

STATE OF NORTH CAROLINA

THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

CHARLOTTE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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, 2013

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THE UNIVERSITY OF NORTH CAROLINA

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2013, 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

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Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 9.46 percent, 13.52 percent, and 2.36 percent, respectively, of the assets, net position, and revenues of the University; nor the financial statements of The University of North Carolina at Charlotte Facilities Development Corporation, Inc., which represent 1.22 percent, 0.32 percent, and 0.23 percent, respectively, of the assets, net position, 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 statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Charlotte, and its discretely presented component unit, as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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 a 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 and other auditors 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 our audit of the basic financial statements. 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 13, 2013

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

Overview of the Financial Statements and Financial Analysis

The University of North Carolina at Charlotte is pleased to present its annual financial statement report for the fiscal year ended June 30, 2013.

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

- Statement of Net Position for The University of North Carolina at Charlotte
- Statement of Revenues, Expenses, and Changes in Net Position 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 Statements No. 39, *Determining Whether Certain Organizations Are Component Units*, and No. 61, *The Financial Reporting Entity Omnibus*, 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, 2013, emphasizing current year data and material changes between the prior and current fiscal year. Comparative information for the year ended June 30, 2012 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 Position

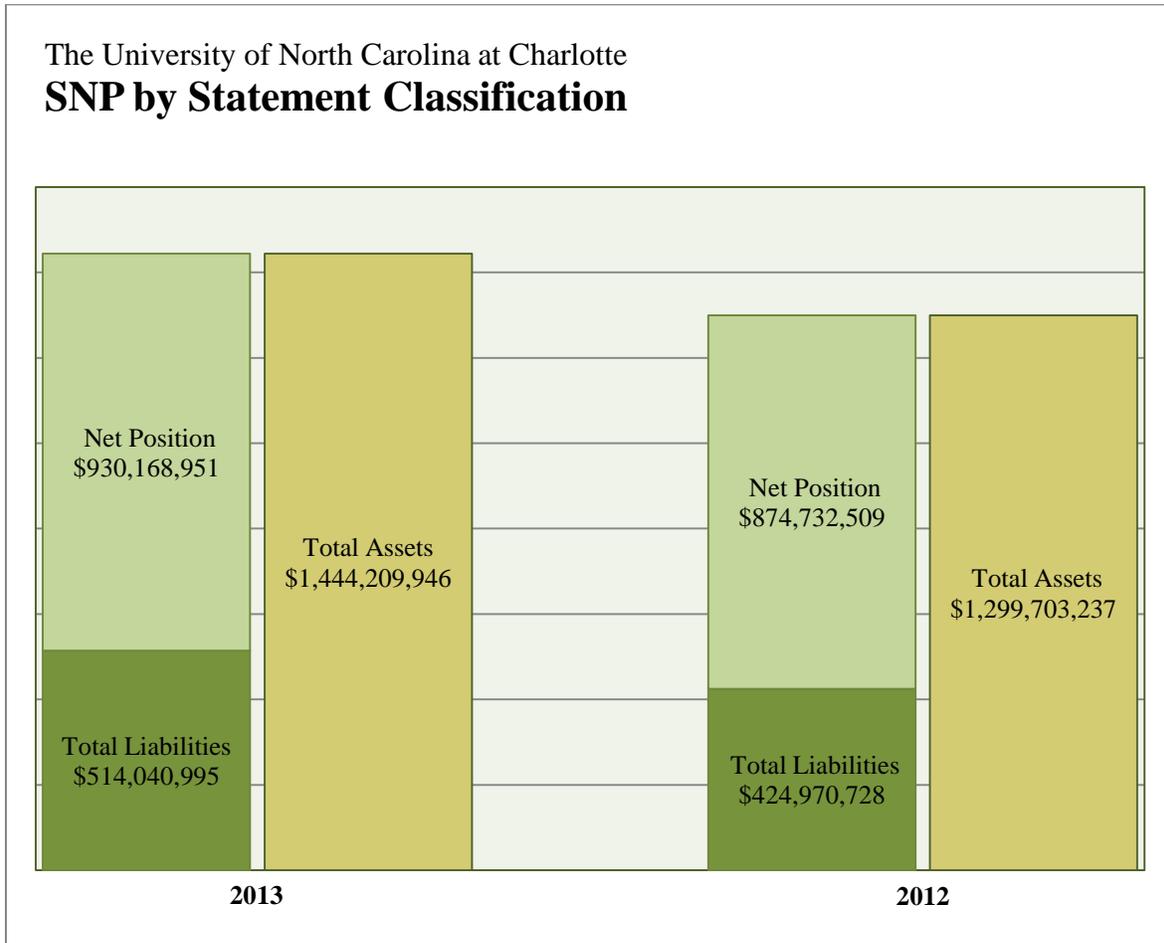
The Statement of Net Position (SNP) summarizes the financial position of the University by presenting the assets, liabilities, net position, and deferred obligations, as applicable as of the end of the fiscal year. The SNP is a point-in-time financial statement, the purpose of which is to present a fiscal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

The SNP 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 SNP provides a picture of the net

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

position, which represents the residual interest in the University's assets net of its liabilities and deferred obligations and their availability for expenditure by the University. The change in net position is an indicator of whether the overall financial condition of the University has improved or worsened during the year.

A comparison of net position, as well as the total assets and total liabilities as elements of net position, at June 30, 2013, and June 30, 2012, is presented below:



Net Position is divided into three major categories:

- Net Investment in Capital Assets
- Restricted Net Position
- Unrestricted Net Position

Net investment in capital assets represents the University's equity in property, plant, and equipment owned by the University.

Restricted net position is divided into two categories: expendable and nonexpendable. The corpus of nonexpendable restricted resources is available for investment purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Expendable restricted net position is 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 position is available to the University for any lawful purpose of the University.

The following table summarizes and compares the University's assets, liabilities, and net position on June 30, 2013, and June 30, 2012.

Condensed Statement of Net Position	2013	2012	Increase (Decrease)	
			Amount	Percent
Assets:				
Current Assets	\$ 233,253,998	\$ 199,870,501	\$ 33,383,497	16.7%
Noncurrent Assets:				
Endowment and Other Investments	77,476,362	67,822,310	9,654,052	14.2%
Capital Assets, Net of Depreciation	1,018,489,762	893,141,364	125,348,398	14.0%
Other Noncurrent Assets	114,989,824	138,869,062	(23,879,238)	-17.2%
Total Assets	1,444,209,946	1,299,703,237	144,506,709	11.1%
Liabilities:				
Current Liabilities	37,028,763	32,306,867	4,721,896	14.6%
Noncurrent Liabilities				
Funds Held in Trust	10,932,201	11,329,666	(397,465)	-3.5%
Long-Term Liabilities	448,230,680	375,753,747	72,476,933	19.3%
Other Noncurrent Liabilities	17,849,351	5,580,448	12,268,903	219.9%
Total Liabilities	514,040,995	424,970,728	89,070,267	21.0%
Net Position:				
Net Investment in Capital Assets	676,473,302	655,728,113	20,745,189	3.2%
Restricted:				
Nonexpendable	38,320,962	36,179,582	2,141,380	5.9%
Expendable	33,444,528	28,661,421	4,783,107	16.7%
Unrestricted	181,930,159	154,163,393	27,766,766	18.0%
Total Net Position	\$ 930,168,951	\$ 874,732,509	\$ 55,436,442	6.3%

This condensed statement reflects continued growth and financial strength of the University. Refer to University Exhibit A-1 and the accompanying notes to the financial statements for additional detail related to the SNP at June 30, 2013. Some highlights of the information presented on the SNP include:

