assets, liabilities, and net assets on June 30, 2010, and June 30, 2009.

Condensed Statement of Net Assets	2010	2009 (as restated)	Increase (Decrease)	
			Amount	Percent
<b>Assets:</b>				
Current Assets	\$ 171,881,321	\$ 150,721,886	\$ 21,159,435	14.0%
Noncurrent Assets:				
Endowment and Other Investments	53,164,303	58,880,875	(5,716,572)	-9.7%
Capital Assets, Net	690,030,002	638,907,132	51,122,870	8.0%
Other Noncurrent Assets	64,471,677	27,528,375	36,943,302	134.2%
<b>Total Assets</b>	<b>979,547,303</b>	<b>876,038,268</b>	<b>103,509,035</b>	<b>11.8%</b>
<b>Liabilities:</b>				
Current Liabilities	31,230,314	35,037,303	(3,806,989)	-10.9%
Noncurrent Liabilities:				
Funds Held in Trust	5,899,417	5,521,658	377,759	6.8%
Long-Term Liabilities	206,442,871	158,235,150	48,207,721	30.5%
Other Noncurrent Liabilities	5,502,306	5,641,180	(138,874)	-2.5%
<b>Total Liabilities</b>	<b>249,074,908</b>	<b>204,435,291</b>	<b>44,639,617</b>	<b>21.8%</b>
<b>Net Assets:</b>				
Invested in Cap Assets, Net of Related Debt	536,390,601	485,967,741	50,422,860	10.4%
Restricted:				
Nonexpendable	33,131,904	33,042,688	89,216	0.3%
Expendable	31,409,237	45,197,709	(13,788,472)	-30.5%
Unrestricted	129,540,653	107,394,839	22,145,814	20.6%
<b>Total Net Assets</b>	<b>\$ 730,472,395</b>	<b>\$ 671,602,977</b>	<b>\$ 58,869,418</b>	<b>8.8%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

---

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 2010. Some highlights of the information presented on the SNA include:

- The University's cash and cash equivalents totaled \$214.7 million at June 30, 2010, an increase of \$54.7 million from the prior year end. This increase was primarily due to bond proceeds received of \$58.1 million from general revenue bonds issued in November 2009. The proceeds were invested in the State Treasurer's Short-Term Investment Fund (STIF). The University's holdings in the STIF were classified as current (\$113.9 million), current restricted (\$21.2 million), and noncurrent restricted (\$53.0 million) cash at June 30, 2010.
- Total current assets at June 30, 2010 were \$171.9 million, an increase of \$21.2 million, or 14.0 percent, during the fiscal year. This increase was predominantly a result of additional current cash and cash equivalents (unrestricted and restricted) of \$18.0 million, due to the reinstatement of flex budget carry-forward monies and the receipt of bond proceeds to be used for current liabilities. Net receivables also increased by \$2.1 million, or 18.5 percent, mainly due to increased receivables of \$1.6 million related to the William D. Ford Federal Direct Loan Program. Finally, prepaid items increased by \$1.3 million due to prepaid EBSCO Information Services invoices for library subscription services.
- Total noncurrent assets increased by \$82.3 million, or 11.4 percent, during fiscal year 2010. Noncurrent restricted cash increased by \$36.7 million due to the receipt of bond proceeds mentioned above. Capital assets increased by \$51.1 million, or 8.0 percent, for new construction and other capital acquisitions. Total investments decreased by \$5.7 million, or 9.7 percent, due to a \$4.5 million increase in market performance, offset by the sale of \$7.3 million in repurchase agreements and a decrease of \$2.9 million in investments in fiscal agent accounts because of lessened reserve requirements.
- Total liabilities increased by \$44.6 million, or 21.8 percent, to \$249.1 million at June 30, 2010. Current liabilities decreased by \$3.8 million while noncurrent liabilities increased by \$48.4 million. Current liabilities primarily decreased due to repayment of a \$2.7 million note payable. The increase in noncurrent liabilities was mainly due to the \$58.1 million in general revenue bonds issued, offset by principal payments of \$7.7 million on bonds payable and certificates of participation throughout the fiscal year and a \$1 million decrease in long-term debt from current and advanced refinancings.
- Net assets increased from the prior fiscal year by \$58.9 million, or 8.8 percent, to \$730.5 million. This growth is primarily due to a \$50.4 million, or 10.4 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 completed buildings. Restricted expendable net assets decreased by \$13.8 million, or 30.5 percent, due to funds expended for capital projects

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

---

and debt service. Unrestricted net assets increased by \$22.1 million, or 20.6 percent, mainly due to an increase in budget carry-forward funds.

- The University's liquidity remains strong. The current ratio (current assets divided by current liabilities) of 5.50 indicates that the University, if needed, could satisfy payment of its current liabilities more than five times before current assets are exhausted. Total working capital (current assets less current liabilities) of \$140.7 million at June 30, 2010, increased by 21.6 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 earned by the University, and the operating and nonoperating expenses incurred by the University. Other revenues, expenses, gains, and losses recognized by the University and not classified as operating or nonoperating are presented separately on the statement.

Generally, operating revenues are generated by providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses incurred to acquire or produce the goods and services provided to fulfill 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, 2010, and June 30, 2009.

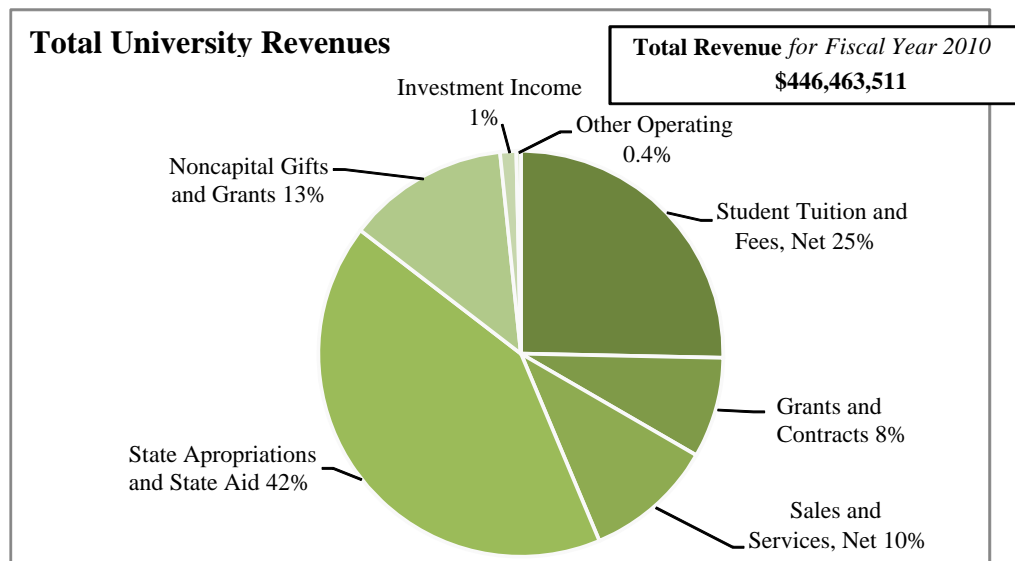
Condensed Statement of Revenues, Expenses, and Changes in Net Assets	2010	2009 (as restated)	Increase (Decrease)	
			Amount	Percent
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 113,037,544	\$ 107,976,085	\$ 5,061,459	4.7%
Grants and Contracts	35,778,967	30,188,201	5,590,766	18.5%
Sales and Services, Net	46,204,463	36,638,334	9,566,129	26.1%
Other Operating Revenues	1,614,558	2,280,935	(666,377)	-29.2%
<b>Total Operating Revenues</b>	<b>196,635,532</b>	<b>177,083,555</b>	<b>19,551,977</b>	<b>11.0%</b>
<b>Operating Expenses:</b>				
Salaries and Benefits	255,770,760	250,626,867	5,143,893	2.1%
Supplies and Materials	33,321,534	23,434,238	9,887,296	42.2%
Services	62,337,515	62,691,206	(353,691)	-0.6%
Scholarships and Fellowships	23,308,782	18,192,243	5,116,539	28.1%
Utilities	11,076,706	10,788,083	288,623	2.7%
Depreciation	16,675,256	17,502,517	(827,261)	-4.7%
<b>Operating Expenses</b>	<b>402,490,553</b>	<b>383,235,155</b>	<b>19,255,398</b>	<b>5.0%</b>
<b>Operating Loss</b>	<b>(205,855,021)</b>	<b>(206,151,600)</b>	<b>296,579</b>	<b>0.1%</b>
<b>Nonoperating Revenues (Expenses):</b>				
State Appropriations and State Aid	186,335,342	165,144,982	21,190,360	12.8%
Noncapital Gifts and Grants	57,704,245	47,118,428	10,585,817	22.5%
Investment Gain (Loss), Net	5,788,391	(7,439,213)	13,227,604	177.8%
Interest and Fees on Debt	(5,078,111)	(7,909,485)	2,831,374	35.8%
Other Nonoperating Revenues (Expenses)	(738,627)	(608,256)	(130,371)	-21.4%
<b>Total Nonoperating Revenues</b>	<b>244,011,240</b>	<b>196,306,456</b>	<b>47,704,784</b>	<b>24.3%</b>
<b>Income Before Other changes</b>	<b>38,156,219</b>	<b>(9,845,144)</b>	<b>48,001,363</b>	<b>487.6%</b>
Capital Appropriations (Net of Refunds)	(299,013)	(1,145,130)	846,117	73.9%
Capital Grants	19,809,724	23,895,083	(4,085,359)	-17.1%
Capital Contributions	715,658	1,612,534	(896,876)	-55.6%
Additions to Endowment	486,830	878,508	(391,678)	-44.6%
<b>Increase (Decrease) in Net Assets</b>	<b>58,869,418</b>	<b>15,395,851</b>	<b>43,473,567</b>	<b>282.4%</b>
<b>Net Assets, Beginning of Year (as restated)</b>	<b>671,602,977</b>	<b>656,207,126</b>	<b>15,395,851</b>	<b>2.3%</b>
<b>Net Assets, End of Year</b>	<b>\$ 730,472,395</b>	<b>\$ 671,602,977</b>	<b>\$ 58,869,418</b>	<b>8.8%</b>

