

# STATE OF NORTH CAROLINA

**THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE**

**CHARLOTTE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE**

**CHARLOTTE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

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

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

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. Perdue, Governor  
The General Assembly of North Carolina  
Board of Trustees, The 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, 2012, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA  
State Auditor

# TABLE OF CONTENTS

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	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
BASIC FINANCIAL STATEMENTS	
University Exhibits	
A-1 Statement of Net Assets .....	15
A-2 Statement of Revenues, Expenses, and Changes in Net Assets .....	17
A-3 Statement of Cash Flows .....	18
Component Unit Exhibits	
B-1 Statement of Financial Position .....	20
B-2 Statement of Activities .....	21
Notes to the Financial Statements .....	23
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	51
ORDERING INFORMATION .....	53



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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of The University of North Carolina at Charlotte, a constituent institution of the 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, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., which represent 9.52 percent and 0.30 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, Inc., which represent 1.35 percent, 0.33 percent, and 0.32 percent, respectively of the assets, net 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, Inc., and The Foundation of the University of North Carolina at Charlotte, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA  
State Auditor

December 17, 2012

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

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### **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, 2012.

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, 2012, emphasizing current year data and material changes between the prior and current fiscal year. Comparative information for the year ended June 30, 2011 has been provided where applicable. This overview has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements that are included in this annual report.

### **Statement of Net Assets**

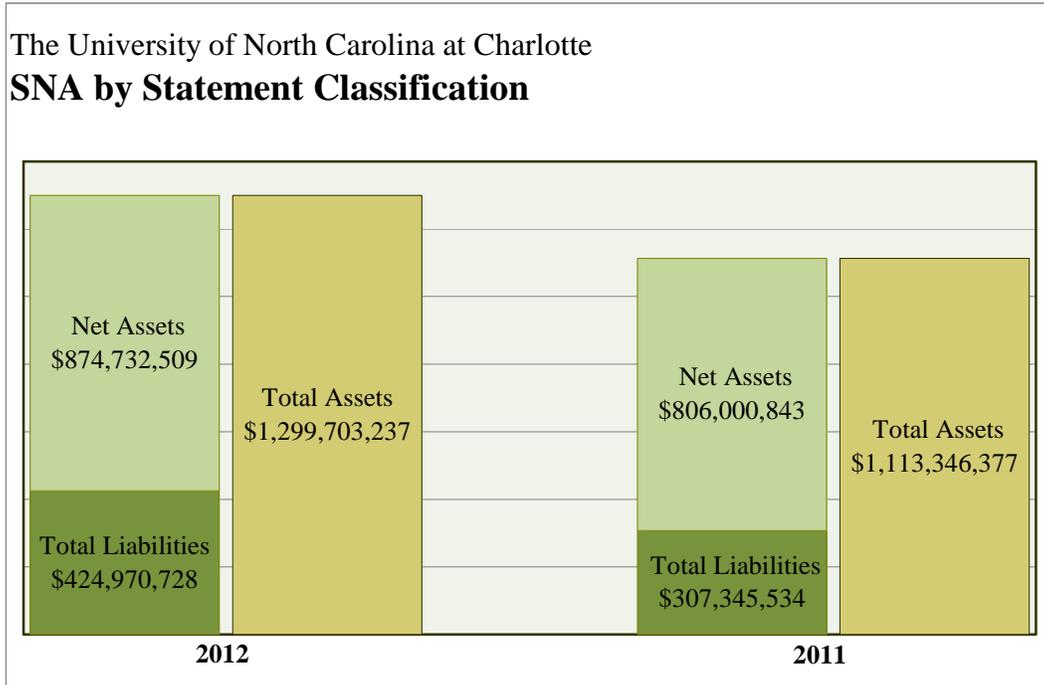
The Statement of Net Assets (SNA) summarizes the financial position of the University by presenting the assets, liabilities, and net assets as of the end of the fiscal year. The SNA is a point-in-time financial statement, the purpose of which is to present a fiscal snapshot of the University.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

A comparison of net assets, as well as the total assets and total liabilities as elements of net assets, at June 30, 2012, and June 30, 2011, is presented below:



Net assets are divided into three major categories:

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

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following table summarizes and compares the University's assets, liabilities, and net assets on June 30, 2012, and June 30, 2011.

Condensed Statement of Net Assets	2012	2011	Increase/Decrease	
			Amount	Percent
<b>Assets:</b>				
Current Assets	\$ 199,870,501	\$ 168,602,212	\$ 31,268,289	18.5%
Noncurrent Assets:				
Endowment and Other Investments	67,822,310	62,054,564	5,767,746	9.3%
Capital Assets, Net	893,141,364	810,994,573	82,146,791	10.1%
Other Noncurrent Assets	138,869,062	71,695,028	67,174,034	93.7%
<b>Total Assets</b>	<b>1,299,703,237</b>	<b>1,113,346,377</b>	<b>186,356,860</b>	<b>16.7%</b>
<b>Liabilities:</b>				
Current Liabilities	32,306,867	47,722,984	(15,416,117)	-32.3%
Noncurrent Liabilities:				
Funds Held in Trust	11,329,666	8,121,293	3,208,373	39.5%
Long-Term Liabilities	375,753,747	245,804,824	129,948,923	52.9%
Other Noncurrent Liabilities	5,580,448	5,696,433	(115,985)	-2.0%
<b>Total Liabilities</b>	<b>424,970,728</b>	<b>307,345,534</b>	<b>117,625,194</b>	<b>38.3%</b>
<b>Net Assets:</b>				
Invested in Cap Assets, Net of Related Debt	655,728,113	626,466,945	29,261,168	4.7%
Restricted:				
Nonexpendable	36,179,582	35,109,350	1,070,232	3.0%
Expendable	28,661,421	35,320,875	(6,659,454)	-18.9%
Unrestricted	154,163,393	109,103,673	45,059,720	41.3%
<b>Total Net Assets</b>	<b>\$ 874,732,509</b>	<b>\$ 806,000,843</b>	<b>\$ 68,731,666</b>	<b>8.5%</b>

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 2012. Some highlights of the information presented on the SNA include:

- Total current assets at June 30, 2012 were \$199.9 million, an increase of \$31.3 million, or 18.5%, during the fiscal year. Current cash and cash equivalents (unrestricted and restricted) increased by \$30.1 million from the prior year due to a \$17.8 million decrease in cash required to fund construction accruals because of the completion of seven major construction projects, an increase of \$5.9 million of cash carried forward at the end of the fiscal year due to the easing of budget restrictions, and a \$6.4 million increase as a result of auxiliary and other operations.
- Total noncurrent assets increased by \$155.1 million, or 16.4%, during fiscal year 2012. Noncurrent restricted cash increased by \$67.9 million due to a net increase in unspent bond proceeds at year end related to construction projects. Capital assets increased by \$82.1 million, or 10.1%, for new construction and other capital acquisitions. Total investments increased by \$5.8 million, or 9.3%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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Endowment investments increased by \$1.7 million due to additional endowed gifts, and restricted investments increased by \$4.1 million, the portion of the February 2012 bond proceeds deposited with the trustee for capitalized interest incurred during the construction period for projects funded by the sale.

- Total liabilities increased by \$117.6 million, or 38.3%, to \$425.0 million at June 30, 2012. Current liabilities decreased by \$15.4 million while noncurrent liabilities increased by \$133.0 million. The decrease in current liabilities was due to an \$18.9 million decrease in accounts payable and accrued liabilities mainly associated with the completion of construction projects. This decrease was offset by increases in interest payable of \$1.4 million and deferred revenue largely due to the advanced collection of grant revenue of \$1.4 million. Accruals at year end for capital improvement projects decreased by \$14.7 million, and contract retainage for construction projects decreased by \$3.1 million, due to a decrease of construction in progress at year end associated with the completion of seven major construction projects. In addition, operating accounts payable at year end decreased by \$0.9 million. The increase in noncurrent liabilities was mainly due to \$136.6 million in general revenue bonds issued in February 2012. Noncurrent funds held in trust for pool participants also increased \$3.2 million, or 39.5%, due to additional contributions provided by the Athletic Foundation for investment in The University of North Carolina at Charlotte Investment Fund, Inc.
- Net assets increased from the prior fiscal year by \$68.7 million, or 8.5%, to \$874.7 million. This growth is due to a \$29.3 million, or 4.7%, increase in capital assets, net of related debt. Unrestricted net assets increased by \$45.1 million, or 41.3%, mainly due to the increase in unrestricted cash discussed above.
- The University's liquidity remains strong. The current ratio, defined as current assets divided by current liabilities, of 6.19 indicates that the University, if needed, could satisfy payment of its current liabilities more than six times before current assets are exhausted. Total working capital, defined as current assets less current liabilities, of \$167.6 million at June 30, 2012, increased by 38.6% from the prior year, due to the increase in current assets and decrease in current liabilities discussed above.