- Total current assets at June 30, 2013 were \$233.3 million, an increase of \$33.4 million, or 16.7%, during the fiscal year. Current cash and cash equivalents (unrestricted and restricted) increased by \$36.2 million from the prior year due to a \$25.3 million increase in cash related to auxiliary operations required for future construction and debt repayment associated with the university's facilities master plan, a \$5.2 million increase associated with overhead receipts net of expenses slated for special projects, and an increase of \$5.3 million due to an increase in funds to cover construction accounts payable.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Total noncurrent assets increased by \$111.1 million, or 10.1%, during fiscal year 2013. Noncurrent restricted cash decreased by \$23.3 million due to the use of bond proceeds for construction projects. Capital assets increased by \$125.3 million, or 14.0%, for new construction and other capital acquisitions. Total investments increased by \$9.7 million, or 14.2%. Endowment investments increased by \$3.4 million due to additional endowed gifts and a 10.8% return on investment offset by distributions and fees. Restricted investments increased by \$6.2 million as a result of May 2013 Energy Savings Agreement bond proceeds invested with the trustee offset by the use of 2012 Series A and B bond proceeds used to fund capitalized interest.
- Total liabilities increased by \$89.1 million, or 21.0%, to \$514.0 million at June 30, 2013. Current liabilities increased by \$4.7 million while noncurrent liabilities increased by \$84.3 million. The increase in current liabilities was predominantly due to a \$3.4 million increase in the current portion of long term liabilities associated with the 2012 and 2013 bond sales. The additional \$1.3 million increase is due to minor changes in accounts payable, funds held for others, unearned revenue and interest payable offset by a minor decrease in deposits payable. The increase in noncurrent liabilities was mainly due to \$86.0 million in general revenue bonds issued in April 2013 and \$8.3 million in Energy Savings Agreement bonds issued in May 2013, offset by defeasances and bond principal payments made throughout the year. Noncurrent funds held for others also increased by \$12.1 million, due to funds that The University of North Carolina at Charlotte Foundation invested into the State Treasurer's Short-Term Investment Fund to improve earnings.
- Net position increased from the prior fiscal year by \$55.4 million, or 6.3%, to \$930.2 million. This growth is due to a \$20.7 million, or 3.2%, increase in the net investment in capital assets, as well as an increase in unrestricted net position of \$27.8 million, or 18.0%, 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 6.3 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 \$196.2 million at June 30, 2013, increased by 17.1% 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 Position

Changes in total net position, as presented in the SNP, are based on activity presented in the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

State appropriations, are classified as nonoperating because they are provided to the University without the provider directly receiving commensurate goods and services for those revenues.

The following table summarizes and compares the University's results of operations for the fiscal years ended June 30, 2013, and June 30, 2012.

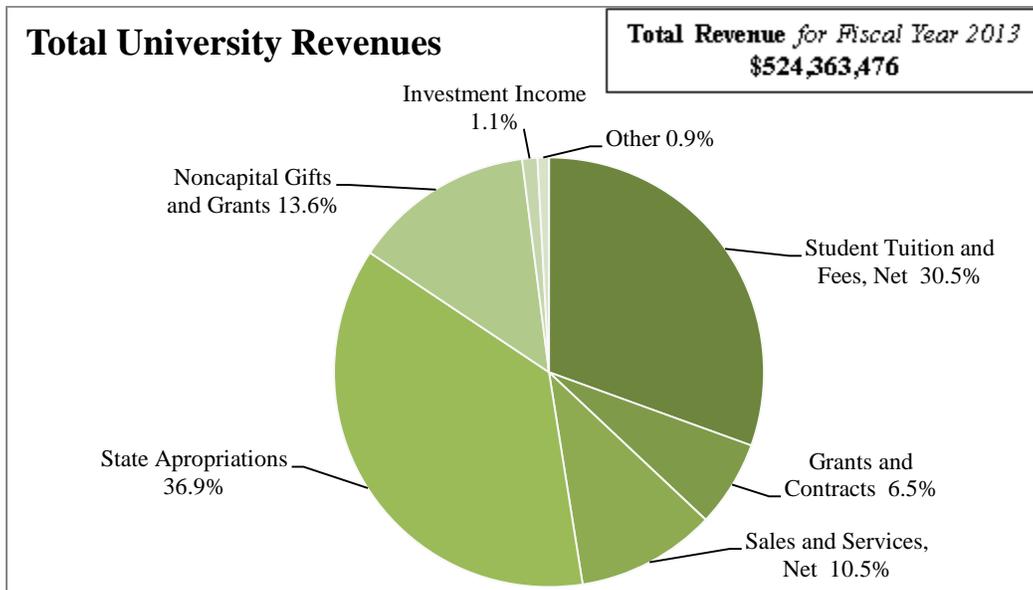
Condensed Statement of Revenues, Expenses, and Changes in Net Position	2013	2012	Increase (Decrease)	
			Amount	Percent
Operating Revenues:				
Student Tuition and Fees, Net	\$ 160,088,675	\$ 144,277,883	\$ 15,810,792	11.0%
Grants and Contracts	34,039,216	31,157,551	2,881,665	9.2%
Sales and Services, Net	54,897,500	54,035,141	862,359	1.6%
Other Operating Revenues	2,651,024	2,304,677	346,347	15.0%
Total Operating Revenues	251,676,415	231,775,252	19,901,163	8.6%
Operating Expenses:				
Salaries and Benefits	291,608,396	271,441,027	20,167,369	7.4%
Supplies and Materials	36,995,079	37,492,651	(497,572)	-1.3%
Services	77,502,764	67,061,512	10,441,252	15.6%
Scholarships and Fellowships	35,621,450	35,743,768	(122,318)	-0.3%
Utilities	12,336,399	11,567,697	768,702	6.6%
Depreciation/Amortization	22,580,278	19,459,438	3,120,840	16.0%
Operating Expenses	476,644,366	442,766,093	33,878,273	7.7%
Operating Loss	(224,967,951)	(210,990,841)	13,977,110	6.6%
Nonoperating Revenues (Expenses):				
State Appropriations	193,426,146	185,951,385	7,474,761	4.0%
Noncapital Gifts and Grants	71,397,810	67,791,135	3,606,675	5.3%
Investment Income, Net	5,704,995	492,036	5,212,959	1059.5%
Interest and Fees on Debt	(11,014,631)	(7,737,198)	3,277,433	42.4%
Other Nonoperating Revenues (Expenses)	1,116,246	(2,648,685)	3,764,931	142.1%
Net Nonoperating Revenues	260,630,566	243,848,673	16,781,893	6.9%
Income Before Other Changes	35,662,615	32,857,832	2,804,783	8.5%
Capital Appropriations (Net of Refunds)	706,100	-	706,100	100.0%
Capital Grants	8,193,842	32,011,202	(23,817,360)	-74.4%
Capital Gifts	9,048,725	2,854,882	6,193,843	217.0%
Additions to Endowment	1,825,160	1,007,750	817,410	81.1%
Increase in Net Position	55,436,442	68,731,666	(13,295,224)	-19.3%
Net Position, Beginning of Year	874,732,509	806,000,843	68,731,666	8.5%
Net Position, End of Year	\$ 930,168,951	\$ 874,732,509	\$ 55,436,442	6.3%

Refer to University Exhibit A-2 and the accompanying notes to the financial statements for additional information regarding the University's SRECNP for fiscal year 2013. Some highlights of the information presented on the SRECNP are as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Total operating revenues increased by \$19.9 million, or 8.6%, as compared to the prior fiscal year. This net increase is attributable to a \$15.8 million, or 11.0%, increase in student tuition and fees resulting from increases in official rates and the number of students enrolled, combined with a \$2.9 million, or 9.2%, increase in grant and contract revenue related to research activity. The remaining increase in revenue is attributed to slight increases in sales and service revenue for auxiliary services and other operating revenues.
- Net nonoperating revenues of \$260.6 million were generated by the University in fiscal year 2013 which represents a \$16.8 million, or 6.9%, increase compared to the prior year. This increase is attributed to a \$7.5 million, or 4.0% increase in State appropriations and a \$3.1 million or 5.2% increase in noncapital grants associated with student financial aid. In addition, the University's investment income increased by \$5.2 million over the prior fiscal year due to unrealized gains of \$3.9 million, combined with other earnings. These increases were offset by an increase in debt-related interest and fees of \$3.3 million associated with the addition of 2012 and 2013 bonds sold for capital financing. Other nonoperating expenses were 0.7 million, largely attributed to the cost of issuance on the 2013 bond sale. The decrease of \$3.7 million from the prior year relates to non-recurring items that occurred in 2012.

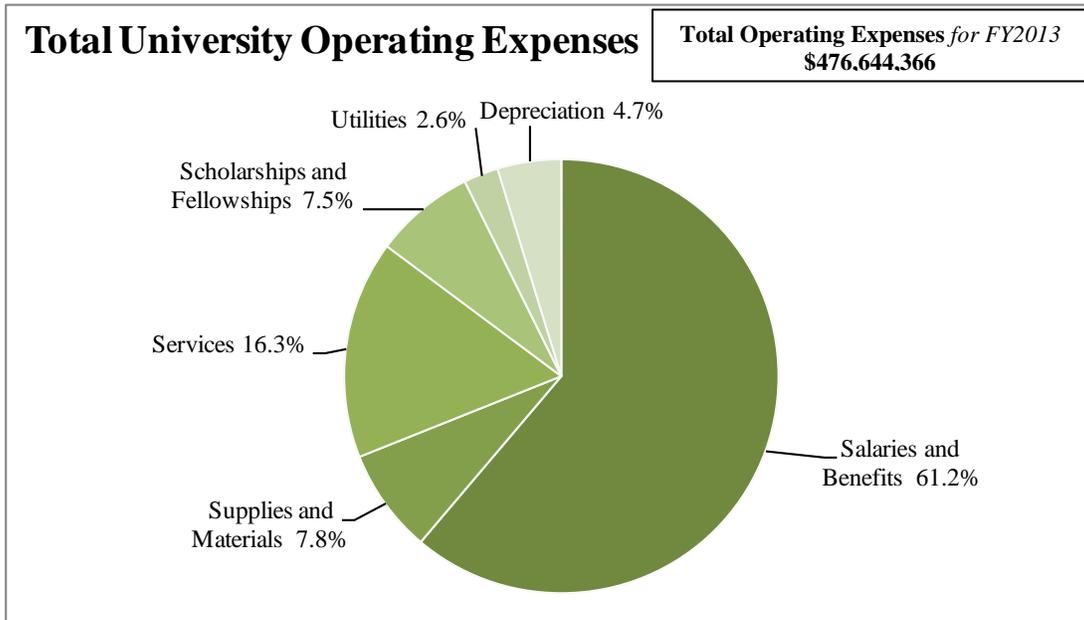
A summary of total revenues by source (both operating and nonoperating), which were used to fund the University's operating activities for the fiscal year ended June 30, 2013, is shown below.



MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

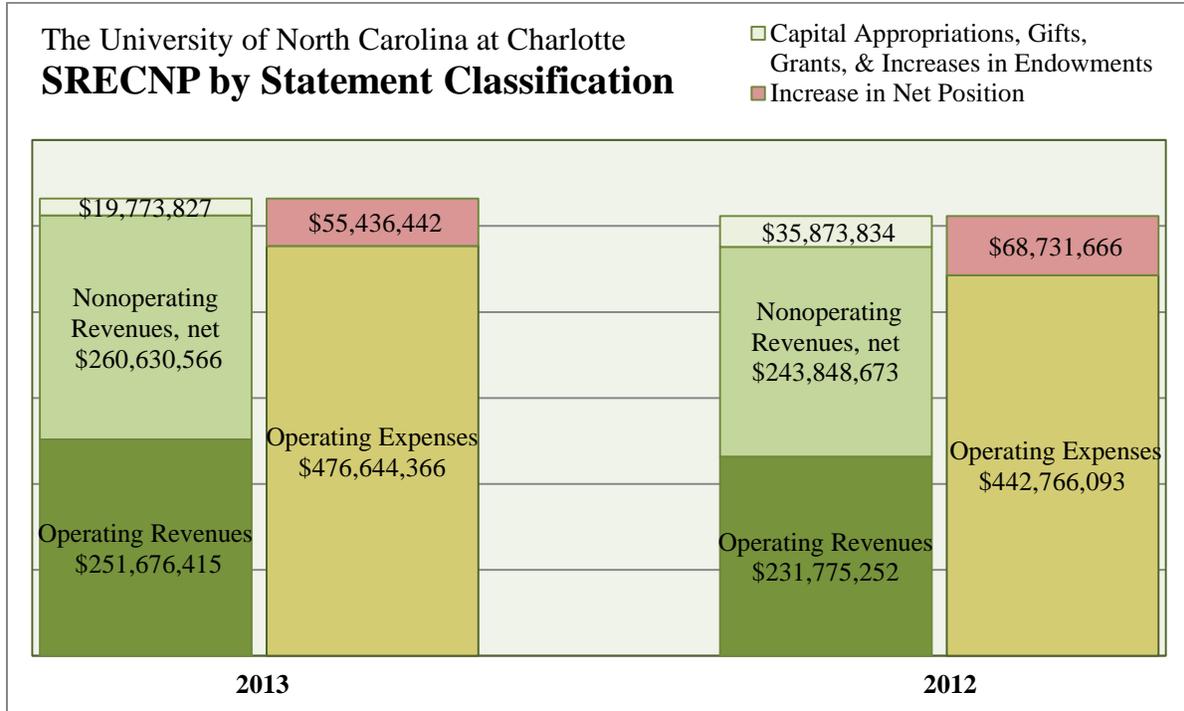
Total operating expenses increased by \$33.9 million, or 7.7%, from the prior year. This increase was attributable to a \$20.2 million, or 7.4%, increase in salary and benefits due to an increase in filled positions, an increase in benefits costs, and an increase in compensated absences from additional FY 2013 leave granted by the State of North Carolina. In addition, there was an increase in services purchased of \$10.4 million, or 15.6% due to a \$3.0 million increase in student health insurance premiums paid related to a significant increase in rates, a \$1.5 million increase in dining commissions paid to our third party food service provider, and other increases in services paid by auxiliaries and other departments in support of operations.

A summary of total operating expenses by natural classification for the fiscal year ended June 30, 2013, is shown below.