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 2010. Some highlights of the information presented on the SRECNA are as follows:

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Total operating revenues increased by \$19.6 million, or 11.0 percent, as compared to the prior fiscal year. This net increase is attributable to: a \$5.1 million, or 4.7 percent, increase in student tuition and fees resulting from continued enrollment growth; a \$5.6 million, or 18.5 percent, increase in grants and contracts received from federal, state and local sources; and a \$9.6 million increase in net sales and services revenue due to enrollment growth and the timing of contractual payments received for dining services.
- Net nonoperating revenues provided to the University were \$244.0 million in fiscal year 2010, a \$47.7 million, or 24.3 percent, increase compared to the prior year. Part of this increase is the result of a \$13.5 million increase in state appropriations as compared to the prior fiscal year. State aid of \$12.3 million, funded by the American Recovery and Reinvestment Act of 2009 (ARRA) federal economic stimulus package, was also received during the fiscal year. This was an increase of \$7.7 million from the prior year. In addition, the University's investment holdings rebounded some this year, amounting to a total increase in investment income of \$13.2 million over the prior fiscal year.
- Noncapital gifts and grants include expendable gifts and awards that are not considered to be operating revenues. Certain federal and state grants that are awarded directly to students but administered by the University are included in this category, and the corresponding distribution of funds is included in operating expenses as scholarships and fellowships. Noncapital gifts and grants received in fiscal year 2010 totaled \$57.7 million, a 22.5 percent increase from the prior year. Most of this increase is from Pell grants awarded, which increased by \$9.6 million due to an increase in the maximum amount of Pell Grant available per student and the added option for students to receive an additional award for the summer term.

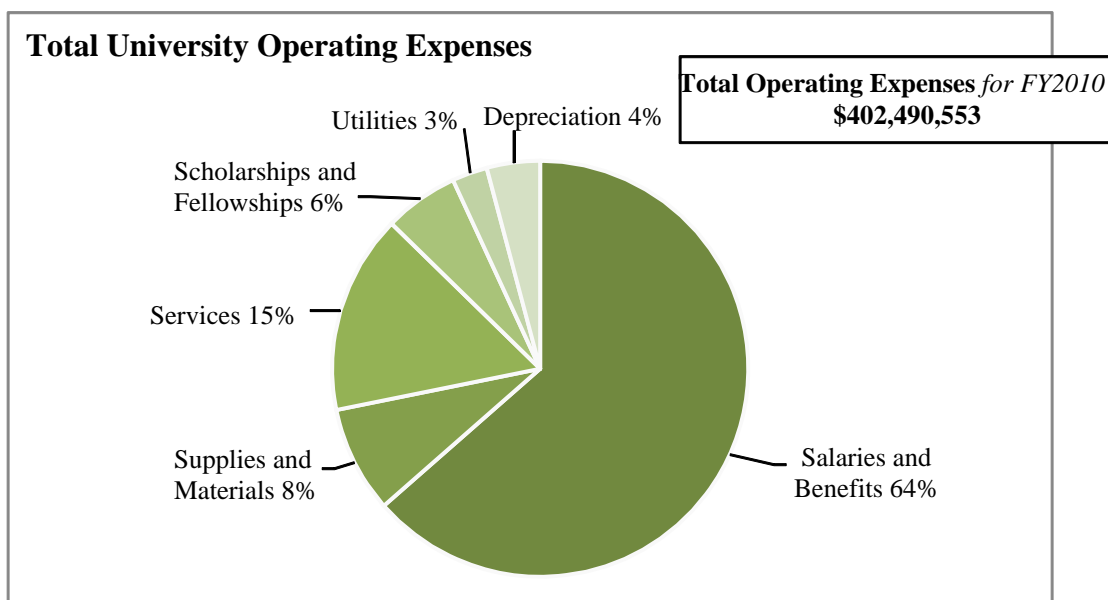
A summary of total revenues by source (both operating and non-operating), which were used to fund the University's operating activities for the fiscal year ended June 30, 2010, is shown below.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

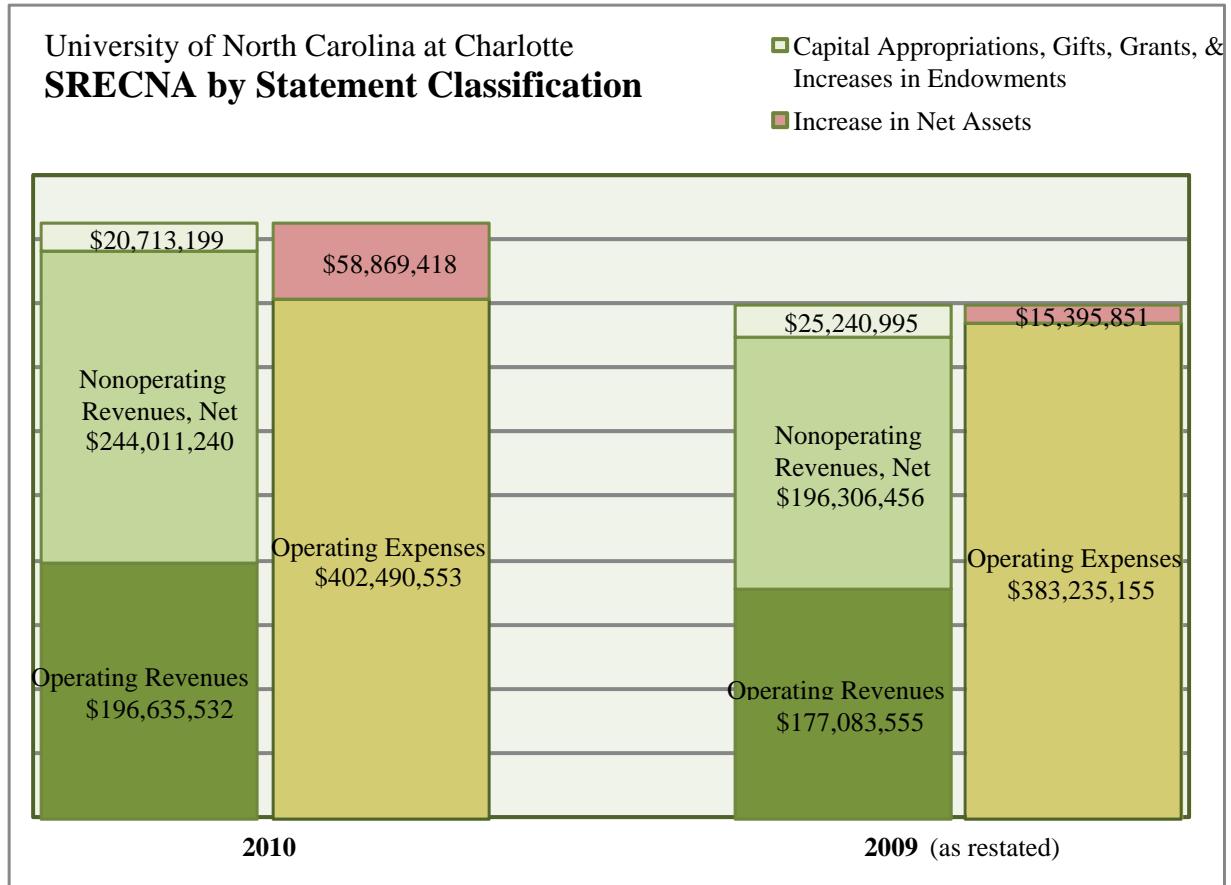
- Total operating expenses increased by \$19.3 million, or 5.0 percent, from the prior year. This increase was mainly due to an increase in supplies and materials expended of \$9.9 million, or 42.2 percent, as operations-related spending increased due to normal growth, some budget restrictions being lifted, and the overall economic condition improving. Scholarships and fellowships increased by \$5.1 million, or 28.1 percent, due to increases in federal, state, institutional, and private scholarships and fellowships awarded.