### **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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

University without the provider directly receiving commensurate goods and services for those revenues.

The following table summarizes and compares the University's results of operations for the fiscal years ended June 30, 2012, and June 30, 2011.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	2012	2011	Increase/Decrease	
			Amount	Percent
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 144,277,883	\$ 131,299,374	\$ 12,978,509	9.9%
Grants and Contracts	31,157,551	29,912,172	1,245,379	4.2%
Sales and Services, Net	54,035,141	48,514,153	5,520,988	11.4%
Other Operating Revenues	2,304,677	1,806,740	497,937	27.6%
<b>Total Operating Revenues</b>	<b>231,775,252</b>	<b>211,532,439</b>	<b>20,242,813</b>	<b>9.6%</b>
<b>Operating Expenses:</b>				
Salaries and Benefits	271,441,027	262,739,773	8,701,254	3.3%
Supplies and Materials	37,492,651	41,371,795	(3,879,144)	-9.4%
Services	67,061,512	71,510,139	(4,448,627)	-6.2%
Scholarships and Fellowships	35,743,768	40,535,841	(4,792,073)	-11.8%
Utilities	11,567,697	10,655,975	911,722	8.6%
Depreciation/Amortization	19,459,438	18,341,331	1,118,107	6.1%
<b>Operating Expenses</b>	<b>442,766,093</b>	<b>445,154,854</b>	<b>(2,388,761)</b>	<b>-0.5%</b>
<b>Operating Loss</b>	<b>(210,990,841)</b>	<b>(233,622,415)</b>	<b>22,631,574</b>	<b>-9.7%</b>
<b>Nonoperating Revenues (Expenses):</b>				
State Appropriations and State Aid	185,951,385	190,400,199	(4,448,814)	-2.3%
Noncapital Gifts and Grants	67,791,135	71,432,976	(3,641,841)	-5.1%
Investment Gain, Net	492,036	7,334,742	(6,842,706)	-93.3%
Interest and Fees on Debt	(7,737,198)	(6,930,994)	(806,204)	11.6%
Other Nonoperating Expenses	(2,648,685)	(543,865)	(2,104,820)	387.0%
<b>Net Nonoperating Revenues</b>	<b>243,848,673</b>	<b>261,693,058</b>	<b>(17,844,385)</b>	<b>-6.8%</b>
<b>Income Before Other Changes</b>	<b>32,857,832</b>	<b>28,070,643</b>	<b>4,787,189</b>	<b>17.1%</b>
Capital Grants	32,011,202	44,367,266	(12,356,064)	-27.8%
Capital Gifts	2,854,882	2,063,094	791,788	38.4%
Additions to Endowment	1,007,750	1,027,445	(19,695)	-1.9%
<b>Increase in Net Assets</b>	<b>68,731,666</b>	<b>75,528,448</b>	<b>(6,796,782)</b>	<b>-9.0%</b>
<b>Net Assets, Beginning of Year</b>	<b>806,000,843</b>	<b>730,472,395</b>	<b>75,528,448</b>	<b>10.3%</b>
<b>Net Assets, End of Year</b>	<b>\$ 874,732,509</b>	<b>\$ 806,000,843</b>	<b>\$ 68,731,666</b>	<b>8.5%</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 2012. Some highlights of the information presented on the SRECNA are as follows:

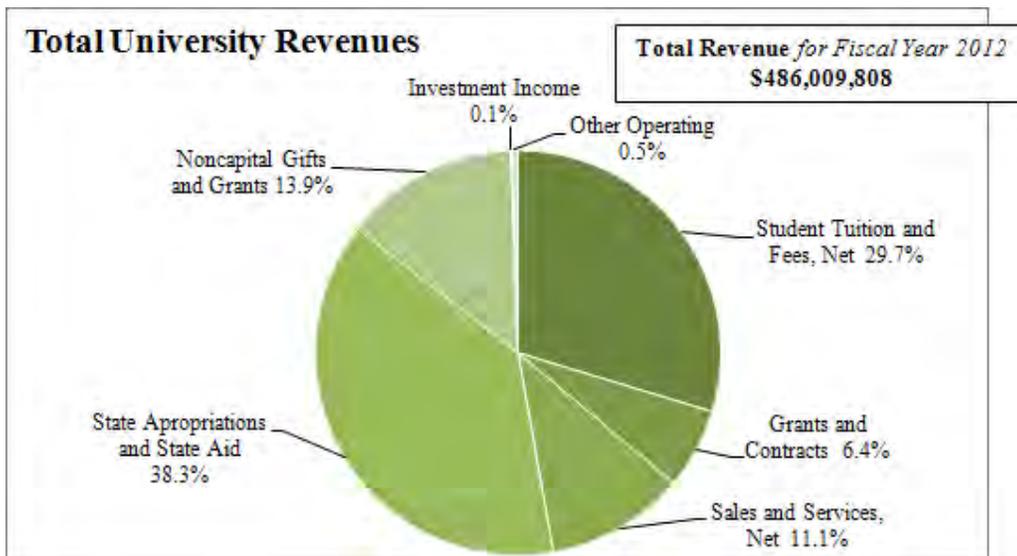
- Total operating revenues increased by \$20.2 million, or 9.6%, as compared to the prior fiscal year. This net increase is attributable to a \$13.0 million, or 9.9%, increase in student tuition and fees resulting from increases in official rates and the number of

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

students enrolled, combined with a \$5.5 million, or 11.4%, increase in sales and service revenue received for dining, parking, and other services.

- Net nonoperating revenues provided to the University were \$243.8 million in fiscal year 2012, a \$17.8 million, or 6.8%, decrease compared to the prior year. Part of this overall decrease is due to the termination of state aid funded by the American Recovery and Reinvestment Act of 2009 (ARRA) that replaced state appropriations in fiscal year 2011 of \$12.1 million. This decrease was offset by a \$7.7 million, or 4.3% increase in state appropriations as compared to the prior fiscal year. In addition, the University's investment income decreased by \$6.8 million, or 93.3%, over the prior fiscal year due to a decline in market performance. Nonoperating expenses increased due to the reversion of \$1.5 million of fiscal year 2011 carryforward funds and an increase of \$0.8 million of bond issuance costs associated with the February 2012 sale of 2012 Series A and B bonds.
- 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 grants received in fiscal year 2012 totaled \$60.0 million, a decrease of \$5.2 million, or 8.0%, from the prior year. This decrease is due to the elimination by Congress of the National Science and Mathematics Access to Retain Talent (SMART) and Academic Competitiveness (ACG) federal grant programs, which totaled \$2.7 million in fiscal year 2011. In addition, there was a reduction in state incentive grants of \$3.7 million. Both of these reductions were offset by a modest increase in Pell Grant and other program funding of \$1.2 million. Noncapital gifts increased by \$1.6 million, or 25.2%, due to an overall increase in donor support for the University.