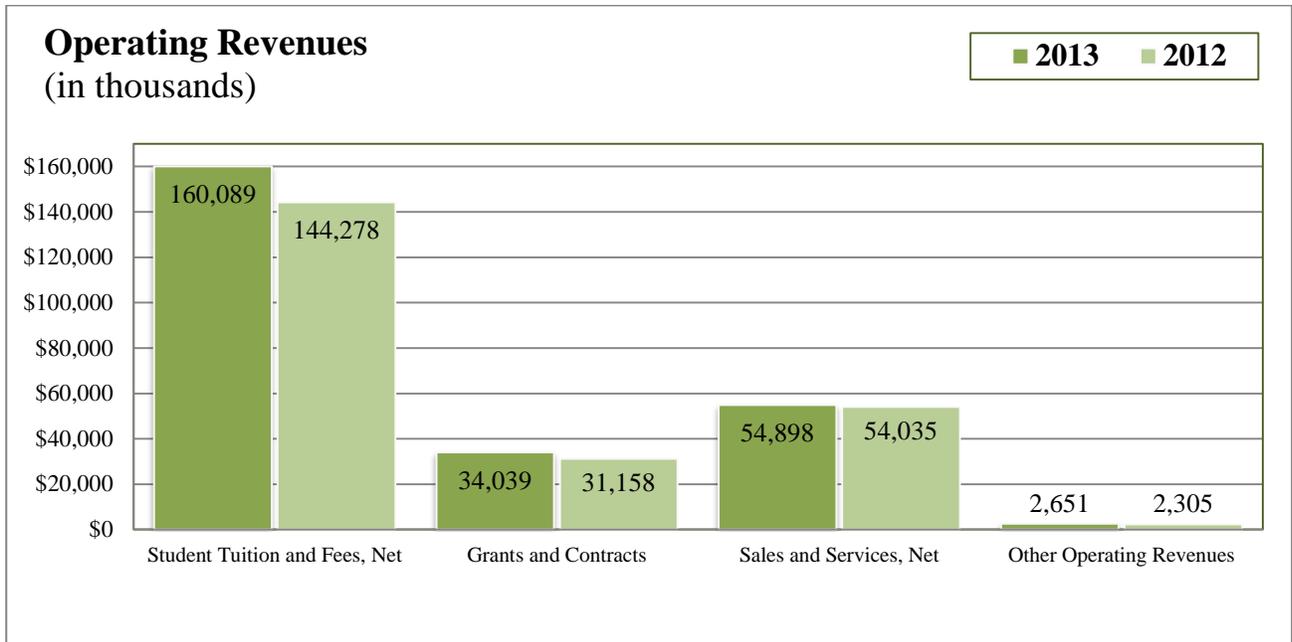


MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

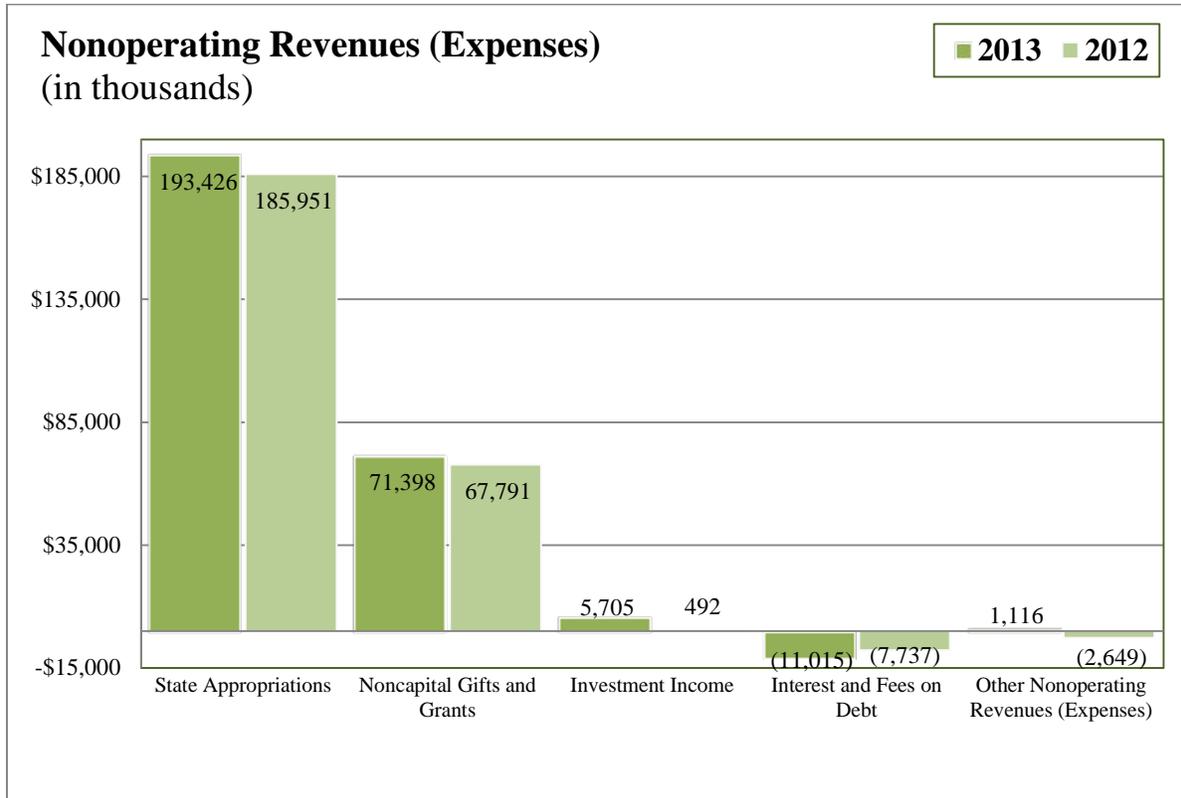
A comparison of annual activity by statement classification, as well as a comparison of total operating revenues, nonoperating revenues, and other increases in net position as elements of operating expenses, at June 30, 2013, and June 30, 2012, is presented below:



Comparisons of the operating and nonoperating revenues for the fiscal years ended June 30, 2013, and June 30, 2012, 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, 2013, and June 30, 2012. Information regarding changes in capital assets is also disclosed in Note 5.

Capital Assets, net of Accumulated Depreciation	2013	2012	Increase (Decrease)	
			Amount	Percent
Land	\$ 7,331,270	\$ 7,331,270	\$ 0	0.0%
Art, Literature and Artifacts	30,029,293	27,806,331	2,222,962	8.0%
Construction in Progress	118,000,334	63,022,017	54,978,317	87.2%
Buildings	655,172,579	626,462,439	28,710,140	4.6%
Machinery and Equipment	49,027,705	49,450,710	(423,005)	-0.9%
General Infrastructure	151,652,648	117,451,749	34,200,899	29.1%
Computer Software	7,275,933	1,616,848	5,659,085	350.0%
Total Capital Assets, Net	\$ 1,018,489,762	\$ 893,141,364	\$ 125,348,398	14.0%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

During fiscal year 2013, 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 \$118.0 million, a \$55.0 million increase from the prior year due to the construction of major building and infrastructure projects, including Phase X, XI, and XII residence hall projects, Parking Deck J, the Partnership, Outreach, and Research to Accelerate Learning (PORTAL) building, Residence Dining Hall, and South Village infrastructure projects. These additions to construction in progress were offset by the completion of two major projects, the football complex and Parking Deck I.

UNC Charlotte's football complex was completed in October 2012, and it consists of a 37,000 square foot football training facility, playing field with press box, stadium seating for 15,000 fans, merchandise and concession stands, two practice fields with storage buildings, and an Academic Center designed to facilitate instructional objectives within the complex. UNC Charlotte is the first university to implement zero-waste practices in a new stadium, incorporating recycling, composting, and other sustainable measures such as water bottle filling stations.

The University also had \$42.8 million in outstanding commitments on construction contracts for capital expenditures at June 30, 2013. The bulk of these commitments relate to the following construction projects: Residence Hall Phase XII (\$10.9 million), PORTAL building (\$9.8 million), Residence Hall Phase XI (\$6.4 million), Residence Hall Phase X (\$4.0 million), and Residence Dining Hall Renovation (\$3.1 million).

The University received a \$0.7 million in state capital appropriations during the fiscal year for repair and renovations funded by the State. Capital grants provided by the State decreased \$23.8 million to \$8.2 million as a result of the completion of capital projects funded by these grants including the EPIC building, Center City Building, and Bioinformatics Building. Capital gifts of equipment, sculptures, art, rare books, and manuscript collections of approximately \$9.0 million were made to the University during the fiscal year. Two significant gifts include a \$5.9 million gift of software for the Motorsports Lab and a \$1.1 million gift of a video scoreboard, Ninervision, installed in the new football complex.

All of the University's long-term debt is issued for specific capital needs. In April 2013, the University issued \$86.0 million of General Revenue Bonds, Series 2013 A and B, comprised of \$48.2 million of taxable and \$37.8 million of tax-exempt bonds. Proceeds from Series 2013 A and B bonds will finance the construction and equipping of a housing facility with approximately 400 beds, refund in advance a portion of The University of North Carolina System Pool Revenue Bonds, Series 2003 A, refund in advance a portion of the University of North Carolina System Pool Revenue Bonds, Series 2004 A, and infrastructure development projects on the University campus.

The University received a credit rating of 'AA-' from Standard & Poor's and 'Aa3' from Moody's Investor Service in April 2013 on its issuance of \$86.0 million in General Revenue Bonds, Series 2013 A and B with a stable outlook due to strong operating support, financial resources, and 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 position grew by \$55.4 million to \$930.2 million during fiscal year 2013, a 6.3% 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 remains prudent and conservative in managing its affairs to guide the University through the continued period of economic recovery.

UNC Charlotte continues to focus on its instructional mission and enrollment grew to nearly 26,600 students for the fall 2013 semester, the highest enrollment in the University's history. Student demand for higher education and for enrollment at UNC Charlotte continues to increase. Tuition rates were increased slightly by 2.0%, which represents a \$69 annual increase in undergraduate tuition for residents of North Carolina and a \$69, or 0.4%, annual increase for non-residents. 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 and our commitment to access and affordability.

This value is reflected in the continued growth in national recognition for UNC Charlotte and its academic programs. In the 2013 edition of *Forbes Top Colleges*, UNC Charlotte was ranked the 24th Best Value College. The 2014 edition of *U.S. News and World Report's Best Colleges Rankings* identified UNC Charlotte as one of its Top Public Schools in the National Universities category. In the 2014 edition of *U.S. News and World Report's Best Graduate Schools*, more than a dozen UNC Charlotte programs and colleges were nationally ranked. The Master of Business Administration (MBA) part-time program in the UNC Charlotte Belk College of Business continued its climb in rankings to 50th of 326 programs, moving up five positions from last year and the Master of Public Administration Program remained in the top 60 public affairs programs in the country.

The strength in our academic programs will continue to grow as we execute the University's strategic plan and its Quality Enhancement Plan (QEP) designed to provide an exemplary undergraduate education that will equip students with a strong liberal arts foundation in a robust intellectual environment that values diversity, collegiality, and creativity. Laudable in any context, this mission resonates deeply in light of the University's commitment to access for the socially, economically, and geographically diverse student body it serves. For many students, and particularly for the one-third who are the first in their families to attend college, the time they have at UNC Charlotte represents a unique and potentially life-changing opportunity for personal and professional growth.

The following are a few highlights from the fiscal year that demonstrate the spirit of UNC Charlotte's commitment to strategic growth, outreach, accessibility, and excellence:

August 31, 2013 marked the culmination of a vision for UNC Charlotte - not simply a vision of football and athletics, but of our transformation to a national university engaging and serving students, alumni, employees, and the Charlotte community that was envisioned from the beginning of our campus history. The roar from the first kickoff was heard throughout the nation as our Niner football team took the field under the direction of Coach Brad Lambert. As our leadership has conveyed, this endeavor is not just about the 49ers athletic department;

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

it is about the University, the city, the community, the public, 49er students, 49er alums, and 49er fans. The spirit and excitement will fuel our engagement efforts throughout the State and will provide additional support for the University as a whole. Chancellor Dubois shared these ideas in a recent press conference: “The most important thing was to give our students a complete experience in college, re-engage our alumni and find a way to connect to the community. Judging from this point, we hit all three right on the head.”