A summary of total operating expenses by natural classification for the fiscal year ended June 30, 2010, is shown below.



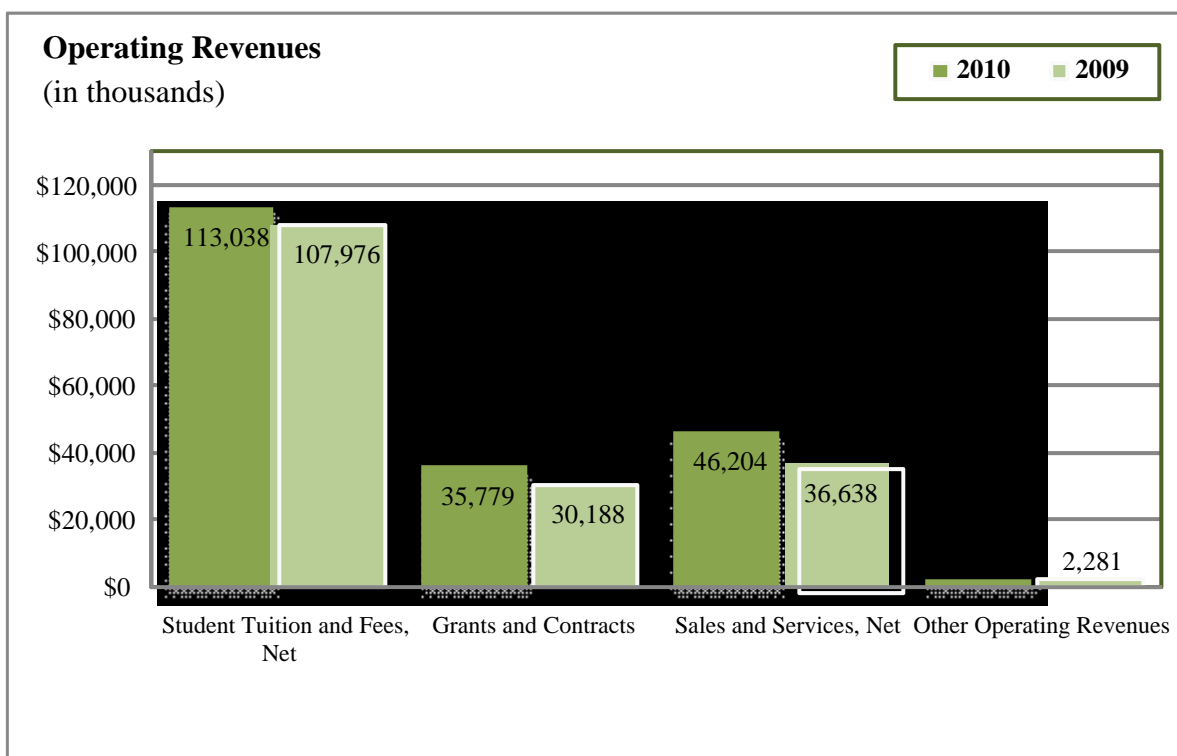
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

A comparison of annual activity by statement classification, as well as a comparison of total operating revenues, nonoperating revenues, and other increases in net assets as elements of operating expenses, at June 30, 2010, and June 30, 2009, is presented below:



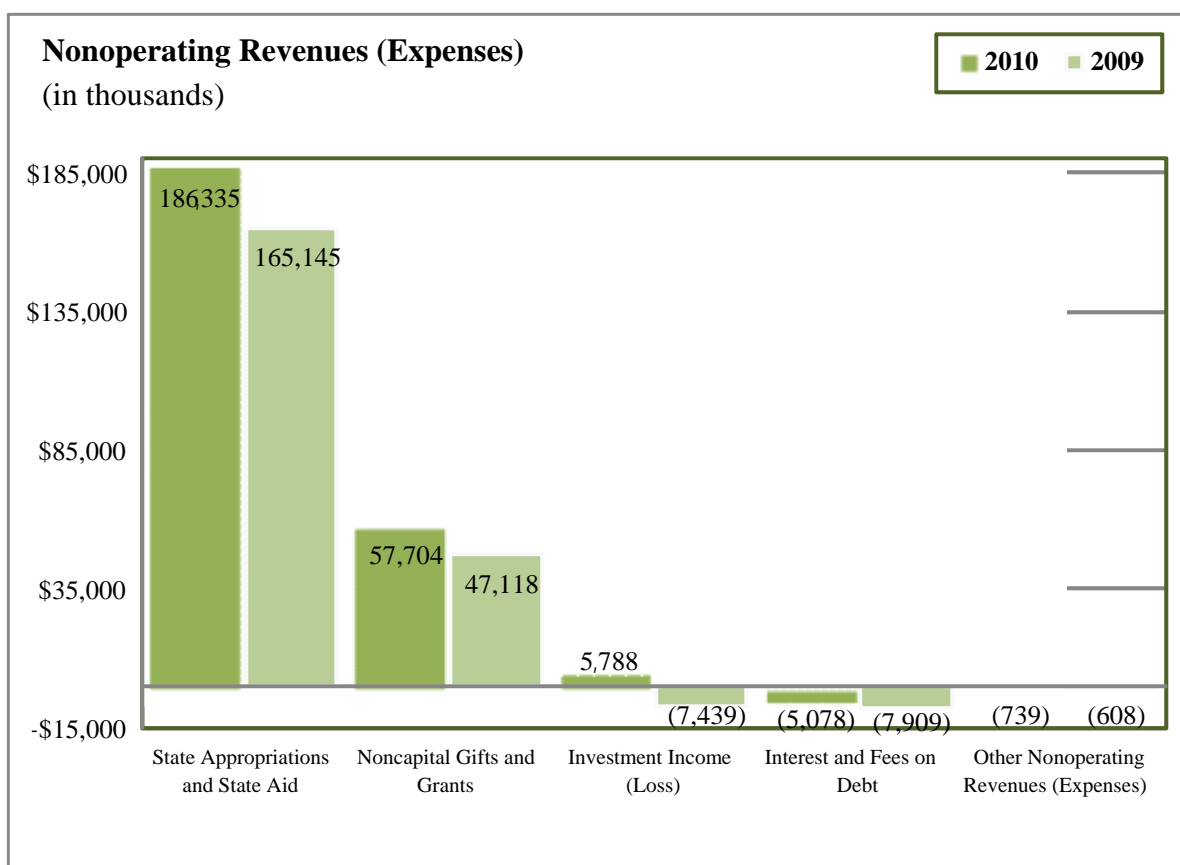
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Comparisons of the operating and nonoperating revenues for the fiscal years ended June 30, 2010, and June 30, 2009, are presented below:





## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



### Capital Assets 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, information technology continues to advance, and community needs continue to evolve. A critical factor in meeting these commitments is the University's ability to develop, expand, and improve its capital assets.