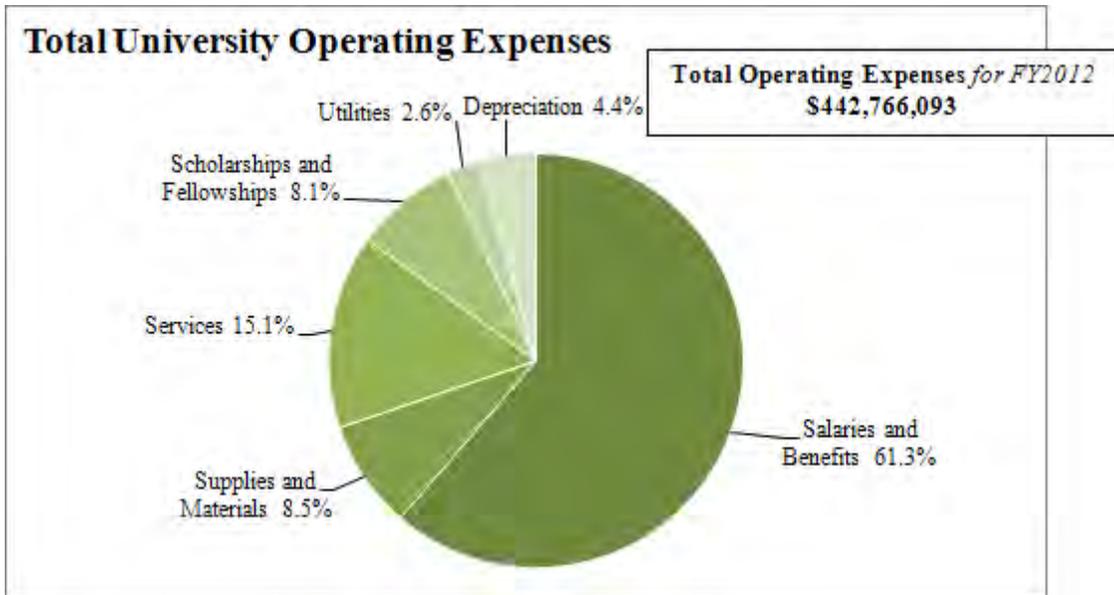
A summary of total revenues by source (both operating and nonoperating), which were used to fund the University's operating activities for the fiscal year ended June 30, 2012, is shown below.



**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)**

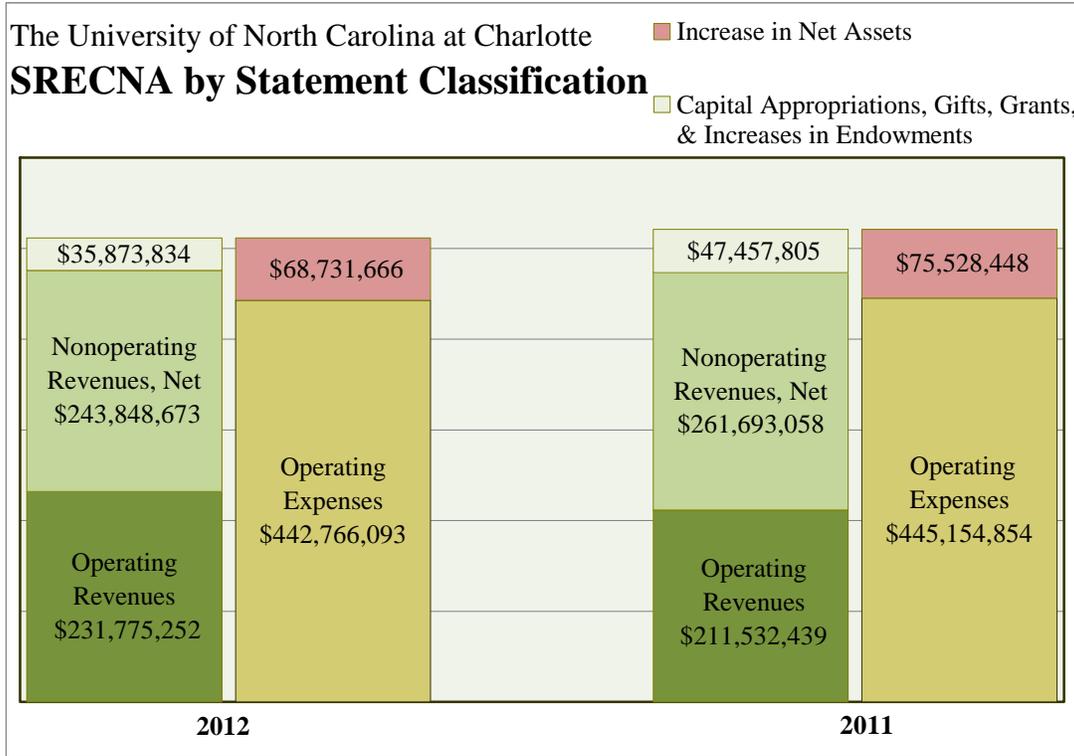
Total operating expenses decreased by \$2.4 million, or 0.5%, from the prior year. This slight decrease was due to a decrease in supplies and materials expended of \$3.9 million, or 9.4%, and in services purchased of \$4.4 million, or 6.2%, offset by an increase of \$8.7 million, or 3.3% in salaries and benefits. This slight shift in operating expenses reflects the reversal of fiscal year 2011’s temporary reallocation of salaries to supply and service categories. Permanent reductions to the 2012 general fund budget were finalized; as a result, the University increased spending on teaching salaries and related benefits to meet the academic needs of our growing population of students. Scholarships and fellowships decreased by \$4.8 million, or 11.8%, largely due to the federal and state program reductions mentioned previously.

A summary of total operating expenses by natural classification for the fiscal year ended June 30, 2012, is shown below.

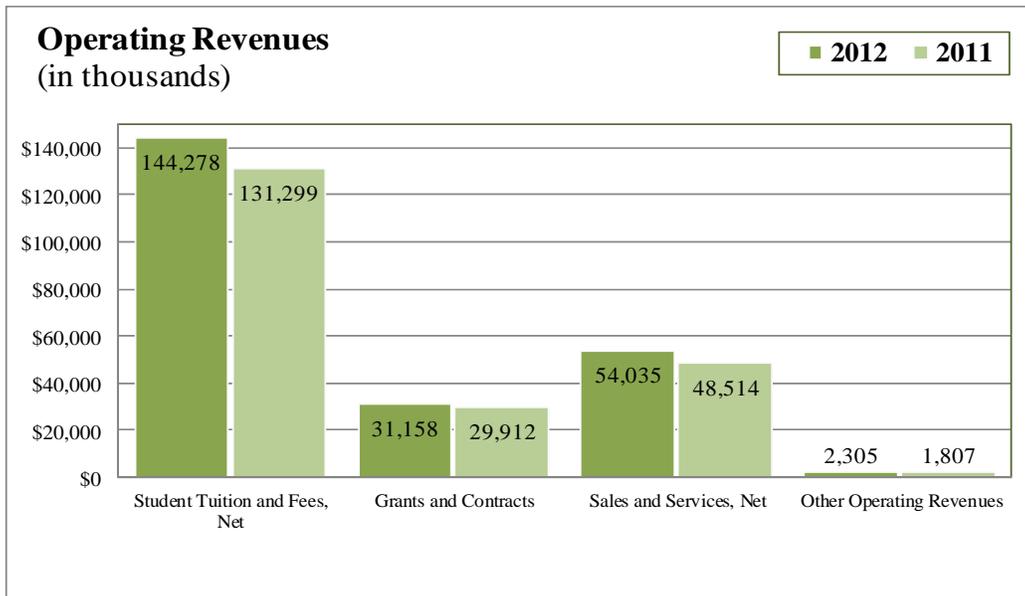


**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

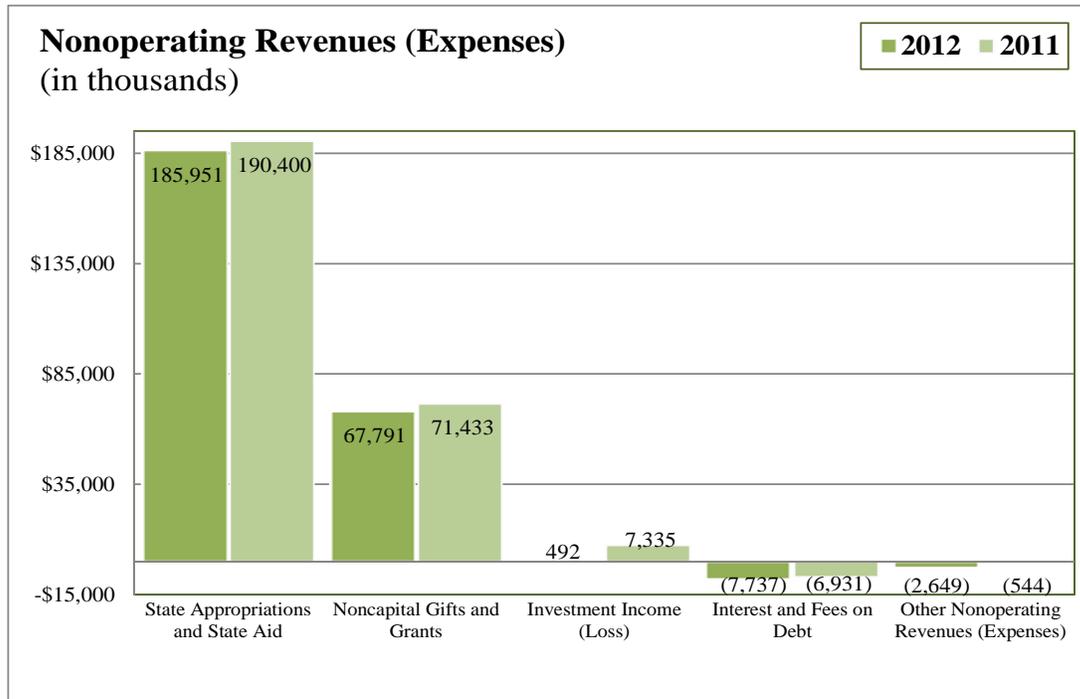
A comparison of annual activity by statement classification, as well as a comparison of total operating revenues, nonoperating revenues, and other increases in net assets as elements of operating expenses, at June 30, 2012, and June 30, 2011, is presented below:



Comparisons of the operating and nonoperating revenues for the fiscal years ended June 30, 2012, and June 30, 2011, 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 increases, technology advances, and community needs 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, 2012, and June 30, 2011. Information regarding changes in capital assets is also disclosed in Note 5.