In January of 2012, UNC Charlotte was selected as one of 20 university teams from across the globe to compete in the U.S. Department of Energy’s 2013 Solar Decathlon contest, “a challenge to collegiate teams to design, build and operate solar-powered houses that are cost effective, energy efficient and attractive” (<http://www.solardecathlon.gov>). Since then, the UNC Charlotte Solar Decathlon team has raised more than \$1 million for the project, constructed the house, and subsequently disassembled it to ship it to California for the competition to be held in October 2013. The 850-square-foot house, named UrbanEden, was inspired by a commitment to urban revitalization and is built from geopolymer concrete, a building material developed at UNC Charlotte. Other features include 30 solar panels that are adjustable to shade the deck and living area, triple-glazed glass walls, cabinetry made from sustainably harvested bamboo, a vertical garden, a cooling system integrated into the walls and roof of the house, and responsive technology that allows the house and its inhabitants to adapt to changing environmental conditions. The project involved successful multidisciplinary collaboration among students and faculty from the College of Arts + Architecture, the William S. Lee College of Engineering, and the Belk College of Business, and has been praised by the NC Sustainable Energy Association and the governor of North Carolina for demonstrating and representing North Carolina’s commitment to sustainable energy.

Scheduled for a January 2014 opening, the Partnership, Outreach, and Research to Accelerate Learning (PORTAL) building is UNC Charlotte’s latest commitment to university-industry partnerships designed to spur business growth and job creation as well as promote research and innovation in the Charlotte region. PORTAL will provide 96,000 square feet of state-of-the-art space where business partners will have daily exposure to the creative mix of students, faculty, and specialized facilities that the region’s premier urban research university has to offer. PORTAL’s first floor will house a sensitive compartmented information facility (SCIF) for defense and security projects as well as adjacent commercial and research space, providing a forum for engagement, research, collaboration, and economic development for the community.

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 of Business Affairs

The University of North Carolina at Charlotte
Statement of Net Position
June 30, 2013

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 185,108,175
Restricted Cash and Cash Equivalents	33,331,112
Receivables, Net (Note 4)	10,790,022
Inventories	345,657
Notes Receivable, Net (Note 4)	924,131
Prepaid Items	2,754,901
	<hr/>
Total Current Assets	233,253,998
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	110,530,369
Bond Issuance Costs	335,911
Endowment Investments	66,538,488
Restricted Investments	10,937,874
Notes Receivable, Net (Note 4)	4,123,544
Capital Assets - Nondepreciable (Note 5)	155,360,897
Capital Assets - Depreciable, Net (Note 5)	863,128,865
	<hr/>
Total Noncurrent Assets	1,210,955,948
	<hr/>
Total Assets	1,444,209,946

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	8,604,548
Deposits Payable	1,435,206
Funds Held for Others	8,712
Unearned Revenue	6,909,186
Interest Payable	4,845,202
Long-Term Liabilities - Current Portion (Note 7)	15,225,909
	<hr/>
Total Current Liabilities	37,028,763
Noncurrent Liabilities:	
Accounts Payable and Accrued Liabilities	333,333
Funds Held for Others	12,246,875
U. S. Government Grants Refundable	5,269,143
Funds Held in Trust for Pool Participants	10,932,201
Long-Term Liabilities (Note 7)	448,230,680
	<hr/>
Total Noncurrent Liabilities	477,012,232
	<hr/>
Total Liabilities	514,040,995

The University of North Carolina at Charlotte
Statement of Net Position
June 30, 2013

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	676,473,302
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,100,631
Endowed Professorships	26,804,564
Departmental Uses	3,949,635
Loans	2,250,135
Other	215,997
Expendable:	
Scholarships and Fellowships	3,997,015
Research	4,183,958
Endowed Professorships	8,103,678
Departmental Uses	3,152,958
Capital Projects	13,005,261
Debt Service	516,183
Other	485,475
Unrestricted	<u>181,930,159</u>
Total Net Position	<u><u>\$ 930,168,951</u></u>

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

***The University of North Carolina at Charlotte
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 160,088,675
Federal Grants and Contracts	28,469,584
State and Local Grants and Contracts	2,303,347
Nongovernmental Grants and Contracts	3,266,285
Sales and Services, Net (Note 9)	54,897,500
Interest Earnings on Loans	124,917
Other Operating Revenues	2,526,107

Total Operating Revenues	251,676,415
--------------------------	-------------

EXPENSES

Operating Expenses:

Salaries and Benefits	291,608,396
Supplies and Materials	36,995,079
Services	77,502,764
Scholarships and Fellowships	35,621,450
Utilities	12,336,399
Depreciation/Amortization	22,580,278

Total Operating Expenses	476,644,366
--------------------------	-------------

Operating Loss	(224,967,951)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	193,426,146
Noncapital Grants - Student Financial Aid	63,113,469
Noncapital Gifts	8,284,341
Investment Income (Net of Investment Expense of \$311,543)	5,704,995
Interest and Fees on Debt	(11,014,631)
Federal Interest Subsidy on Debt	1,846,567
Other Nonoperating Expenses	(730,321)

Net Nonoperating Revenues	260,630,566
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Income Before Other Revenues	35,662,615
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Capital Appropriations	706,100
Capital Grants	8,193,842
Capital Gifts	9,048,725
Additions to Endowments	1,825,160

Increase in Net Position	55,436,442
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NET POSITION

Net Position - July 1, 2012	874,732,509
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Net Position - June 30, 2013	\$ 930,168,951
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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, 2013***

Exhibit A-3

Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 253,231,712
Payments to Employees and Fringe Benefits	(289,531,845)
Payments to Vendors and Suppliers	(128,276,958)
Payments for Scholarships and Fellowships	(35,621,450)
Loans Issued	(368,470)
Collection of Loans	1,105,892
Interest Earned on Loans	131,824
Student Deposits Received	888,400
Student Deposits Returned	(938,200)
Other Receipts	2,210,768
	<hr/>
Net Cash Used by Operating Activities	(197,168,327)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	193,426,146
Noncapital Grants - Student Financial Aid	62,937,949
Noncapital Gifts	8,284,341
Additions to Endowments	1,825,160
William D. Ford Direct Lending Receipts	127,953,440
William D. Ford Direct Lending Disbursements	(127,955,330)
Related Activity Agency Receipts	17,084,794
Related Activity Agency Disbursements	(17,030,976)
External Participation in Investment Fund Receipts	115,888
External Participation in Investment Fund Disbursements	(1,727,246)
Other Receipts	12,640,932
	<hr/>
Net Cash Provided by Noncapital Financing Activities	277,555,098

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	96,077,532
State Capital Appropriations	706,100
Capital Grants	8,193,842
Proceeds from Sale of Capital Assets	63,794
Acquisition and Construction of Capital Assets	(138,352,305)
Principal Paid on Capital Debt and Leases	(21,763,208)
Interest and Fees Paid on Capital Debt and Leases	(10,517,887)
Federal Interest Subsidy on Debt Received	1,846,567
Other Payments	(955,114)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(64,700,679)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	7,258,906
Investment Income	709,716
Purchase of Investments and Related Fees	(10,709,551)
	<hr/>
Net Cash Used by Investing Activities	(2,740,929)
	<hr/>
Net Increase in Cash and Cash Equivalents	12,945,163
Cash and Cash Equivalents - July 1, 2012	316,024,493
	<hr/>
Cash and Cash Equivalents - June 30, 2013	\$ 328,969,656

***The University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013***

Exhibit A-3

Page 2 of 2

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

Operating Loss	\$ (224,967,951)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/ Amortization Expense	22,580,278
Allowances, Write-Offs, and Amortizations	2,374,530
Changes in Assets and Liabilities:	
Receivables (Net)	1,242,287
Inventories	(69,448)
Notes Receivable (Net)	722,506
Prepaid Items	(672,659)
Accounts Payable and Accrued Liabilities	(455,015)
Unearned Revenue	448,231
Compensated Absences	1,741,700
Deposits Payable	(112,786)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (197,168,327)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 185,108,175
Restricted Cash and Cash Equivalents	33,331,112
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	110,530,369
	<hr/>
Total Cash and Cash Equivalents - June 30, 2013	<u><u>\$ 328,969,656</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 9,048,725
Change in Fair Value of Investments	6,058,373
Loss on Disposal of Capital Assets	(562,706)
Amortization of Bond Premiums/Discounts	(198,946)

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, 2013

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 14,061,845
Accounts Receivable	35,783
Interest Receivable	5,838
Prepaid Expenses	13,828
Pledges Receivable, Net	10,211,333
Investments	84,303,178
Assets Held in Charitable Trusts	1,111,248
Cash Surrender Value of Life Insurance	781,999
Note Receivable	75,000
Property Held for Investment	8,546,106
Property and Equipment, Net	4,097
Other Assets	620,950
	<hr/>
Total Assets	119,771,205
	<hr/>

LIABILITIES

Accounts Payable and Accrued Expenses	5,721
Interest Payable	9,883
Deferred Revenue	991,000
Funds Held for Others	119,179
Notes Payable	3,229,105
	<hr/>
Total Liabilities	4,354,888
	<hr/>