Total capital assets, by major classification and net of accumulated depreciation, are presented below for the fiscal years ended June 30, 2010, and June 30, 2009. Information regarding changes in capital assets is also disclosed in Note 5.

Capital Assets, net of Accumulated Depreciation	2010	2009 (as restated)	Increase (Decrease)	
			Amount	Percent
Land	\$ 7,331,270	\$ 6,681,270	\$ 650,000	9.7%
Art, Literature and Artifacts	25,457,354	24,884,155	573,199	2.3%
Construction in Progress	55,789,824	107,067,395	(51,277,571)	-47.9%
Buildings	473,148,637	380,572,139	92,576,498	24.3%
Machinery and Equipment	40,532,717	39,226,748	1,305,969	3.3%
General Infrastructure	87,770,200	80,475,425	7,294,775	9.1%
<b>Total Capital Assets, Net</b>	<b>690,030,002</b>	<b>638,907,132</b>	<b>51,122,870</b>	<b>8.0%</b>

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

---

During fiscal year 2010, the University continued to strategically invest in the growth of its capital assets. Two major projects were completed in August 2009: the University's Student Union and the Bioinformatics building on the University's Charlotte Research Institute Campus. The Student Union serves as the new community center of the college and fulfills an integral part of the educational mission of the college by complementing the academic experience through an extensive array of programs, student involvement, and leadership development opportunities. Facilities include the University's bookstore, retail space, dining areas, a game room, a movie theater, a piano lounge, an art gallery, storage, and offices. The Bioinformatics building houses the Bioinformatics Research Center and is the first Leadership in Energy and Environmental Design (LEED) certified building on campus, earning silver certification. The building offers space for both wet and dry laboratories, and includes core facilities for molecular biology, proteomics, and computing.

Total construction in progress at the end of the year was \$55.8 million, a \$51.3 million decrease from the prior year due to completion of the Student Union and Bioinformatics buildings. Projects that were in progress at June 30, 2010, included Residence Hall Phase IX, the Center City Building, and the Energy Production & Infrastructure Center (EPIC). In addition, residence hall fire sprinkler projects will continue each summer through 2013. The Center City Building will be a twelve-story, 143,000 square foot facility in Uptown Charlotte that will provide classroom and office space for several graduate programs and continuing education. It is the only University of North Carolina classroom building conceived and designed specifically to serve the businesses, organizations, and people of the urban center. The 200,000 square foot EPIC building will provide classroom and state-of-the-art laboratory space to accommodate growth in energy infrastructure research and collaboration with industry partners.

The University also had \$113.8 million in outstanding commitments on construction contracts for capital expenditures at June 30, 2010. The bulk of this amount was for the following construction projects: Residence Hall Phase IX (\$24.9 million), the Center City Building (\$24.0 million), and the EPIC building (\$49.2 million).

The University did not receive any state capital appropriations in the current or prior fiscal year, and an additional \$299,013 was refunded to the state from prior year capital appropriations. Capital grants decreased by \$4.1 million to \$19.8 million as funding for specific capital projects waned slightly from fiscal year 2009.

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.

All of the University's long-term debt is issued for specific capital needs. In December 2009, the University issued \$58.1 million of General Revenue Bonds, Series 2009, which are comprised of two sub-series: \$8.1 million of Series 2009A tax-exempt revenue bonds, and

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

---

\$50.0 million of Series 2009B taxable Build America Bonds. The University expects to receive a tax subsidy payment from the U.S. Treasury equal to 35 percent of the amount of each interest payment on the Build America Bonds. As of June 30, 2010, the University had received \$301,841 of this interest subsidy. Proceeds from the Series 2009 bonds will finance the construction of Parking Deck H and Residence Hall Phase IX, with project costs of approximately \$19.0 million and \$39.1 million, respectively.

Several long-term debt obligations were defeased during the fiscal year via current and advanced refundings. Refer to Note 7D for additional information.

There have been no changes in credit ratings or debt limitations during the fiscal year that may affect future financing for the University. During the year, Moody's Investors Services underwent a recalibration of its long-term municipal ratings to a global rating scale. As a result of this recalibration, the University's rating changed from A1 to Aa3. However, this change should not be viewed as a rating upgrade, but rather as a recalibration of the ratings to a different rating scale.

### **Economic Outlook**

The University's financial position remains strong, and net assets grew by \$58.9 million (an 8.8 percent increase over prior year net assets) during fiscal year 2010 amid lingering effects of the economic recession. Operations regained momentum, and investment performance rebounded from the prior year. However, the state budget outlook remains uncertain. State funding for the University of North Carolina (UNC) system was cut by \$70 million for the 2010-11 year, and further cuts are already planned for fiscal years 2011-13 as federal recovery dollars expire and temporary tax increases sunset. However, the North Carolina General Assembly has committed to fully fund the UNC system's requests for need-based financial aid, enrollment growth, and operating reserves for new buildings. It also authorized additional tuition increases, as proposed by the UNC Board of Governors, to help offset the impact of budget cuts. These measures were an important show of the General Assembly's support for the University system and dedication to higher education.

The UNC System's constituent campuses were allowed to increase tuition by as much as \$750 for the 2010-11 academic year to offset the effects of the state budget cuts. At UNC Charlotte, undergraduate tuition and fees increased by \$528 for residents and \$963 for nonresidents for the 2010-11 academic year. However, the University strives to keep its cost of education low and affordable to the largest population possible. Tuition and fees at UNC Charlotte, along with the other institutions in the UNC system, remain in the bottom quarter of its public peers. In addition, all revenues generated must be used to protect academic quality and provide need-based financial aid.

The University continues to grow in size as enrollment officially exceeded 25,000 students at the start of the fall 2010 semester. The incoming freshmen had higher average SAT scores and GPAs and were more diverse than any class in the past five years. The growth in enrollment also represents the institution's growing sphere of influence as an integral part of the Charlotte community as well as the region and the state. The University remains the

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

---

largest institution of higher education in the Charlotte region offering doctoral, master, and bachelor degree programs. Management continues to work with state leaders and other key stakeholders to ensure that we provide quality services in education, research, and public service.

The University continues to focus on innovation and the commercialization of research. In fiscal year 2010, the University filed 55 patent applications, received five issued patents, and created four new startup companies. Recent survey data from the Association of University Technology Managers (AUTM) ranks UNC Charlotte in the top five universities nationwide for invention reports received, patents filed, and startup companies formed per \$10 million in research expenditures. UNC Charlotte's strong working relationship with local companies resulted in 20% of the University's sponsored research budget being funded by industry (the average for most universities is approximately 5% of the sponsored research budget being so funded). During the fiscal year, the University also expanded its Senior Design Program beyond the Lee College of Engineering to provide students with industry experience and to enhance its corporate relations program. As part of the American Recovery and Reinvestment Act (ARRA) of 2009, the University has received 29 awards to date, totaling \$9.1 million in funding for new research projects, extensions to existing projects, and funding for summer research experiences for students and teachers. These awards have been sponsored by organizations such as the National Science Foundation, the National Institutes of Health, the National Institute of Justice, and the Department of Energy.

UNC Charlotte's football program officially became a reality on August 2, 2010 when, nearly three and a half years after the University's Board of Trustees authorized a study of the feasibility of establishing an intercollegiate football program, Governor Beverly Perdue signed the University Non-Appropriated Capital Project bill that included the funding plan for the Charlotte 49ers football facility construction. The first game will be played in the fall of 2013 and will open a new chapter in the dynamic history of the University. More than \$5.9 million has been raised with the sale of 49ers Seat Licenses and other capital gifts. Fundraising efforts are expected to be even more successful in the coming years, and a student fee was implemented to help finance the construction of the stadium. The addition of football at UNC Charlotte is expected to have a significant and transformative impact on the University and the community as a whole.

Management is committed to making sound fiscal decisions to maintain the University's financial position and its ability to withstand future economic uncertainties. The University has remained resilient and will continue to ensure that the quality of its daily operations and services to students remains high. Through victories and challenges, management is dedicated to the University's overall goals and purpose: to discover, create, transmit, and apply knowledge to address the needs of individuals and society.