Capital Assets, net of Accumulated Depreciation	2012	2011	Increase (Decrease)	
			Amount	Percent
Land	\$ 7,331,270	\$ 7,331,270	\$ -	0.0%
Art, Literature and Artifacts	27,806,331	27,313,634	492,697	1.8%
Construction in Progress	63,022,017	167,219,862	(104,197,845)	-62.3%
Computer Software in Development	-	577,000	(577,000)	-100.0%
Buildings	626,462,439	468,659,552	157,802,887	33.7%
Machinery and Equipment	49,450,710	46,186,318	3,264,392	7.1%
General Infrastructure	117,451,749	93,471,776	23,979,973	25.7%
Computer Software	1,616,848	235,161	1,381,687	587.6%
<b>Total Capital Assets, Net</b>	<b>\$ 893,141,364</b>	<b>\$ 810,994,573</b>	<b>\$ 82,146,791</b>	<b>10.1%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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During fiscal year 2012, the University continued to strategically invest in the growth of its capital assets in fulfillment of the University's campus master plan. Total construction in progress at the end of the year was \$63.0 million, a \$104.2 million decrease from the prior year due to the completion of seven major construction projects for buildings and infrastructure, including the Center City Building, the Energy Production and Infrastructure Center (EPIC), Miltimore Residence Hall, the Motorsports Research Building, renovation of the Prospector Building, North Parking Deck, and a regional utility plant in support of the EPIC building.

The EPIC building was completed in March 2012, and is a collaborative, state-of-the-art teaching and research facility serving energy infrastructure research and industry partnership. A LEED Gold certified building, EPIC was designed with an eye toward sustainability, incorporating chilled-beam cooling, rainwater harvesting, drought-tolerant landscaping, sun shading on the windows, day lighting, and local building materials. The University's focus on sustainability is not limited to academic buildings, but can also be seen in the design and construction of LEED Silver certified Miltimore Residence Hall that opened in August 2011. Miltimore Hall is a modern facility using solar orientation and other construction methods to support modern suite and apartment style housing for 437 students. Use of quad-type open spaces unique in scale and design within and outside the hall create memorable space, enhance the sense of community, and encourage diverse connections and relationships to fulfill the goals of UNC Charlotte's Master Plan.

The University also had \$122.5 million in outstanding commitments on construction contracts for capital expenditures at June 30, 2012. The bulk of these commitments relate to the following construction projects: the University's new football complex (\$16.4 million), Residence Hall Phase X (\$28.5 million), Residence Hall Phase XI (\$24.0 million), and the Partnership, Outreach, and the Research to Accelerate Learning (PORTAL) building (\$26.0 million).

The University did not receive any state capital appropriations in the current or prior fiscal year. Capital grants, received primarily from Certificates of Participation issued by the State for specific approved capital projects, decreased \$12.4 million to \$32.0 million. This decrease is a result of the completion of capital projects funded by capital grants. Additionally, capital gifts of equipment, sculptures, art, rare books, and manuscript collections of approximately \$2.9 million were made to the University during the fiscal year.

All of the University's long-term debt is issued for specific capital needs. In February 2012, the University issued \$136.6 million of General Revenue Bonds, Series 2012 A and B, comprised of \$36.9 million of taxable and \$99.7 million of tax-exempt bonds. Proceeds from Series 2012 A and B bonds will finance the construction and equipping of the PORTAL building, the South Village Dining Hall, a regional utility plant, two parking decks, Residence Hall Phases X and XI, a 2012 sprinkler project, refinancing of Series 2002 A bonds for Residence Hall Phase VIII, and refinancing of a bank note for prior sprinkling projects.

The University received a credit rating of 'AA-' from Standard & Poor's and 'Aa3' from Moody's Investor Service in February 2012 on its issuance of \$136.6 million in general revenue bonds with a stable outlook due to strong operating support, financial resources, and

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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enrollment. Both rating agencies affirmed their ratings of prior bond issues. The stability in institutional credit ratings will position the University well to achieve its capital master plan objectives.

### **Economic Outlook**

The University's financial position remains strong, and net assets grew by \$68.7 million during fiscal year 2012, an 8.5% increase over prior year net assets, due to effective institutional planning and continued support from the State to meet the educational needs of the Charlotte region. UNC Charlotte has successfully navigated multiple years of permanent reductions in its budget and emerged in fiscal 2013 to signs of economic recovery, including budget increases due to enrollment growth and legislative salary increases. Though these signs are encouraging, the University remains prudent and conservative in managing its affairs to protect the University from an uncertain economy.

UNC Charlotte continues to focus on its instructional mission and graduated its 100,000th student in May 2012. Enrollment grew to approximately 26,300 students for the fall 2012 semester, the highest enrollment and largest freshman class in the University's history. Student demand for higher education and for enrollment at UNC Charlotte continues to increase. To partially offset the classroom impact of the reduction in state appropriations, tuition was increased by 6.5%, which represents a \$211 annual increase in undergraduate tuition for residents of North Carolina and a \$975 annual increase for non-residents. Despite this increase, UNC Charlotte's tuition and fee rates remain in the bottom quartile of its public peers, which reflects the strong value of a UNC Charlotte education.

This value is reflected in growing national recognition for our academic programs. In the 2013 edition of U.S News and World Report's Best Graduate Schools, more than a dozen UNC Charlotte programs and colleges were nationally ranked. Three programs of note include the Master of Business Administration (MBA) part-time program in the UNC Charlotte Belk College of Business, which was ranked 55th of 326 programs, moving up four positions from last year; UNC Charlotte's College of Education, which moved up 17 positions from last year to 84th of 174, and the Master of Public Administration Program, which remained in the top 60 public affairs programs in the country.

One of UNC Charlotte's historical commitments has been to extend the expertise and talents of the University into the community we serve. That commitment continues today, and the University's outreach efforts have been expanded in scope and significance. The Charlotte Venture Challenge, a region-wide economic development competition, helps early-stage businesses grow, and this year's winner developed a novel technology that accurately detects early breast cancer. The College of Arts + Architecture diligently worked to bring the Violins of Hope to Charlotte for a series of premiere exhibitions and performances that featured violins that were found almost totally destroyed in liberated concentration camps and empty ghettos at the end of World War II. These exhibitions and performances generated educational opportunities and enhanced the cultural landscape of Charlotte. In addition, the University developed a unique community engagement and academic program called the 49er Democracy Experience that offered an array of non-partisan educational opportunities leading up to the 2012 national presidential conventions in Tampa and Charlotte. The University will continue its mission of outreach to the community.