NET ASSETS

Unrestricted	17,279,800
Temporarily Restricted	54,299,721
Permanently Restricted	43,836,796
	<hr/>
Total Net Assets	\$ 115,416,317
	<hr/>

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

The Foundation of the University of North Carolina at Charlotte, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2013

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS, AND OTHER SUPPORT				
Public Contributions	\$ (8,362)	\$ 7,935,614	\$ 744,354	\$ 8,671,606
Grants and Contracts		103,525		103,525
Interest and Dividend Income	35,839	155,551		191,390
Endowment Income		29,668		29,668
Endowment Income Distribution	38,700	(38,700)		
Net Gain on Investments	2,602,505	5,640,216		8,242,721
Other Income	513,795	114,750		628,545
Subtotal	3,182,477	13,940,624	744,354	17,867,455
Transfers To/From Other Funds	18,889	(18,889)		
Net Assets Released from Restrictions	13,499,861	(13,499,861)		
Total Revenue, Gains, and Other Support	16,701,227	421,874	744,354	17,867,455
EXPENSES				
Program Services:				
Contributions to UNC Charlotte	13,496,588			13,496,588
Distributions to Beneficiaries	112,302			112,302
Grants and Research	4,153			4,153
Other Program Services	303,773			303,773
Total Program Services	13,916,816			13,916,816
Support Services:				
Professional Fees	90,954			90,954
Investment Expenses	531,291			531,291
Interest Expense	125,812			125,812
Other General and Administrative	55,594			55,594
Total Support Services	803,651			803,651
Total Expenses	14,720,467			14,720,467
Change in Net Assets	1,980,760	421,874	744,354	3,146,988
Net Assets at Beginning of Year	15,299,040	53,877,847	43,092,442	112,269,329
Net Assets at End of Year	\$ 17,279,800	\$ 54,299,721	\$ 43,836,796	\$ 115,416,317

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, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Charlotte is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The Investment Fund is governed by a board consisting of three ex officio directors and four elected directors. The purpose of the Investment Fund is to support the University by operating an investment fund for nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Its participant investors include the University, the Foundation, and the Athletic Foundation (see Note 15). Because two of the seven directors of the Investment Fund are administrators of the University and the elected directors are appointed by the member investors' Board of Trustees, and because the Investment Fund's sole purpose is to benefit the University, the University's and the Athletic Foundation'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, or by calling (704) 687-5759.

Condensed combining information regarding blended component units is provided in Note 16.

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 fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 40 officers and directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereof, which the Foundation holds and invests, 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)

During the year ended June 30, 2013, the Foundation distributed \$13,496,588 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.

- 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 (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 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 10 to 20 years for computer software.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the life of the certificates of participation. 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Position - The University's net position is classified as follows:

Net Investment in Capital Assets - 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 Net Investment in Capital Assets.

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position includes 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 Position - Expendable - Expendable restricted net position includes resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

N. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. 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, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$328,309,111 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF 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 STIF) 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, 2013 was \$48,165. The carrying amount of the University's deposits not with the State Treasurer was \$612,380 and the bank balance was \$812,913. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2013, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	<u>\$ 110,588</u>
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. At June 30, 2013, \$15,734 of the total bank balance was denominated in Euros, and was therefore exposed to foreign currency risk.

B. Investments

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

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Interest rate and credit quality risks are as follows:

	Fair Value	AAA Aaa	AA Aa	A
U.S. Agencies	\$ 538,575	\$ 0	\$ 538,575	\$ 0
Collateralized Mortgage Obligations	125,894	27,781	98,113	
Money Market Mutual Funds	13,985,412	13,985,412		
Domestic Corporate Bonds	978,765		449,135	529,630
Totals	\$ 15,628,646	\$ 14,013,193	\$ 1,085,823	\$ 529,630

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	\$ 680,559	\$ 113,759	\$ 284,235	\$ 282,565	\$ 0
U.S. Agencies	538,575	127,052	306,954	104,569	
Collateralized Mortgage Obligations	125,894	606	4,182	10,992	110,114
Money Market Mutual Funds	13,985,412	13,985,412			
Domestic Corporate Bonds	978,765	89,153	472,201	417,411	
Total	\$ 16,309,205	\$ 14,315,982	\$ 1,067,572	\$ 815,537	\$ 110,114

The pooled investments are invested in an external investment pool managed by the 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 only external participant is the Athletic Foundation of the University of North Carolina at Charlotte, Inc. There are no involuntary participants in the pool. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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
Non-pooled Investments		
Money Market Mutual Fund	Fair Value	\$ 11,003,025
U.S. Treasuries	Fair Value	680,559
U.S. Agencies	Fair Value	538,575
Collateralized Mortgage Obligations	Fair Value	125,894
Domestic Corporate Bonds	Fair Value	978,765
Domestic Stocks	Fair Value	1,520,777
Real Estate	Cost or fair value if donated	6,642,104
Cash Surrender Value of Life Insurance		28,994
Total Non-pooled Investments		21,518,693
Pooled Investments		
Money Market Mutual Fund	Fair Value	2,982,387
UNC Investment Fund, LLC	Fair Value	63,783,483
Private Equity Limited Partnership	Fair Value	67,917,455
Total Pooled Investments*		134,683,325
Less amounts invested by the Foundation		(78,725,656)
Pooled Investments for the University		55,957,669
Total Investments		\$ 77,476,362

* An additional \$2,001,285 is on deposit in the State Treasurer's Investment Fund (STIF). See Note 2.A. for more information on these deposits.

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

Component Units - Investments of the University's discretely presented component unit, The Foundation of the University of North Carolina at Charlotte, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the various investment risks are not required. The following is an analysis of investments by type:

Investment Type	Carrying Value
Money Market and Short Term Investments	\$ 1,130,327
Mutual Funds	5,186,370
Equity Securities and Other Investments	372,073
UNCCIF External Investment Pool	78,725,656
Total Investments	\$ 85,414,426

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2013, is as follows:

Cash on Hand	\$ 48,165
Amount of Deposits with Private Financial Institutions	612,380
Deposits in the Short-Term Investment Fund	328,309,111
Long-Term Investment Pool	55,957,669
Non-Pooled Investments	21,518,693
Total Deposits and Investments	\$ 406,446,018
Deposits	
Current:	
Cash and Cash Equivalents	\$ 185,108,175
Restricted Cash and Cash Equivalents	33,331,112
Noncurrent:	
Restricted Cash and Cash Equivalents	110,530,369
Total Deposits	328,969,656
Investments	
Noncurrent:	
Endowment Investments	66,538,488
Restricted Investments	10,937,874
Total Investments	77,476,362
Total Deposits and Investments	\$ 406,446,018

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 position endowment balances to make up the difference. At June 30, 2013, net appreciation of \$21,646,101 was available to be spent, of which \$10,650,571 was restricted to specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

During the current year, the University incurred investment gains that exceeded the related endowment's available accumulated income and net appreciation. At June 30, 2013, the amount of investment losses not otherwise offset by gains reported against the nonexpendable endowment balances was \$113,767.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 6,530,020	\$ 1,816,051	\$ 4,713,969
Accounts	1,340,127		1,340,127
Intergovernmental	3,955,471		3,955,471
Interest on Loans	110,825		110,825
Federal Interest Subsidy on Debt	475,861		475,861
Other	193,769		193,769
Total Current Receivables	<u>\$ 12,606,073</u>	<u>\$ 1,816,051</u>	<u>\$ 10,790,022</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 818,760	\$ 26,877	\$ 791,883
Institutional Student Loan Programs	24,675	1,783	22,892
Land Note	109,356		109,356
Total Notes Receivable - Current	<u>\$ 952,791</u>	<u>\$ 28,660</u>	<u>\$ 924,131</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 3,966,157	\$ 172,710	\$ 3,793,447
Institutional Student Loan Programs	350,997	20,900	330,097
Total Notes Receivable - Noncurrent	<u>\$ 4,317,154</u>	<u>\$ 193,610</u>	<u>\$ 4,123,544</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012 (as restated)	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land	\$ 7,331,270	\$ 0	\$ 0	\$ 7,331,270
Art, Literature, and Artifacts	27,806,331	2,223,012	50	30,029,293
Construction in Progress	63,022,017	132,938,561	77,960,244	118,000,334
Total Capital Assets, Nondepreciable	98,159,618	135,161,573	77,960,294	155,360,897
Capital Assets, Depreciable:				
Buildings	732,550,181	42,362,395		774,912,576
Machinery and Equipment	99,191,642	6,567,589	3,307,050	102,452,181
General Infrastructure	140,365,652	36,558,519		176,924,171
Computer Software	1,647,435	5,841,624		7,489,059
Total Capital Assets, Depreciable	973,754,910	91,330,127	3,307,050	1,061,777,987
Less Accumulated Depreciation/Amortization for:				
Buildings	106,977,578	12,762,419		119,739,997
Machinery and Equipment	49,740,932	6,387,864	2,704,320	53,424,476
General Infrastructure	22,024,067	3,247,456		25,271,523
Computer Software	30,587	182,539		213,126
Total Accumulated Depreciation/Amortization	178,773,164	22,580,278	2,704,320	198,649,122
Total Capital Assets, Depreciable, Net	794,981,746	68,749,849	602,730	863,128,865
Capital Assets, Net	\$ 893,141,364	\$ 203,911,422	\$ 78,563,024	\$ 1,018,489,762

During the year ended June 30, 2013, the University incurred \$16,923,100 in interest costs related to the acquisition and construction of capital assets. Of this total, \$11,014,631 was charged in interest expense, and \$5,908,469 was capitalized.