Elizabeth A. Hardin  
Vice Chancellor for Business Affairs

***University of North Carolina at Charlotte***  
***Statement of Net Assets***  
***June 30, 2010***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 134,830,210
Restricted Cash and Cash Equivalents	21,469,380
Receivables, Net (Note 4)	13,304,525
Inventories	299,703
Notes Receivable, Net (Note 4)	619,474
Prepaid Items	1,358,029
Total Current Assets	171,881,321

Noncurrent Assets:

Restricted Cash and Cash Equivalents	58,350,852
Bond Issuance Costs	220,170
Endowment Investments	52,875,746
Other Investments	288,557
Notes Receivable, Net (Note 4)	5,900,655
Capital Assets - Nondepreciable (Note 5)	88,578,448
Capital Assets - Depreciable, Net (Note 5)	601,451,554
Total Noncurrent Assets	807,665,982
Total Assets	979,547,303

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	16,650,266
Due to Primary Government	178,444
Deposits Payable	1,291,373
Funds Held for Others	126,493
Unearned Revenue	4,819,804
Long-Term Liabilities - Current Portion (Note 7)	8,163,934
Total Current Liabilities	31,230,314

Noncurrent Liabilities:

Funds Held for Others	158,584
U. S. Government Grants Refundable	5,343,722
Funds Held in Trust for Pool Participants	5,899,417
Long-Term Liabilities (Note 7)	206,442,871
Total Noncurrent Liabilities	217,844,594
Total Liabilities	249,074,908

***University of North Carolina at Charlotte***  
***Statement of Net Assets***  
***June 30, 2010***

***Exhibit A-1***

***Page 2***

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	536,390,601
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,933,456
Research	2,574,020
Endowed Professorships	19,614,483
Departmental Uses	3,748,258
Loans	2,045,690
Other	215,997
Expendable:	
Scholarships and Fellowships	4,869,600
Research	5,027,379
Endowed Professorships	2,929,655
Departmental Uses	2,725,051
Capital Projects	14,547,825
Debt Service	905,017
Other	404,710
Unrestricted	129,540,653
Total Net Assets	<u><u>\$ 730,472,395</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, 2010***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 113,037,544
Federal Grants and Contracts	25,407,034
State and Local Grants and Contracts	6,742,059
Nongovernmental Grants and Contracts	3,629,874
Sales and Services, Net (Note 9)	46,204,463
Interest Earnings on Loans	80,982
Other Operating Revenues	1,533,576

Total Operating Revenues	<u>196,635,532</u>
--------------------------	--------------------

**EXPENSES**

Operating Expenses:

Salaries and Benefits	255,770,760
Supplies and Materials	33,321,534
Services	62,337,515
Scholarships and Fellowships	23,308,782
Utilities	11,076,706
Depreciation	16,675,256

Total Operating Expenses	<u>402,490,553</u>
--------------------------	--------------------

Operating Loss	<u>(205,855,021)</u>
----------------	----------------------

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	173,990,052
State Aid - Federal Recovery Funds	12,345,290
Noncapital Grants - Student Financial Aid	29,120,394
Other Noncapital Grants	23,326,111
Noncapital Gifts	5,257,740
Investment Income (Net of Investment Expense of \$235,296)	5,788,391
Interest and Fees on Debt	(5,078,111)
Federal Interest Subsidy on Debt	301,841
Other Nonoperating Expenses	(1,040,468)

Net Nonoperating Revenues	<u>244,011,240</u>
---------------------------	--------------------

Income Before Other Revenues or Expenses	38,156,219
--	------------

Refund of Prior Years Capital Appropriations	(299,013)
Capital Grants	19,809,724
Capital Gifts	715,658
Additions to Endowments	486,830

Increase in Net Assets	58,869,418
------------------------	------------

**NET ASSETS**

Net Assets - July 1, 2009, as Restated (Note 17)	<u>671,602,977</u>
--	--------------------

Net Assets - June 30, 2010	<u>\$ 730,472,395</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, 2010**

**Exhibit A-3**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 194,273,348
Payments to Employees and Fringe Benefits	(256,273,525)
Payments to Vendors and Suppliers	(108,267,146)
Payments for Scholarships and Fellowships	(23,308,782)
Loans Issued	(1,200,738)
Collection of Loans	1,042,287
Interest Earned on Loans	102,561
Student Deposits Received	3,783,948
Student Deposits Returned	(3,681,926)
Other Receipts	1,159,036
Net Cash Used by Operating Activities	(192,370,937)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	173,990,052
State Aid - Federal Recovery Funds	12,345,290
Noncapital Grants - Student Financial Aid	28,967,902
Other Noncapital Grants	23,326,111
Noncapital Gifts	5,257,740
Additions to Endowments	486,830
William D. Ford Direct Lending Receipts	2,339,271
William D. Ford Direct Lending Disbursements	(3,970,512)
Related Activity Agency Receipts	115,474,386
Related Activity Agency Disbursements	(115,215,384)
External Participation in Investment Fund Receipts	109,429
External Participation in Investment Fund Disbursements	(240,172)
Other Payments	(1,643,003)
Net Cash Provided by Noncapital Financing Activities	241,227,940

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

Proceeds from Capital Debt	87,266,774
Refund of Prior Years Capital Appropriations	(299,013)
Capital Grants	19,818,859
Proceeds from Sale of Capital Assets	40,251
Acquisition and Construction of Capital Assets	(67,092,977)
Principal Paid on Capital Debt and Leases	(40,596,853)
Interest and Fees Paid on Capital Debt and Leases	(5,658,570)
Federal Interest Subsidy on Debt Received	301,841
Net Cash Used by Capital Financing and Related Financing Activities	(6,219,688)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	19,976,008
Investment Income	2,695,623
Purchase of Investments and Related Fees	(10,626,924)
Net Cash Provided by Investing Activities	12,044,707
Net Increase in Cash and Cash Equivalents	54,682,022
Cash and Cash Equivalents - July 1, 2009	159,968,420
Cash and Cash Equivalents - June 30, 2010	\$ 214,650,442



**University of North Carolina at Charlotte**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2010**

**Exhibit A-3**

**Page 2**

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)**

**TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Loss	\$	(205,855,021)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		16,675,256
Allowances, Write-Offs, and Amortizations		1,359,732
Changes in Assets and Liabilities:		
Receivables (Net)		(2,097,582)
Inventories		28,123
Notes Receivable (Net)		(101,463)
Prepaid Items		(1,324,016)
Accounts Payable and Accrued Liabilities		(85,853)
Unearned Revenue		(343,448)
Compensated Absences		(728,687)
Deposits Payable		102,022
Net Cash Used by Operating Activities	\$	<u>(192,370,937)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:		
Cash and Cash Equivalents	\$	134,830,210
Restricted Cash and Cash Equivalents		21,469,380
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		58,350,852
Total Cash and Cash Equivalents - June 30, 2010	\$	<u>214,650,442</u>

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

Assets Acquired through a Gift	\$	715,658
Change in Fair Value of Investments		3,606,227
Loss on Disposal of Capital Assets		1,080,718

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, 2010***

***Exhibit B-1***

**ASSETS**

Investments	\$ 72,047,442
Assets Held in Charitable Trusts	7,446,557
Interest Receivable	67,194
Accounts Receivable	19,296
Notes Receivable	2,408,000
Pledges Receivable, Net	9,867,638
Cash Surrender Value of Life Insurance	616,856
Equipment, Net	78,678
Property Held for Investment, Net	2,510,284
Prepaid Expenses	16,155
	<hr/>
Total Assets	95,078,100

**LIABILITIES**

Accounts Payable and Accrued Expenses	57,755
Interest Payable	14,274
Funds Held for Others	115,043
Long-Term Notes Payable	3,909,417
	<hr/>
Total Liabilities	4,096,489

**NET ASSETS**

Unrestricted	11,600,585
Temporarily Restricted	42,171,545
Permanently Restricted	37,209,481
	<hr/>
Total Net Assets	\$ 90,981,611