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

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Management is committed to making sound fiscal decisions to maintain the University's financial position, its ability to withstand future economic uncertainties, and its commitment to academic excellence. The University has remained resilient and will continue to ensure that the quality of its daily operations and services to students remain high. Through challenges and victories, 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

***The University of North Carolina at Charlotte***  
***Statement of Net Assets***  
***June 30, 2012***

***Exhibit A-1***  
***Page 1 of 2***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 154,266,607
Restricted Cash and Cash Equivalents	27,944,074
Receivables, Net (Note 4)	14,458,971
Inventories	276,209
Notes Receivable, Net (Note 4)	842,398
Prepaid Items	2,082,242
	<hr/>
Total Current Assets	199,870,501
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	133,813,812
Bond Issuance Costs	127,467
Endowment Investments	63,100,431
Restricted Investments	4,721,879
Notes Receivable, Net (Note 4)	4,927,783
Capital Assets - Nondepreciable (Note 5)	98,159,618
Capital Assets - Depreciable, Net (Note 5)	794,981,746
	<hr/>
Total Noncurrent Assets	1,099,832,736
	<hr/>
Total Assets	1,299,703,237
	<hr/>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	8,302,544
Deposits Payable	1,547,992
Funds Held for Others	100
Unearned Revenue	6,460,955
Interest Payable	4,149,512
Long-Term Liabilities - Current Portion (Note 7)	11,845,764
	<hr/>
Total Current Liabilities	32,306,867
	<hr/>

Noncurrent Liabilities:

Funds Held for Others	135,785
U. S. Government Grants Refundable	5,444,663
Funds Held in Trust for Pool Participants	11,329,666
Long-Term Liabilities (Note 7)	375,753,747
	<hr/>
Total Noncurrent Liabilities	392,663,861
	<hr/>
Total Liabilities	424,970,728
	<hr/>

*The University of North Carolina at Charlotte*  
*Statement of Net Assets*  
*June 30, 2012*

*Exhibit A-1*  
*Page 2 of 2*

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	655,728,113
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,072,646
Research	2,574,019
Endowed Professorships	22,453,747
Departmental Uses	3,949,535
Loans	2,051,122
Other	78,513
Expendable:	
Scholarships and Fellowships	4,440,296
Research	5,443,330
Endowed Professorships	5,184,738
Departmental Uses	2,860,370
Capital Projects	6,223,905
Debt Service	3,802,581
Other	706,201
Unrestricted	154,163,393
Total Net Assets	<u>\$ 874,732,509</u>

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

***The University of North Carolina at Charlotte  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2012***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 144,277,883
Federal Grants and Contracts	23,692,444
State and Local Grants and Contracts	3,796,570
Nongovernmental Grants and Contracts	3,668,537
Sales and Services, Net (Note 9)	54,035,141
Interest Earnings on Loans	148,957
Other Operating Revenues	2,155,720
	<hr/>
Total Operating Revenues	231,775,252
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	271,441,027
Supplies and Materials	37,492,651
Services	67,061,512
Scholarships and Fellowships	35,743,768
Utilities	11,567,697
Depreciation/Amortization	19,459,438
	<hr/>
Total Operating Expenses	442,766,093
	<hr/>
Operating Loss	(210,990,841)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	185,951,385
Noncapital Grants - Student Financial Aid	36,975,095
Other Noncapital Grants	23,006,024
Noncapital Gifts	7,810,016
Investment Income (Net of Investment Expense of \$435,740)	492,036
Interest and Fees on Debt	(7,737,198)
Federal Interest Subsidy on Debt	1,838,461
Other Nonoperating Expenses	(4,487,146)
	<hr/>
Net Nonoperating Revenues	243,848,673
	<hr/>
Income Before Other Revenues, Expenses, Gains, or Losses	32,857,832
	<hr/>
Capital Grants	32,011,202
Capital Gifts	2,854,882
Additions to Endowments	1,007,750
	<hr/>
Increase in Net Assets	68,731,666

**NET ASSETS**

Net Assets - July 1, 2011	806,000,843
	<hr/>
Net Assets - June 30, 2012	\$ 874,732,509
	<hr/> <hr/>

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

***The University of North Carolina at Charlotte***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2012***

***Exhibit A-3***

***Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 230,220,699
Payments to Employees and Fringe Benefits	(271,418,834)
Payments to Vendors and Suppliers	(116,665,252)
Payments for Scholarships and Fellowships	(35,743,768)
Loans Issued	(276,373)
Collection of Loans	989,864
Interest Earned on Loans	125,725
Student Deposits Received	3,445,636
Student Deposits Returned	(3,323,832)
Other Receipts	1,837,129
	<hr/>
Net Cash Used by Operating Activities	(190,809,006)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	185,951,385
Noncapital Grants - Student Financial Aid	36,864,079
Other Noncapital Grants	23,006,024
Noncapital Gifts	7,810,016
Additions to Endowments	1,007,750
William D. Ford Direct Lending Receipts	125,109,159
William D. Ford Direct Lending Disbursements	(125,767,428)
Related Activity Agency Receipts	15,904,869
Related Activity Agency Disbursements	(15,879,194)
External Participation in Investment Fund Receipts	3,353,701
External Participation in Investment Fund Disbursements	(257,834)
Other Payments	(1,538,939)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	255,563,588

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

Proceeds from Capital Debt	149,296,971
Capital Grants	32,011,202
Proceeds from Sale of Capital Assets	71,130
Acquisition and Construction of Capital Assets	(118,736,661)
Principal Paid on Capital Debt and Leases	(18,671,894)
Interest and Fees Paid on Capital Debt and Leases	(6,612,472)
Federal Interest Subsidy on Debt Received	1,838,461
Other Payments	(825,034)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	38,371,703

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	1,895,742
Investment Income	977,193
Purchase of Investments and Related Fees	(8,036,476)
	<hr/>
Net Cash Used by Investing Activities	(5,163,541)
	<hr/>
Net Increase in Cash and Cash Equivalents	97,962,744
Cash and Cash Equivalents - July 1, 2011	218,061,749
	<hr/>
Cash and Cash Equivalents - June 30, 2012	\$ 316,024,493

***The University of North Carolina at Charlotte  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2012***

***Exhibit A-3***

***Page 2 of 2***

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

Operating Loss	\$	(210,990,841)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/Amortization Expense		19,459,438
Allowances, Write-Offs, and Amortizations		1,900,804
Changes in Assets and Liabilities:		
Receivables, Net		(2,807,767)
Inventories		33,585
Notes Receivable, Net		498,844
Prepaid Items		481,534
Accounts Payable and Accrued Liabilities		(814,802)
Unearned Revenue		1,355,408
Compensated Absences		(47,014)
Deposits Payable		121,805
		<hr/>
Net Cash Used by Operating Activities	\$	<u><u>(190,809,006)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:		
Cash and Cash Equivalents	\$	154,266,607
Restricted Cash and Cash Equivalents		27,944,074
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		133,813,812
		<hr/>
Total Cash and Cash Equivalents - June 30, 2012	\$	<u><u>316,024,493</u></u>

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

Assets Acquired through a Gift	\$	2,854,882
Change in Fair Value of Investments		1,085,817
Loss on Disposal of Capital Assets		2,152,921

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, 2012***

***Exhibit B-1***

**ASSETS**

Investments	\$ 89,696,854
Assets Held in Charitable Trusts	974,090
Interest Receivable	4,253
Accounts Receivable	21,336
Notes Receivable	75,000
Pledges Receivable, Net	16,839,221
Cash Surrender Value of Life Insurance	724,062
Equipment, Net	12,290
Property Held for Investment	8,546,106
Prepaid Expenses	14,920
	<hr/>
Total Assets	116,908,132

**LIABILITIES**

Accounts Payable and Accrued Expenses	50,522
Interest Payable	12,467
Deferred Revenue	988,000
Funds Held for Others	118,909
Long-Term Notes Payable	3,468,905
	<hr/>
Total Liabilities	4,638,803

**NET ASSETS**

Unrestricted	15,299,040
Temporarily Restricted	53,877,847
Permanently Restricted	43,092,442
	<hr/>
Total Net Assets	\$ 112,269,329

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, 2012*

*Exhibit B-2*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND SUPPORT</b>				
Support:				
Public Contributions	\$ 543,635	\$ 9,287,228	\$ 2,231,942	\$ 12,062,805
Grants		165,589		165,589
Revenue:				
Dividends and Interest Income	658,000	135,645		793,645
Endowment Income	104	32,737		32,841
Distributions of Endowment Income	29,800	(29,800)		
Miscellaneous Income		124,609		124,609
Net Gain on Investments	418,221	974,165		1,392,386
Subtotal Revenue and Support	1,649,760	10,690,173	2,231,942	14,571,875
Transfers to/from Other Funds	83,828	(488,696)	404,868	
Net Assets Released from Restrictions	8,454,344	(8,454,344)		
Total Revenue, Support, and Gains	10,187,932	1,747,133	2,636,810	14,571,875
<b>EXPENSES</b>				
Program Services:				
Contributions to the University of North Carolina at Charlotte	8,165,003			8,165,003
Distributions to Donors	99,526			99,526
Grants and Research Administration	272,137			272,137
Other Program Support	241,094			241,094
Total Program Services	8,777,760			8,777,760
Supporting Services:				
Professional Fees	82,226			82,226
Investment Fees	471,149			471,149
Other General and Administrative Expenses	138,956			138,956
Interest Expense	192,850			192,850
Total Supporting Services	885,181			885,181
Total Expenses	9,662,941			9,662,941
Change in Net Assets	524,991	1,747,133	2,636,810	4,908,934
Net Assets at Beginning of Year	14,774,049	52,130,714	40,455,632	107,360,395
Net Assets at End of Year	<u>\$ 15,299,040</u>	<u>\$ 53,877,847</u>	<u>\$ 43,092,442</u>	<u>\$ 112,269,329</u>

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

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**THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (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 are reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

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

The FDC is governed by a seven-member board consisting of three ex officio directors and four 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)

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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 participant investors include the University, the Foundation, the Athletic Foundation (see Note 15), and University Research Park. 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, the Athletic Foundation's, and University Research Park's shares of 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 44 officers and directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereof, which the Foundation holds and invests, is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No 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)

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During the year ended June 30, 2012, the Foundation distributed \$8,165,003 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Controller's Office at controller@uncc.edu, or by calling (704) 687-5759.