The University has pledged Greek Village student housing with a carrying value of \$16,739,897 as security for Certificates of Participation, the University of North Carolina at Charlotte Student Housing Project, Series 2005. The University has also pledged equipment associated with the Banner Enterprise Resource Planning (ERP) System implementation project with a carrying value of \$2,095,856 as security for Certificates of Participation, Series 2004, The University of North Carolina Foundation, Inc., and East Carolina University and the University of North Carolina at Charlotte. Additional information regarding these Certificates of Participation can be found in Note 7.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,970,332
Accounts Payable - Construction	3,624,021
Accrued Payroll	1,029,041
Contract Retainage	1,644,153
Other	337,001
	337,001
Total	\$ 8,604,548

NOTE 7 - LONG-TERM LIABILITIES

UNIVERSITY

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Revenue Bonds Payable	\$ 342,170,000	\$ 94,428,099	\$ 19,650,000	\$ 416,948,099	\$ 11,706,771
Certificates of Participation	16,195,000		1,115,000	15,080,000	1,160,000
Add Premium/Deduct Discount	16,747,183	2,144,525	1,322,217	17,569,491	
Deduct Unamortized Cost on Refunding	(3,052,096)	(495,091)	(1,123,271)	(2,423,916)	
	372,060,087	96,077,533	20,963,946	447,173,674	12,866,771
Total Revenue Bonds and Certificates of Participation Payable					
Capital Leases Payable	2,638,574	0	998,209	1,640,365	913,918
Compensated Absences	12,900,850	9,789,757	8,048,057	14,642,550	1,445,220
	12,900,850	9,789,757	8,048,057	14,642,550	1,445,220
Total Long-Term Liabilities	\$ 387,599,511	\$ 105,867,290	\$ 30,010,212	\$ 463,456,589	\$ 15,225,909

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, 2013	Principal Outstanding June 30, 2013	See Table Below
<u>General Revenue Bonds Payable</u>							
Partial Refund of Housing Phase 7	2006 A	5%	2014	\$ 1,920,000	\$ 1,265,000	\$ 655,000	
Parking Deck G	2006 A	4.00%-5.00%	2036	10,545,000	1,465,000	9,080,000	
Student Union Taxable	2007-A	5.20%-5.68%	2023	18,140,000	5,420,000	12,720,000	
Student Union Non-Taxable	2007-B	4.25%-5.00%	2037	36,260,000		36,260,000	
Parking Deck H BABs	2009-B	4.43%-6.25%	2039	16,280,000		16,280,000	
Housing Phase 9 BABs	2009-B	4.43%-6.25%	2039	33,490,000		33,490,000	
Parking Deck H-Tax Exempt	2009-A	2.00%-3.00%	2017	2,720,000	870,000	1,850,000	
Housing Phase 9-Tax Exempt	2009-A	2.00%-3.00%	2017	5,610,000	1,830,000	3,780,000	
Football Stadium BABs	2010	2.44%-6.52%	2040	40,895,000	2,030,000	38,865,000	
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	275,000	3,370,000	
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 10	2012-A	2.00%-5.00%	2041	30,290,000		30,290,000	
Residence Hall Phase 11	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 8 2002-A bonds	2012-A	5%	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%-4.451	2041	8,655,000		8,655,000	
Regional Utility Plant-Taxable	2012-B	.616%-4.251	2032	2,710,000		2,710,000	
Residence Hall Phase 12	2013-A	3.00%-5.00%	2043	39,560,000		39,560,000	
Refinancing of 2003-A Pooled Bonds	2013-A	4.125-5.25%	2028	8,640,000		8,640,000	
Campus Infrastructure	2013-B	.312-4.123	2043	35,240,000		35,240,000	
Refinancing 2004-A Parking Bonds	2013-B	3.10-4.00%	2021	2,545,000		2,545,000	
Energy Savings Bonds	2013	4.41%	2029	8,443,099		8,443,099	
Total General Revenue Bonds				396,888,099	13,915,000	382,973,099	
<u>The University of North Carolina System Pool Revenue Bonds</u>							
Refinance Balance of SAC 1995 Bonds	2005 A	5%-5.25%	2021	11,855,000	3,670,000	8,185,000	
2nd Partial Refund of Housing Phase 7	2009-B	3.00%-5.00%	2021	6,185,000	595,000	5,590,000	
Final Refinance of Housing Phase 7	2010-B1	5.25%	2024	2,665,000	0	2,665,000	
Partial Refund of Housing Phase 8	2010-B1	3.00%-5.25%	2025	13,770,000	920,000	12,850,000	
Refund of Parking Series 2002 Bonds	2010-B1	3.00%-5.25%	2027	6,300,000	1,615,000	4,685,000	
Total The University of North Carolina System Pool Revenue Bonds				40,775,000	6,800,000	33,975,000	
<u>Certificates of Participation</u>							
Administrative Computing Fee COPs	2004	4.00%-5.00%	2014	5,925,000	5,165,000	760,000	(1)
Greek Village COPs	2005	4.00%-4.75%	2035	16,745,000	2,425,000	14,320,000	(2)
Total Certificates of Participation				22,670,000	7,590,000	15,080,000	
Total Bonds Payable and Certificates of Participation (principal only)				\$ 460,333,099	\$ 28,305,000	432,028,099	
Less: Unamortized Cost on Refunding						(2,423,916)	
Less: Unamortized Discount						(264,503)	
Plus: Unamortized Premium						17,833,994	
Total Bonds Payable and Certificates of Participation						\$ 447,173,674	

* The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purpose 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Administrative Computing Debt Fee	\$ 790,400	\$ 1,350,497	\$ 735,000	\$ 57,769	59%
(2)	Housing revenues- Greek Village	23,275,595	1,808,467	380,000	675,294	59%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2013, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
2014	\$ 11,706,771	\$ 18,843,161	\$ 1,160,000	\$ 690,494
2015	13,186,157	18,690,188	415,000	644,094
2016	13,057,397	18,229,301	430,000	627,494
2017	13,561,912	17,750,054	450,000	610,294
2018	13,511,799	17,269,551	465,000	592,294
2019-2023	70,864,061	77,571,757	2,655,000	2,635,413
2024-2028	69,788,955	61,518,000	3,315,000	1,969,256
2029-2033	74,366,047	44,962,413	4,215,000	1,078,600
2034-2038	86,860,000	24,781,822	1,975,000	138,056
2039-2043	50,045,000	5,157,974		
Total Requirements	\$ 416,948,099	\$ 304,774,221	\$ 15,080,000	\$ 8,985,995

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

On April 9, 2013, the University issued \$8,640,000 in The University of North Carolina at Charlotte General Revenue Bonds, Series 2013A, refunding bonds with an average interest rate of 4.023%. The bonds were issued for a current refunding of \$9,375,000 of outstanding The University of North Carolina System Pool Revenue Bonds, Series 2003-A, bonds with an average interest rate of 4.806%. The refunding was undertaken to reduce total debt service payments by \$1,436,086.39 over the next 15 years and resulted in an economic gain of \$1,128,088.14.

On April 9, 2013, the University issued \$2,545,000 in The University of North Carolina at Charlotte General Revenue Bonds, Series 2013B refunding bonds with an average interest rate of 1.507%. The bonds were issued to advance refund \$2,435,000 of outstanding The University of North Carolina System Pool Revenue Bonds, Series 2004-A bonds with

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

an average interest rate of 3.938%. 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 position. This advance refunding was undertaken to reduce total debt service payments by \$168,779.21 over the next eight years and resulted in an economic gain of \$150,352.43. At June 30, 2013, the outstanding balance was \$2,435,000 for the defeased The University of North Carolina System Pool Revenue Bonds, Series 2004-A bonds.