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, 2010***

***Exhibit B-2***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND SUPPORT</b>				
Support:				
Public Contributions	\$ 266,759	\$ 4,377,960	\$ 1,377,480	\$ 6,022,199
Grants		668,432		668,432
Revenue:				
Dividends and interest income	424,672	154,383		579,055
Endowment Income	34,399	84,918		119,317
Distributions of Endowment Income	(473,984)	473,984		
Rental Income and Other Income	226,815			226,815
Miscellaneous Income		118,092		118,092
Net Gain on Investments	1,920,508	3,994,558		5,915,066
Subtotal Revenue and Support	2,399,169	9,872,327	1,377,480	13,648,976
Transfers to/from Other Funds	2,482,488	(2,504,563)	22,075	
Net Assets Released from Restrictions	5,447,894	(5,447,894)		
Total Revenue, Support and Gains	10,329,551	1,919,870	1,399,555	13,648,976
<b>EXPENSES</b>				
Program Services:				
Contributions to the University of North Carolina at Charlotte	4,639,554			4,639,554
Distributions to Donors	131,861			131,861
Grants and Research Administration	687,901			687,901
Other Program Support	305,537			305,537
Total Program Services	5,764,853			5,764,853
Supporting Services:				
Professional Fees	90,308			90,308
Investment Fees	439,471			439,471
Other General and Administrative Expenses	1,002,468			1,002,468
Interest Expense	125,813			125,813
Total Supporting Services	1,658,060			1,658,060
Total Expenses	7,422,913			7,422,913
Change in Net Assets	2,906,638	1,919,870	1,399,555	6,226,063
Net Assets at Beginning of Year	8,693,947	40,251,675	35,809,926	84,755,548
Net Assets at End of Year	\$ 11,600,585	\$ 42,171,545	\$ 37,209,481	\$ 90,981,611

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

[ This Page Left Blank Intentionally ]

**UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

---

**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 unit financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

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

The FDC is governed by an eight-member board consisting of one ex officio director and seven elected directors. The sole purpose is to assist the University in financing, constructing, and equipping a student housing project on campus. The University operates 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 the University, its financial statements have been blended with those of the University.

The Investment Fund is governed by a board consisting of three ex officio directors and four 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 two of the seven directors of the Investment Fund are administrators of the University and the elected directors are appointed by the member investors' Board of Trustees, and because the Investment Fund's sole purpose is to benefit the University, the financial activity for the University's and Athletic Foundation's shares on the Investment Fund have 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](mailto: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 its relationship to 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 35 officers and directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereof, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

During the year ended June 30, 2010, the Foundation distributed \$4,639,554 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](mailto: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, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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 estimated amounts 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 of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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, 10 to 75 years for buildings and building improvements, and 5 to 20 years for equipment.

The University's art, literature, and artifacts 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, capital lease obligations, 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 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, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$214,064,556 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2010. 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.osc.nc.gov/> 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, 2010 was \$63,835. The carrying amount of the University's deposits not with the State Treasurer was \$522,051 and the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

bank balance was \$1,245,320. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2010, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Bank	\$ <u>700,102</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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

Prudent Management of Institutional Funds Act” (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

Investments are subject to the following risks.

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

*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.

**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 two primary external investment managers. These managers provide the University with monthly statements defining income and fair value information, which is then allocated among the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 University Controller's Office, [controller@uncc.edu](mailto:controller@uncc.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, 2010, for the External Investment Pool.

### *External Investment Pool*

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 6,063,725	\$ 6,063,725
Total Debt Securities		<u>\$ 6,063,725</u>
Other Securities		
UNC Investment Fund	46,855,942	
Limited Partnerships	49,239,700	
Total External Investment Pool	<u>\$ 102,159,367</u>	

At June 30, 2010, 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	<u>\$ 6,063,725</u>	<u>\$ 6,063,725</u>

Rating Agency: Moody's / Standard & Poors

*Concentration of Credit Risk:* The External Investment Pool Board places no limit on the amount the Board may invest in any one issuer. More than 5% of the long-term investment pool investments are in Money Market Mutual Funds, UNC Investment Fund, and Global Endowment Management. These investments are 5.9%, 45.9% and 48.2%, respectively, of the External Investment Pool's total investments.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**UNC Investment Fund, LLC** - At June 30, 2010, the University's investments include \$46,855,942, of which \$18,596,536 represents the University's equity position and \$28,259,406 represents the Foundation's equity position in the UNC Investment Fund, LLC (System Fund). The System Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. 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, 2010, for the University's non-pooled investments.

### *Non-Pooled Investments*

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 605,532	\$ 25,171	\$ 300,652	\$ 279,709	\$ 0
U.S. Agencies	500,972	155,635	190,862	130,354	24,121
Mortgage Pass Throughs	256,835		10,362	25,678	220,795
Collateralized Mortgage Obligations	56,156				56,156
Money Market Mutual Funds	322,160	322,160			
Domestic Corporate Bonds	944,372	41,480	391,514	511,378	
<b>Total Debt Securities</b>	<b>2,686,027</b>	<b>\$ 544,446</b>	<b>\$ 893,390</b>	<b>\$ 947,119</b>	<b>\$ 301,072</b>
Other Securities					
Investments in Real Estate	8,953,283				
Domestic Stocks	956,541				
Other	22,680				
<b>Total Non-Pooled Investments</b>	<b>\$ 12,618,531</b>				

At June 30, 2010, 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	BB/Ba and below	Unrated
U.S. Agencies	\$ 500,972	\$ 500,972	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Mortgage Pass Throughs	256,835	238,681					18,154
Collateralized Mortgage Obligations	56,156	56,156					
Money Market Mutual Funds	322,160	322,160					
Domestic Corporate Bonds	944,372	24,271	194,554	471,026	254,521		

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, 2010:

Investment Type	Fair Value
Debt Securities	
U.S. Treasuries	\$ 605,532
U.S. Agencies	500,972
Mortgage Pass Throughs	256,835
Collateralized Mortgage Obligations	56,156
Money Market Mutual Funds	6,385,885
Domestic Corporate Bonds	944,372
<b>Total Debt Securities</b>	<b>8,749,752</b>
Other Securities	
UNC Investment Fund	46,855,942
Investments in Real Estate	8,953,283
Limited Partnerships	49,239,700
Domestic Stocks (Common & Preferred)	956,541
Other - Cash Surrender Value Life Insurance	22,680
<b>Total Investments</b>	<b>\$ 114,777,898</b>

Total investments include \$61,613,595 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. Of this amount, \$57,956,487 is reported in the financial statements of the component unit as investments in an external pool, and \$3,657,109 is reported as investments in money market funds. 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	\$ 10,136,039
Debt Securities	3,781,021
Equity Securities	173,895
External Investment Pool	57,956,487
<b>Total Investments</b>	<b>\$ 72,047,442</b>

## 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 end June 30, 2010 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 restricted expendable net asset endowment balances to make up the difference. At June 30, 2010, endowment net assets of \$15,890,286 were available to be spent, of which \$5,374,381 was restricted to specific purposes.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2010, the amount of investment losses reported against the nonexpendable endowment balances were \$1,145,536.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 6,597,027	\$ 1,018,081	\$ 5,578,946
Accounts	3,211,511		3,211,511
Intergovernmental	4,265,263		4,265,263
Investment Earnings	91,917		91,917
Other	156,888		156,888
<b>Total Current Receivables</b>	<u>\$ 14,322,606</u>	<u>\$ 1,018,081</u>	<u>\$ 13,304,525</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 608,777	\$ 24,429	\$ 584,348
Institutional Student Loan Programs	39,315	4,189	35,126
<b>Total Notes Receivable - Current</b>	<u>\$ 648,092</u>	<u>\$ 28,618</u>	<u>\$ 619,474</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 5,802,214	\$ 297,283	\$ 5,504,931
Institutional Student Loan Programs	421,085	25,361	395,724
<b>Total Notes Receivable - Noncurrent</b>	<u>\$ 6,223,299</u>	<u>\$ 322,644</u>	<u>\$ 5,900,655</u>