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

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 two or more years except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 75 years for general infrastructure, 10 to 75 years for buildings and building improvements, and 4 to 20 years for equipment. Amortization is computed using the straight-line method over the estimated useful lives of the assets, generally 20 years for computer software.

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 for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- 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 revenue bonds payable, certificates of participation, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts and deferred losses on refundings. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refundings 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 (LIFO) method. Also, any accumulated vacation leave in excess of

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 funding is transactional based within the departmental management

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

**P. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, copy centers, motor pool, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, 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, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$315,460,145 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 1.5 years as of June 30, 2012. 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 "Reports," or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2012 was \$50,520. The carrying amount of the University's deposits not with the State Treasurer was \$513,828 and the bank balance was \$552,818. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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of June 30, 2012, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Bank	<u>\$ 63,598</u>
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Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. At June 30, 2012, \$10,858 of the total bank balance was denominated in Euros, and was therefore exposed to foreign currency risk.

### **B. Investments**

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

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

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

G.S. 116-36(e) provides that the trustees of the Endowment Fund shall be responsible for the prudent investment of the Fund in the exercise of their sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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.

### Risk

The University directly owns investments (non-pooled investments) and participates in a long term external investment pool (pooled investments).

The pooled and non-pooled investments are subject to a variety of risks as described below.

*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.

### Credit quality and interest rate risks are as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa
U.S. Agencies	\$ 482,370	\$ 0	\$ 482,370	\$ 0	\$ 0
Collateralized Mortgage Obligations	182,123	182,123			
Money Market Mutual Funds	12,515,009	12,515,009			
Domestic Corporate Bonds	1,076,159	74,969	231,895	510,706	258,589

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

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
U.S. Treasuries	\$ 744,141	\$ 112,459	\$ 366,083	\$ 265,599	\$ 0
U.S. Agencies	482,370		482,370		
Collateralized Mortgage Obligations	182,123		9,250	16,645	156,228
Money Market Mutual Funds	12,515,009	12,515,009			
Domestic Corporate Bonds	1,076,159	48,534	667,908	359,717	
<b>Total</b>	<b>\$ 14,999,802</b>	<b>\$ 12,676,002</b>	<b>\$ 1,525,611</b>	<b>\$ 641,961</b>	<b>\$ 156,228</b>

The pooled investments are invested in an external investment pool managed by the University of North Carolina at Charlotte Investment

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Fund, Inc. (Investment Fund) which is not registered with the Securities and Exchange Commission. The external investment pool's internal participants include the University and the Foundation. The external participants include the Athletic Foundation of the University of North Carolina at Charlotte, Inc. and the University Research Park, Inc. Fund ownership 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 participant's share of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The primary investment objective of the Investment Fund's external investment pool is to attain a minimum annualized real total return (net of management fees) of at least 5% over the long term. The Investment Fund's board of directors approves investment policies, objectives and the hiring of investment managers, consultants and advisors. The Investment Fund's board of directors monitors investment performance and implementation of investment policies and has chosen not to make individual security selections. The management of individual securities is made by the two external investment firms and advisors chosen by the Investment Fund's board of directors for their individual strength in investment approach, methodology and research, correlation of strategies, quantitative stock selection models and distinct manager specialists as well as a risk controlled framework. This diversification provides reasonable assurance that no single security, class of securities or investment manager has a disproportionate impact on the results of the external investment pool.

The two external investment firms include a limited partnership interest and another external investment pool, UNC Investment Fund, LLC. These two external investment firms invest in a variety of asset classes, including common stocks, fixed income, foreign investment, derivatives, private equity and hedge funds. These assets are subject to a variety of risks. Common stocks are subject to the risk the value may fall (market risk), while fixed income investments are subject to interest rate risk and credit risk. Foreign investments are subject to currency exchange rates (foreign exchange risk), political and economic developments, and limited legal recourse and market risks. Derivatives such as futures, options, warrants and swap contracts involve risks that may result in losses. The prices of derivatives may move in unexpected ways due to the use of leverage or other factors, especially in unusual market conditions and may result in increased volatility. Hedge funds are subject to the risks contained in the underlying investment and can limit liquidity.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The limited partnership investment is subject to the terms and conditions of the limited partnership agreement. The agreement allows annual redemptions on December 31 of each year with 120 days advance notice. All redemptions are subject to the general partner's approval and can be limited or suspended. The sale of the Investment Fund's limited partnership interest to a third party is not permitted.

The investment in the UNC Investment Fund, LLC is subject to an operating agreement. Ownership in the UNC Investment Fund, LLC is based on the per unit market value method whereby the total market value of the underlying assets is divided by the number of units to determine the market value per unit. The number of units' times the rate per unit determines the ownership in the UNC Investment Fund, LLC. The operating agreement permits monthly contributions and withdrawal. Monthly withdrawals are limited to the greater of: 10% of the market value of ownership, or \$2,000,000. Entire withdrawals are permitted and are paid over twelve calendar months.

A summary of investments is as follows:

	Valuation	Total
<b>Non-pooled Investments</b>		
Money Market Mutual Fund	Fair Value	\$ 4,692,885
U.S. Treasuries	Fair Value	744,141
U.S. Agencies	Fair Value	482,370
Collateralized Mortgage Obligations	Fair Value	182,123
Domestic Corporate Bonds	Fair Value	1,076,159
Domestic Stocks	Fair Value	1,257,687
Real Estate	Cost or fair value if donated	6,642,104
Cash Surrender Value of Life Insurance		28,994
<b>Total Non-pooled Investments</b>		15,106,463
<b>Pooled Investments</b>		
Money Market Fund	Fair Value	7,822,124
UNC Investment Fund, LLC	Fair Value	55,907,542
Private Equity Limited Partnership	Fair Value	60,055,909
<b>Total Pooled Investments</b>		123,785,575
Less amounts invested by the Foundation		(71,069,728)
<b>Pooled Investments for the University</b>		52,715,847
<b>Total Investments</b>		\$ 67,822,310

Separate financial statements for the Investment Fund external investment pool may be obtained from the University Controller's Office at [controller@uncc.edu](mailto:controller@uncc.edu), or by calling (704) 687-5759.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the University as of June 30, 2012, is as follows:

Cash on Hand	\$	50,520
Amount of Deposits with Private Financial Institutions		513,828
Deposits in the Short-Term Investment Fund		315,460,145
Long-Term Investment Pool		52,715,847
Non-Pooled Investments		15,106,463
<b>Total Deposits and Investments</b>	<b>\$</b>	<b>383,846,803</b>
Deposits		
Current:		
Cash and Cash Equivalents	\$	154,266,607
Restricted Cash and Cash Equivalents		27,944,074
Noncurrent:		
Restricted Cash and Cash Equivalents		133,813,812
<b>Total Deposits</b>		<b>316,024,493</b>
Investments		
Noncurrent:		
Endowment Investments		63,100,431
Restricted Investments		4,721,879
<b>Total Investments</b>		<b>67,822,310</b>
<b>Total Deposits and Investments</b>	<b>\$</b>	<b>383,846,803</b>

### 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. 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 an adopted spending policy which limits spending to 5% of the average trailing twelve quarters endowment principal's market value. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

make up the difference. At June 30, 2012, net appreciation of \$18,359,195 was available to be spent, of which \$8,063,120 was restricted to specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net assets.