COMPONENT UNITS

As of June 30, 2013, the Foundation of the University of North Carolina at Charlotte, Inc. (Foundation) had an unsecured term loan payable in the amount of \$2,500,000 to purchase land in Uptown Charlotte. The loan is an interest only loan at a fixed rate of 4.95% which is payable in one lump sum of principal plus accrued interest on March 18, 2015. Interest paid during the year was \$125,468.

As of June 30, 2013, the Foundation had an unsecured loan payable in the amount of \$729,105 for the purpose of constructing the Alumni Center Facility. The loan will accrue interest at a fixed rate of 5.66% and shall be paid in consecutive principal and interest payments on a quarterly basis in the amount of \$72,665 through February 21, 2016. Interest paid during the year was \$47,932. Such note is secured with a collateral account totaling \$969,681. Under the terms of the loan, the Foundation is required to maintain \$7,500,000 in unrestricted net assets. At June 30, 2013 unrestricted net assets were \$17,279,800.

Maturities of long-term debt as of June 30, 2013 are:

Year Ending June 30	Amount
2014	\$ 253,860
2015	2,768,743
2016	206,502
Total	\$ 3,229,105

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

payments under capital lease obligations consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 958,102
2015	683,901
2016	<u>56,992</u>
Total Minimum Lease Payments	1,698,995
Amount Representing Interest (3.39% - 6.11% Rate of Interest)	<u>58,630</u>
Present Value of Future Lease Payments	<u><u>\$ 1,640,365</u></u>

Machinery and equipment acquired under capital lease amounted to \$4,101,302 and related software acquired under capital lease amounted to \$247,538 at June 30, 2013. Depreciation for the capital assets associated with capital leases is included in depreciation expense and accumulated depreciation for assets acquired under capital lease totaled \$1,922,343 at June 30, 2013.

- B. Operating Lease Obligations** - The University entered into operating leases for noncapital network and server equipment and related software; classroom and warehouse space; parking spaces, vehicles, copiers and fiber optic cable. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 1,458,121
2015	1,319,733
2016	215,962
2017	12,201
2018	11,400
2019-2023	<u>31,350</u>
Total Minimum Lease Payments	<u><u>\$ 3,048,767</u></u>

Rental expense for all operating leases during the year was \$1,960,882.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles*	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 205,093,624	\$ 112,452	\$ 42,868,197	\$ 2,024,300	\$ 160,088,675
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 28,277,433	\$ 1,679,094	\$ 6,764,393	\$ 129,429	\$ 19,704,517
Dining	18,063,138	2,530	3,548,948	89,337	14,422,323
Student Union Services	5,941,754	1,549,046			4,392,708
Health Services	2,342,273	41,072		49,922	2,251,279
Parking	8,508,498	302,107			8,206,391
Athletics	2,027,089	22,755			2,004,334
Facilities	15,553,359	14,877,218			676,141
Telecommunications	3,190,830	2,826,253			364,577
Other Revenue	1,581,953	900,935			681,018
Sales and Services of Education and Related Activities	3,595,775	1,401,563			2,194,212
Total Sales and Services	<u>\$ 89,082,102</u>	<u>\$ 23,602,573</u>	<u>\$ 10,313,341</u>	<u>\$ 268,688</u>	<u>\$ 54,897,500</u>

* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

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/ Amortization	Total
Instruction	\$ 160,349,608	\$ 6,703,131	\$ 16,683,973	\$ 0	\$ 1,335	\$ 0	\$ 183,738,047
Research	14,227,727	1,592,251	5,492,322				21,312,300
Public Service	2,038,010	65,691	367,054				2,470,755
Academic Support	18,692,956	8,116,290	9,650,638				36,459,884
Student Services	15,876,755	2,312,277	3,036,777		6,368		21,232,177
Institutional Support	26,508,777	1,054,144	7,278,016		460		34,841,397
Operations and Maintenance of Plant	21,664,626	4,037,253	6,602,081		8,373,201		40,677,161
Student Financial Aid				35,621,450			35,621,450
Auxiliary Enterprises	32,249,937	13,114,042	28,391,903		3,955,035		77,710,917
Depreciation/Amortization						22,580,278	22,580,278
Total Operating Expenses	<u>\$ 291,608,396</u>	<u>\$ 36,995,079</u>	<u>\$ 77,502,764</u>	<u>\$ 35,621,450</u>	<u>\$ 12,336,399</u>	<u>\$ 22,580,278</u>	<u>\$ 476,644,366</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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the time of employment; otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System (TSERS) 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. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$230,763,178, of which \$95,240,521 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$7,933,535 and \$5,714,431, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$7,933,535, \$6,735,742, and \$4,461,891, 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 TSERS. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, 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 \$230,763,178, of which \$99,816,304 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$6,827,435 and \$5,988,978, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$799,449 for the year ended June 30, 2013.

Internal Revenue Code 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, were \$92,573. The voluntary contributions by employees amounted to \$1,699,149 for the year ended June 30, 2013.

Internal Revenue Code 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 \$3,233,599 for the year ended June 30, 2013.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 established by the General Assembly.

For the current fiscal year the University contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$10,338,012, \$9,213,710, and \$8,854,753, 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.

- 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, 2013, the University made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$858,250, \$958,226, and \$939,688, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - RISK MANAGEMENT

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

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. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The University mitigated additional risks with the following insurance programs as of June 30, 2013:

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.

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 \$42,810,718 at June 30, 2013.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 position, or operational transactions of the foundation, except for support from the organization to the University. This support approximated \$3,646,759 for the year ended June 30, 2013.

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 position, or operational transactions of Ventureprise, Inc., except for support from the organization to the University. This support approximated \$86,600 for the year ended June 30, 2013.

NOTE 16 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2013, is presented as follows:

Condensed Statement of Net Position June 30, 2013

	FDC	UNCCIF	Eliminations	Total
ASSETS				
Current Assets	\$ 32,209	\$ 4,983,673	\$ (4,585,073)	\$ 430,809
Capital Assets	16,739,897			16,739,897
Other Noncurrent Assets	820,971	131,700,938	(121,167,332)	11,354,577
Total Assets	<u>17,593,077</u>	<u>136,684,611</u>	<u>(125,752,405)</u>	<u>28,525,283</u>
LIABILITIES				
Current Liabilities	620,031			620,031
Noncurrent Liabilities	13,954,949	136,684,611	(125,752,405)	24,887,155
Total Liabilities	<u>14,574,980</u>	<u>136,684,611</u>	<u>(125,752,405)</u>	<u>25,507,186</u>
NET POSITION				
Net Investment in Capital Assets	2,384,947			2,384,947
Restricted - Expendable	485,060			485,060
Unrestricted	148,089			148,089
Total Net Position	<u>\$ 3,018,096</u>	<u>\$ 0</u>	<u>0</u>	<u>\$ 3,018,096</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2013

	<u>FDC</u>	<u>UNCCIF</u>	<u>Eliminations</u>	<u>Total</u>
OPERATING REVENUES				
Rental Income	\$ 1,233,030	\$ 0	\$ 0	\$ 1,233,030
Investment Income				0
Total Operating Revenues	<u>1,233,030</u>			<u>1,233,030</u>
OPERATING EXPENSES				
Operating Expenses	117,628			117,628
Depreciation	240,861			240,861
Total Operating Expenses	<u>358,489</u>			<u>358,489</u>
Operating Income (Loss)	<u>874,541</u>			<u>874,541</u>
NONOPERATING REVENUES (EXPENSES)				
Investment Income	296	14,053,226	(14,053,226)	296
Interest Expense on Long-term Debt	(708,573)			(708,573)
Other Nonoperating Expenses		(1,085,007)	1,085,007	
Allocation to Owners		(12,968,219)	12,968,219	
Net Nonoperating Revenues (Expenses)	<u>(708,277)</u>			<u>(708,277)</u>
Increase (Decrease) in Net Position	<u>166,264</u>			<u>166,264</u>
NET POSITION				
Net Position, July 1, 2012	<u>2,851,832</u>			<u>2,851,832</u>
Net Position, June 30, 2013	<u>\$ 3,018,096</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,018,096</u>

Condensed Statement of Cash Flows June 30, 2013

	<u>FDC</u>	<u>Total</u>
Net Cash Provided by Operating Activities	\$ 1,116,219	\$ 1,116,219
Net Cash Used by Capital and Related Financing Activities	(1,055,293)	(1,055,293)
Net Cash Used by Investing Activities	<u>(74,947)</u>	<u>(74,947)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(14,021)	(14,021)
Cash and Cash Equivalents, July 1, 2012	<u>30,823</u>	<u>30,823</u>
Cash and Cash Equivalents, June 30, 2013	<u>\$ 16,802</u>	<u>\$ 16,802</u>

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

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

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 13, 2013. Our report includes a reference to other auditors who 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*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

A *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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 13, 2013

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