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	\$ 6,681,270	\$ 650,000	\$ 0	\$ 7,331,270
Art, Literature, and Artifacts	24,884,155	573,199		25,457,354
Construction in Progress	107,067,395	56,550,247	107,827,818	55,789,824
<b>Total Capital Assets, Nondepreciable</b>	<u>138,632,820</u>	<u>57,773,446</u>	<u>107,827,818</u>	<u>88,578,448</u>
Capital Assets, Depreciable:				
Buildings	460,223,717	100,647,839	10,022	560,861,534
Machinery and Equipment	74,300,392	8,665,134	2,429,399	80,536,127
General Infrastructure	98,397,647	9,763,654	2,886,520	105,274,781
<b>Total Capital Assets, Depreciable</b>	<u>632,921,756</u>	<u>119,076,627</u>	<u>5,325,941</u>	<u>746,672,442</u>
Less Accumulated Depreciation for:				
Buildings	79,651,578	8,061,594	275	87,712,897
Machinery and Equipment	35,073,644	6,609,948	1,680,182	40,003,410
General Infrastructure	17,922,222	2,003,714	2,421,355	17,504,581
<b>Total Accumulated Depreciation</b>	<u>132,647,444</u>	<u>16,675,256</u>	<u>4,101,812</u>	<u>145,220,888</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>500,274,312</u>	<u>102,401,371</u>	<u>1,224,129</u>	<u>601,451,554</u>
<b>Capital Assets, Net</b>	<u>\$ 638,907,132</u>	<u>\$ 160,174,817</u>	<u>\$ 109,051,947</u>	<u>\$ 690,030,002</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 13,824,150
Accrued Payroll	1,189,739
Contract Retainage	1,615,684
Other	20,693
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 16,650,266</b>

### 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, 2010, is presented as follows:

	Balance July 1, 2009 (as restated)	Additions	Reductions	Balance June 30, 2010	Current Portion
Revenue Bonds Payable	\$ 131,159,000	\$ 87,020,000	\$ 36,564,000	\$ 181,615,000	\$ 5,525,000
Certificates of Participation	19,290,000		995,000	18,295,000	1,030,000
Add Premium/Deduct Discount	3,105,120	2,220,271	520,499	4,804,892	
Deduct Deferred Charge on Refunding	(1,745,492)	(1,973,497)	(215,512)	(3,503,477)	
<b>Total Revenue Bonds and Certificates of Participation Payable</b>	<b>151,808,628</b>	<b>87,266,774</b>	<b>37,863,987</b>	<b>201,211,415</b>	<b>6,555,000</b>
Notes Payable	2,747,550		2,747,550		
Capital Leases Payable	1,506,178		290,303	1,215,875	315,469
Compensated Absences	12,908,202	8,108,245	8,836,932	12,179,515	1,293,465
<b>Total Long-Term Liabilities</b>	<b>\$ 168,970,558</b>	<b>\$ 95,375,019</b>	<b>\$ 49,738,772</b>	<b>\$ 214,606,805</b>	<b>\$ 8,163,934</b>

Additional information regarding capital lease obligations is included in Note 8.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### B. Revenue Bonds Payable and Certificates of Participation - The University was indebted for revenue bonds payable and certificates of participation for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010	See Table Below
<b>Revenue Bonds Payable</b>							
<b>General Revenue Bonds Payable</b>							
Refund of Housing Phase VII	2006 A	4.25%-5.00%	2014	\$ 1,920,000	\$ 45,000	\$ 1,875,000	
Parking Deck G	2006 A	4.00%-5.00%	2036	10,545,000	830,000	9,715,000	
Student Union Taxable	2007-A	5.02%-5.68%	2023	18,140,000	2,490,000	15,650,000	
Student Union Non-Taxable	2007-B	4.25%-5.00%	2037	36,260,000		36,260,000	
Parking Deck H BABs	2009-B	4.43%-6.25% *	2039	16,280,000		16,280,000	
Housing Phase 9 BABs	2009-B	4.43%-6.25% *	2039	33,490,000		33,490,000	
Parking Deck H - Tax Exempt	2009-A	2.00%-3.00%	2017	2,720,000		2,720,000	
Housing Phase 9 - Tax Exempt	2009-A	2.00%-3.00%	2017	5,610,000		5,610,000	
Total General Revenue Bonds Payable				124,965,000	3,365,000	121,600,000	
<b>The University of North Carolina System Pool Revenue Bonds</b>							
Phase 8 Apartments	2002 A	4.00%-5.38%	2027	21,115,000	16,790,000	4,325,000	
Brocker Health Center	2003 A	2.00%-5.25%	2028	6,055,000	1,145,000	4,910,000	
Refinance Portion of SAC 1995 Bonds	2003 A	2.00%-5.25%	2016	8,770,000	1,405,000	7,365,000	
Refinance Portion of H&D Series M	2003 A	2.00%-5.00%	2015	8,635,000	5,520,000	3,115,000	
Refinance Parking Series 1996	2004 A	3.00%-4.00%	2021	4,480,000	1,300,000	3,180,000	
Refinance Balance of SAC 1995 Bonds	2005 A	3.00%-5.25%	2021	11,855,000	3,655,000	8,200,000	
2nd Partial Refund of Housing Phase 7	2009-B	3.00%-5.00%	2021	6,185,000		6,185,000	
Final Refinance of Housing Phase 7	2010-B1	5.25%	2024	2,665,000		2,665,000	
Partial Refund of Housing Phase 8	2010-B1	3.00%-5.25%	2025	13,770,000		13,770,000	
Refund of Parking Series 2002 Bonds	2010-B1	3.00%-5.25%	2027	6,300,000		6,300,000	
Total The University of North Carolina System Pool Revenue Bonds				89,830,000	29,815,000	60,015,000	
<b>Certificates of Participation</b>							
Banner COPs	2004	3.00%-5.00%	2014	5,925,000	3,055,000	2,870,000	(1)
Greek Village COPs	2005	3.00%-4.75%	2035	16,745,000	1,320,000	15,425,000	(2)
Total Certificates of Participation				22,670,000	4,375,000	18,295,000	
Total Revenue Bonds Payable and Certificates of Participation (principal only)				\$ 237,465,000	\$ 37,555,000	199,910,000	
Less: Unamortized Loss on Refunding						(3,503,477)	
Less: Unamortized Discount						(137,048)	
Plus: Unamortized Premium						4,941,940	
Total Revenue Bonds Payable and Certificates of Participation						\$ 201,211,415	

\* The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 35% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1) Banner		\$ 3,168,388	\$ 1,285,806	\$ 650,000	\$ 143,450	59%
(2) Greek Village		26,448,500	1,209,434	345,000	714,594	71%

## 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, 2010, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
2011	\$ 5,525,000	\$ 9,020,985	\$ 1,030,000	\$ 819,969
2012	6,515,000	8,766,208	1,070,000	782,863
2013	6,725,000	8,483,120	1,115,000	733,063
2014	7,000,000	8,210,406	1,160,000	690,494
2015	7,325,000	7,912,823	415,000	644,094
2016-2020	36,950,000	34,810,153	2,335,000	2,957,462
2021-2025	33,840,000	25,958,582	2,905,000	2,383,918
2026-2030	28,370,000	18,090,014	3,640,000	1,645,731
2031-2035	29,680,000	10,584,932	4,625,000	664,294
2036-2040	19,685,000	2,456,322		
Total Requirements	<u>\$ 181,615,000</u>	<u>\$ 134,293,545</u>	<u>\$ 18,295,000</u>	<u>\$ 11,321,888</u>

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

On July 9, 2009 the University issued \$6,185,000 in University of North Carolina System Pool Revenue Bonds, Series 2009B with an average interest rate of 4.15%. The bonds were issued for a current refunding of \$6,145,000 of outstanding University of North Carolina System Pool Revenue Bonds, Series 1998B, dated November 3, 1998, with an average interest rate of 4.5%. The refunding was undertaken to reduce total debt service payments by \$196,364 over the next 11 years and resulted in an economic gain of \$171,215.

On March 31, 2010, the University issued \$2,665,000 in University of North Carolina System Pool Revenue Bonds, Series 2010B-1 with an average interest rate of 5.25%. The bonds were issued for a current refunding of 2,965,000 of outstanding University of North Carolina System Pool Revenue Bonds, Series 1998B, dated November 3, 1998, with an average interest rate of 4.5%. The refunding was undertaken to reduce total debt service payments by \$217,880 over the next 14 years and resulted in an economic gain of \$119,171.

On March 31, 2010, the University issued \$13,770,000 in University of North Carolina System Pool Revenue Bonds, Series 2010B-1 with an average interest rate of 4.46%. The bonds were issued to advance refund \$13,360,000 of an outstanding University of North Carolina at Charlotte 2002A General Revenue Promissory Note with an average interest rate

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

of 5.21%. The net proceeds of the refunding bonds, along with other resources, were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by \$800,054 over the next 15 years and resulted in an economic gain of \$448,213. At June 30, 2010, the outstanding balance was \$13,360,000 for the defeased University of North Carolina at Charlotte 2002A General Revenue Promissory Note.