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, 2012, the amount of investment losses reported against the nonexpendable endowment balances was \$381,127.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 6,408,852	\$ 1,530,612	\$ 4,878,240
Accounts	5,581,453		5,581,453
Intergovernmental	3,658,565		3,658,565
Investment Earnings	117,936		117,936
Other	222,777		222,777
<b>Total Current Receivables</b>	<b>\$ 15,989,583</b>	<b>\$ 1,530,612</b>	<b>\$ 14,458,971</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 819,820	\$ 28,938	\$ 790,882
Institutional Student Loan Programs	28,847	1,901	26,946
Land Note	24,570		24,570
<b>Total Notes Receivable - Current</b>	<b>\$ 873,237</b>	<b>\$ 30,839</b>	<b>\$ 842,398</b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 4,669,447	\$ 205,912	\$ 4,463,535
Institutional Student Loan Programs	375,848	22,030	353,818
Land Note	110,430		110,430
<b>Total Notes Receivable - Noncurrent</b>	<b>\$ 5,155,725</b>	<b>\$ 227,942</b>	<b>\$ 4,927,783</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 7,331,270	\$ 0	\$ 0	\$ 7,331,270
Art, Literature, and Artifacts	27,313,634	492,697		27,806,331
Construction in Progress	167,219,862	92,194,732	196,392,577	63,022,017
Computer Software in Development	577,000	822,897	1,399,897	
<b>Total Capital Assets, Nondepreciable</b>	<b>202,441,766</b>	<b>93,510,326</b>	<b>197,792,474</b>	<b>98,159,618</b>
Capital Assets, Depreciable:				
Buildings	565,692,221	169,930,086	2,097,853	733,524,454
Machinery and Equipment	91,644,390	10,571,082	3,023,830	99,191,642
General Infrastructure	112,860,948	26,561,562	31,131	139,391,379
Computer Software	247,538	1,399,897		1,647,435
<b>Total Capital Assets, Depreciable</b>	<b>770,445,097</b>	<b>208,462,627</b>	<b>5,152,814</b>	<b>973,754,910</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	97,032,669	10,772,477	743,131	107,062,015
Machinery and Equipment	45,458,072	6,112,690	1,829,830	49,740,932
General Infrastructure	19,389,172	2,556,061	5,603	21,939,630
Computer Software	12,377	18,210		30,587
<b>Total Accumulated Depreciation</b>	<b>161,892,290</b>	<b>19,459,438</b>	<b>2,578,564</b>	<b>178,773,164</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>608,552,807</b>	<b>189,003,189</b>	<b>2,574,250</b>	<b>794,981,746</b>
<b>Capital Assets, Net</b>	<b>\$ 810,994,573</b>	<b>\$ 282,513,515</b>	<b>\$ 200,366,724</b>	<b>\$ 893,141,364</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 5,260,289
Accrued Payroll	723,199
Contract Retainage	2,315,496
Other	3,560
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 8,302,544</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

#### A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Revenue Bonds Payable	\$ 216,690,000	\$ 136,600,000	\$ 11,120,000	\$ 342,170,000	\$ 7,840,000
Certificates of Participation	17,265,000		1,070,000	16,195,000	1,115,000
Add Premium/Deduct Discount	4,424,862	12,860,084	537,763	16,747,183	
Deduct Deferred Charge on Refunding	(3,198,032)	(163,113)	(309,049)	(3,052,096)	
<b>Total Revenue Bonds and Certificates of Participation Payable</b>	<b>235,181,830</b>	<b>149,296,971</b>	<b>12,418,714</b>	<b>372,060,087</b>	<b>8,955,000</b>
Notes Payable	5,500,000		5,500,000		
Capital Leases Payable	3,620,468		981,894	2,638,574	998,209
Compensated Absences	12,947,864	8,950,422	8,997,436	12,900,850	1,892,555
<b>Total Long-Term Liabilities</b>	<b>\$ 257,250,162</b>	<b>\$ 158,247,393</b>	<b>\$ 27,898,044</b>	<b>\$ 387,599,511</b>	<b>\$ 11,845,764</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, 2012	Principal Outstanding June 30, 2012	See Table Below
<b>Revenue Bonds Payable</b>							
<b>General Revenue Bonds Payable</b>							
Partial Refund of Housing Phase VII	2006 A	4.25%-5.00%	2014	\$ 1,920,000	\$ 645,000	\$ 1,275,000	
Parking Deck G	2006 A	4.00%-5.00%	2036	10,545,000	1,245,000	9,300,000	
Student Union Taxable	2007-A	5.12%-5.68%	2023	18,140,000	4,395,000	13,745,000	
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 IX 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	430,000	2,290,000	
Housing Phase IX-Tax Exempt	2009-A	2.00%-3.00%	2017	5,610,000	945,000	4,665,000	
Football Stadium BABs	2010	1.64%-6.52% *	2040	40,895,000	1,190,000	39,705,000	
Portal Building	2012-A	2.00%-5.00%	2041	2,615,000		2,615,000	
South Village Dining	2012-A	2.00%-5.00%	2041	3,470,000		3,470,000	
Regional Utility Plant	2012-A	2.00%-5.00%	2041	4,140,000		4,140,000	
Refi-Sprinkler Loan	2012-A	2.00%-4.00%	2022	3,645,000		3,645,000	
Parking Deck I	2012-A	3.00%-5.00%	2041	5,345,000		5,345,000	
Parking Deck J	2012-A	3.00%-5.00%	2041	14,685,000		14,685,000	
Residence Hall Phase X	2012-A	2.00%-5.00%	2041	30,290,000		30,290,000	
Residence Hall Phase XI	2012-A	2.00%-5.00%	2041	28,890,000		28,890,000	
2012 Sprinkler Project	2012-A	2.00%-5.00%	2041	3,260,000		3,260,000	
Final Refi of Phase VIII 2002-A Bonds	2012-A	2.00%-5.00%	2027	3,320,000	760,000	2,560,000	
Portal Building-Taxable	2012-B	.616%-4.550%	2041	25,575,000		25,575,000	
South Village Dining-Taxable	2012-B	.616%-4.551%	2041	8,655,000		8,655,000	
Regional Utility Plant-Taxable	2012-B	.616%-4.251%	2032	2,710,000		2,710,000	
<b>Total General Revenue Bonds</b>				<b>302,460,000</b>	<b>9,610,000</b>	<b>292,850,000</b>	
<b>The University of North Carolina System Pool Revenue Bonds</b>							
Phase VIII Apartments	2002 A	5.00%	2027	21,115,000	21,115,000		
Brocker Health Center	2003 A	3.70%-5.25%	2028	6,055,000	1,520,000	4,535,000	
Refinance Portion of SAC 1995 Bonds	2003 A	3.70%-5.25%	2016	8,770,000	3,620,000	5,150,000	
Refinance Portion of H&D Series M	2003 A	3.70%-5.00%	2015	8,635,000	7,045,000	1,590,000	
Refinance Parking Services 1996	2004 A	3.10%-4.00%	2021	4,480,000	1,790,000	2,690,000	
Refinance Balance of SAC 1995 Bonds	2005 A	3.50%-5.25%	2021	11,855,000	3,670,000	8,185,000	
2nd Partial Refund of Housing Phase VII	2009-B	3.00%-5.00%	2021	6,185,000	585,000	5,600,000	
Final Refinance of Housing Phase VII	2010-B1	5.25%	2024	2,665,000		2,665,000	
Partial Refund of Housing Phase VIII	2010-B1	3.00%-5.25%	2025	13,770,000	110,000	13,660,000	
Refund of Parking Services 2002 Bonds	2010-B1	3.00%-5.25%	2027	6,300,000	1,055,000	5,245,000	
<b>Total The University of North Carolina System Pool Revenue Bonds</b>				<b>89,830,000</b>	<b>40,510,000</b>	<b>49,320,000</b>	
<b>Certificates of Participation</b>							
Banner COPs	2004	3.375%-4.25%	2014	5,925,000	4,430,000	1,495,000	(1)
Greek Village COPs	2005	4.00%-4.75%	2035	16,745,000	2,045,000	14,700,000	(2)
<b>Total Certificates of Participation</b>				<b>22,670,000</b>	<b>6,475,000</b>	<b>16,195,000</b>	
<b>Total Revenue Bonds Payable and Certificates of Participation (principal only)</b>				<b>\$ 414,960,000</b>	<b>\$ 56,595,000</b>	<b>358,365,000</b>	
Less: Unamortized Loss on Refunding						(3,052,096)	
Less: Unamortized Discount						(276,677)	
Plus: Unamortized Premium						17,023,861	
<b>Total Revenue Bonds Payable and Certificates of Participation</b>						<b>\$ 372,060,087</b>	