On March 31, 2010, the University issued \$6,300,000 in University of North Carolina System Pool Revenue Bonds, Series 2010B-1 refunding bonds with an average interest rate of 4.20%. The bonds were issued to advance refund \$7,410,000 of outstanding University of North Carolina at Charlotte Parking System Revenue Bonds, Series 2002 with an average interest rate of 5.06%. The net proceeds of the refunding bonds, along with other resources, were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by \$2,285,369 over the next 16 years and resulted in an economic gain of \$275,990. At June 30, 2010, the outstanding balance was \$7,410,000 for the defeased University of North Carolina at Charlotte Parking System Revenue Bonds, Series 2002.

---

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### NOTE 8 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to networking and server equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2010:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 375,663
2012	375,663
2013	360,224
2014	<u>235,857</u>
Total Minimum Lease Payments	1,347,407
Amount Representing Interest (5.16% - 6.11% Rate of Interest)	<u>131,532</u>
Present Value of Future Lease Payments	<u><u>\$ 1,215,875</u></u>

Machinery and equipment recorded under capital lease amounted to \$1,535,013 at June 30, 2010. Accumulated depreciation relating to those assets totaled \$377,745 at June 30, 2010.

- B. Operating Lease Obligations** - The University entered into operating leases for noncapital networking and server equipment as well as office, warehouse, and classroom space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 670,887
2012	422,402
2013	350,340
2014	<u>69,941</u>
Total Minimum Lease Payments	<u><u>\$ 1,513,570</u></u>

Rental expense for all operating leases during the year was \$638,607.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Change in Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
Student Tuition and Fees	\$ 150,128,398	\$ 81,141	\$ 36,123,813	\$ 885,900	\$ 113,037,544
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 20,581,603	\$ 480,164	\$ 5,913,612	\$ 227,724	\$ 13,960,103
Dining	19,598,942	26,152	3,249,606	140,709	16,182,475
Student Union Services	3,860,433	1,935,980			1,924,453
Health Services	2,000,602	35,468		100,454	1,864,680
Parking	6,887,120	259,643		3,667	6,623,810
Athletics	1,591,877	15,357			1,576,520
Facilities	13,268,295	12,246,706			1,021,589
Telecommunications	2,967,993	2,611,581			356,412
Other	1,803,064	1,185,024			618,040
Sales and Services of Education and Related Activities	3,500,304	1,422,645		1,278	2,076,381
<b>Total Sales and Services</b>	<b>\$ 76,060,233</b>	<b>\$ 20,218,720</b>	<b>\$ 9,163,218</b>	<b>\$ 473,832</b>	<b>\$ 46,204,463</b>

### 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	\$ 141,525,092	\$ 6,547,209	\$ 11,499,374	\$ 0	\$ 1,322	\$ 0	\$ 159,572,997
Research	15,484,729	2,776,040	6,054,936				24,315,705
Public Service	1,334,649	103,094	346,296				1,784,039
Academic Support	16,696,062	6,971,795	7,801,397				31,469,254
Student Services	13,532,224	896,716	2,206,729		6,227		16,641,896
Institutional Support	22,572,897	1,920,215	7,304,748		121		31,797,981
Operations and Maintenance of Plant	18,598,425	5,987,964	7,021,402		7,725,686		39,333,477
Student Financial Aid				23,308,782			23,308,782
Auxiliary Enterprises	26,026,682	8,118,501	20,102,633		3,343,350		57,591,166
Depreciation						16,675,256	16,675,256
Total Operating Expenses	\$ 255,770,760	\$ 33,321,534	\$ 62,337,515	\$ 23,308,782	\$ 11,076,706	\$ 16,675,256	\$ 402,490,553

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$208,759,284, of which \$87,920,362 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$3,138,757 and \$5,275,222, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$3,138,757, \$2,853,451, and \$2,299,238, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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, 2010, 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 \$208,759,284, of which \$91,816,084 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$6,280,220 and \$5,508,965, 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 \$701,453 for the year ended June 30, 2010.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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, 2010, were \$63,233. The voluntary contributions by employees amounted to \$1,358,934 for the year ended June 30, 2010.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$2,950,570 for the year ended June 30, 2010.

### NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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.

For the current fiscal year the University contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. The required contribution rate for the years ended June 30, 2009, and 2008, was 4.1% for both years. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$8,088,140, \$7,254,140, and \$6,551,498, 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.osc.nc.gov/> 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.

- 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 by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, was .52% for both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$934,630, \$920,037, and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

\$830,922, 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 retained 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 insurance broker.

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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, 2010:

A separate liability policy underwritten by Medical Mutual Insurance is provided to 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.

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 \$113,765,549 at June 30, 2010.

**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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### 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 \$1,403,549 for the year ended June 30, 2010.

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 the support from the organization to the University. This support amounted to \$97,100 for the year ended June 30, 2010.

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

For the fiscal year ended June 30, 2010, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

GASB Statement No. 53, requires reporting certain derivative instruments at fair value.



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

---

### NOTE 17 - NET ASSET RESTATEMENT

As of July 1, 2009, net assets as previously reported was restated as follows:

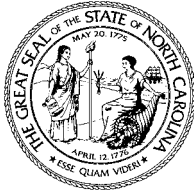
	<u>Amount</u>
July 1, 2009 Net Assets as Previously Reported	\$ 640,463,351
Restatement: Correction of Error in Determining Useful Lives of Capital Assets and Other Capital Asset Corrections	<u>31,139,626</u>
July 1, 2009 Net Assets as Restated	<u><u>\$ 671,602,977</u></u>

### NOTE 18 - SUBSEQUENT EVENTS

On December 2, 2010 the University issued \$40.895 million in taxable General Revenue Bonds, Series 2010. These bonds are dated December 2, 2010 and will bear interest from that date.

The University elected to treat the Series 2010 bonds as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on Series 2010 bonds for an effective yield of 3.95%. Interest on the bonds will be payable semiannually on each April 1 and October 1, commencing on April 1, 2011. The bonds were issued to pay the costs of construction and equipping of a football complex and related facilities on the campus of the University.

[ This Page Left Blank Intentionally ]



**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

**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, 2010, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 25, 2011. Our report includes a reference to other auditors.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

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., The University of North Carolina at Charlotte Facilities Development Corporation, 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., The University of North Carolina at Charlotte Facilities Development Corporation, and the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an

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

---

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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency.

Compliance and Other Matters

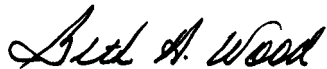
As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

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

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

---

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

March 25, 2011

[ This Page Left Blank Intentionally ]

## AUDIT FINDINGS AND RESPONSES

---

### **Matters Related to Financial Reporting**

The following audit finding was identified during the current audit and describes a condition that represents a deficiency in internal control.

#### INAPPROPRIATE INFORMATION SYSTEM ACCESS TO THE FINANCIAL ACCOUNTING SYSTEM

The University did not maintain adequate internal control over access to its financial accounting system and data. This increases the risk of error or fraud.

The University did not appropriately terminate access rights for all separated employees. We examined the termination of access rights for 27 former employees and identified 17 whose access to the accounting system was terminated several days or weeks after separation from the University. Of these, four former employees had access rights with update capability within the financial accounting system. Access should be terminated as soon as individuals leave employment.

We further identified users that had access rights that were incompatible with their job functions. There were 10 users who had access rights to modify student tuition and fee rates who also maintain student accounts. There were also two employees in the payroll area that had access to perform functions from initiation to completion that included adding and terminating employees, entering pay rates, processing payroll, and setting up direct deposit information. The ability to access and change critical data should be restricted to employees with the need to perform these functions. Further, access should be appropriately segregated to reduce the risk of error or misappropriation.

*Recommendation:* The University should continue to improve internal control over granting, managing, and monitoring access to the financial accounting system and data.

*University Response:* The University internally identified deficiencies in the system access termination process and implemented new procedures on July 1, 2010 to enhance internal control over access to its administrative systems. The procedures include automatic disabling of system access on the date an appointment ends, an employee role is changed to inactive, or an effective termination date is manually entered in the system.

The University is in the process of modifying system access for the staff identified to improve internal control over its administrative systems. This modification requires a rebuild of the security classes that form specific roles in the system and will be completed by April 15, 2011.

[ This Page Left Blank Intentionally ]



## **ORDERING INFORMATION**

---

Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647