\* 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)	Administrative Computing Debt Fee	\$ 1,583,169	\$ 1,308,045	\$ 700,000	\$ 92,769	61%
(2)	Housing Revenues- Greek Village	24,330,888	1,654,709	370,000	690,094	64%

## 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, 2012, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
2013	\$ 7,840,000	\$ 16,536,762	\$ 1,115,000	\$ 733,063
2014	10,720,000	16,241,227	1,160,000	690,494
2015	11,135,000	15,845,152	415,000	644,094
2016	10,965,000	15,408,971	430,000	627,494
2017	11,410,000	14,983,935	450,000	610,294
2018-2022	59,045,000	67,580,882	2,540,000	2,750,050
2023-2027	56,430,000	53,914,391	3,170,000	2,115,356
2028-2032	58,690,000	40,021,525	4,015,000	1,276,031
2033-2037	72,210,000	23,169,928	2,900,000	272,181
2038-2042	43,725,000	5,236,381		
<b>Total Requirements</b>	<b>\$ 342,170,000</b>	<b>\$ 268,939,154</b>	<b>\$ 16,195,000</b>	<b>\$ 9,719,057</b>

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

On February 10, 2012, the University issued \$3,645,000 in The University of North Carolina at Charlotte General Revenue Bond Series 2012A refunding bonds with an average interest rate of 3.965% with a true interest cost of 1.66%. The University also included funds on hand of \$1,400,000 to pay down the outstanding note. The bonds were issued for a current refunding of \$5,500,000 of outstanding University of North Carolina at Charlotte Sprinkler Systems Promissory Note with an average interest rate of 2.88%. The refunding was undertaken to reduce total debt service payments by \$1,779,211 over the next 10 years and resulted in an economic gain of \$235,937.

On February 10, 2012, the University issued \$3,320,000 in The University of North Carolina at Charlotte General Revenue Bonds Series 2012A refunding bonds with an average interest rate of 4.993% with a true interest cost of 3.26%. The bonds were issued to advance refund \$3,655,000 of outstanding UNC Charlotte 2002A General Revenue Promissory Note bonds with an average interest rate of 5.0%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$694,259 over the next 15 years and resulted in an economic gain

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

of \$499,398. At June 30, 2012, the outstanding balance was \$2,950,000 for the defeased UNC Charlotte 2002A General Revenue Promissory Note bonds.

**Prior Year Defeasances** - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2012, the outstanding balance of prior year defeased bonds was \$13,360,000.

### NOTE 8 - LEASE OBLIGATIONS

**A. Capital Lease Obligations** - Capital lease obligations relating to network and server equipment as well as the related software 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, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 1,082,468
2014	958,102
2015	683,901
2016	<u>56,992</u>
Total Minimum Lease Payments	2,781,463
Amount Representing Interest (3.39% - 6.11% Rate of Interest)	<u>142,889</u>
Present Value of Future Lease Payments	<u><u>\$ 2,638,574</u></u>

Machinery and equipment acquired under capital lease amounted to \$4,436,882, and related software acquired under capital lease amounted to \$247,538 at June 30, 2012. Depreciation for the capital assets associated with capital leases is included in depreciation expense.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**B. Operating Lease Obligations** - The University entered into operating leases for noncapital network and server equipment and related software; classroom, warehouse, and office space; parking spaces; and vans. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 1,473,707
2014	1,235,471
2015	1,099,938
2016	101,724
2017	11,400
2018-2022	<u>42,750</u>
Total Minimum Lease Payments	<u><u>\$ 3,964,990</u></u>

Rental expense for all operating leases during the year was \$1,870,726.

### NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 183,637,063	\$ 127,966	\$ 37,644,469	\$ 1,586,745	\$ 144,277,883
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 25,780,759	\$ 437,017	\$ 6,221,489	\$ 143,394	\$ 18,978,859
Dining	16,831,392	43,057	3,183,696	97,005	13,507,634
Student Union Services	5,711,692	1,230,172			4,481,520
Health Services	2,176,689	33,842		46,965	2,095,882
Parking	8,022,157	258,594		26,695	7,736,868
Athletics	1,566,113	20,584			1,545,529
Facilities	14,602,817	14,126,451			476,366
Telecommunications	3,749,508	2,863,019			886,489
Other	10,157,696	7,806,339			2,351,357
Sales and Services of Education and Related Activities	<u>3,303,397</u>	<u>1,328,760</u>			<u>1,974,637</u>
<b>Total Sales and Services</b>	<u><u>\$ 91,902,220</u></u>	<u><u>\$ 28,147,835</u></u>	<u><u>\$ 9,405,185</u></u>	<u><u>\$ 314,059</u></u>	<u><u>\$ 54,035,141</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 151,052,705	\$ 5,571,700	\$ 16,659,221	\$ 0	\$ 1,293	\$ 0	\$ 173,284,919
Research	14,659,964	1,530,230	4,653,690		638		20,844,522
Public Service	1,925,041	59,844	597,068				2,581,953
Academic Support	16,918,123	6,719,578	8,922,273				32,559,974
Student Services	14,112,805	1,232,933	2,100,620		6,473		17,452,831
Institutional Support	22,767,188	1,315,795	6,193,601		188		30,276,772
Operations and Maintenance of Plant	19,388,002	9,114,311	9,111,786		8,182,650		45,796,749
Student Financial Aid				35,743,768			35,743,768
Auxiliary Enterprises	30,617,199	11,948,260	18,823,253		3,376,455		64,765,167
Depreciation/Amortization						19,459,438	19,459,438
Total Operating Expenses	<u>\$ 271,441,027</u>	<u>\$ 37,492,651</u>	<u>\$ 67,061,512</u>	<u>\$ 35,743,768</u>	<u>\$ 11,567,697</u>	<u>\$ 19,459,438</u>	<u>\$ 442,766,093</u>

### NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$217,271,626, of which \$90,534,160 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$6,735,742 and \$5,432,050, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$6,735,742, \$4,461,891, and \$3,138,757, 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 "Reports," or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2012, 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 \$217,271,626, of which \$93,740,049 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$6,411,819 and \$5,624,403, respectively.

**B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$737,871 for the year ended June 30, 2012.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2012, were \$77,159. The voluntary contributions by employees amounted to \$1,633,093 for the year ended June 30, 2012.

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. The plan administrators are Fidelity and TIAA-CREF. No costs are incurred by the University. The voluntary contributions by employees amounted to \$3,066,649 for the year ended June 30, 2012.

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year the University contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. The required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$9,213,710, \$8,854,753, and \$8,088,140, 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 "Reports," or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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, 2012, 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, 2011, and 2010, was .52% for both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$958,226, \$939,688, and \$934,630, 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.

The risk of tort claims of up to \$1,000,000 per claimant is 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 private insurer.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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 discretely presented component unit 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, 2012:

A separate professional 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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In December 2011, the University experienced a self-insured loss due to the inadvertent exposure of data discovered by a university employee. Though the data exposure did not result in a paid loss to a claimant, the University incurred \$1.9 million in expenses to investigate and remediate the incident. No additional costs for mitigation or payments to claimants are expected.

### 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 \$122,499,789 at June 30, 2012.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

### NOTE 15 - RELATED PARTIES

**Foundations** - There are two separately incorporated nonprofit foundations associated with the University. These foundations are The Athletic Foundation of the University of North Carolina at Charlotte (Athletic Foundation) and Ventureprise, Inc., formerly 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 \$2,624,114 for the year ended June 30, 2012.

Ventureprise, 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 \$85,400 for the year ended June 30, 2012.

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

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

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

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

We have audited the financial statements of The University of North Carolina at Charlotte, a constituent institution of the 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, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 17, 2012. Our report includes a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the discretely presented component unit, as described in our report on the University's financial statements. The financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc. and the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

The University's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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

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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.

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA  
State Auditor

December 17, 2012

## ORDERING INFORMATION

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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

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This audit required 946.5 audit hours at an approximate cost of \$68,148. The cost represents .0052% of the University's total assets and .014% of total expenses subjected to audit.