



# STATE OF NORTH CAROLINA

**THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE**

**CHARLOTTE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2014**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**



Beth A. Wood, CPA  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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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, 2014, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA  
State Auditor

# TABLE OF CONTENTS

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	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	5
BASIC FINANCIAL STATEMENTS	
University Exhibits	
A-1 Statement of Net Position .....	18
A-2 Statement of Revenues, Expenses, and Changes in Net Position.....	20
A-3 Statement of Cash Flows .....	21
Component Unit Exhibits	
B-1 Statement of Financial Position .....	23
B-2 Statement of Activities.....	24
Notes to the Financial Statements .....	25
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i> .....	55
ORDERING INFORMATION .....	57



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**INDEPENDENT AUDITOR'S REPORT**

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

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, 2014, 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 4.47 percent, 5.77 percent, and 1.38 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 1.12 percent, 0.30 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 report 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)**

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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, 2014, 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.

### Emphasis of Matter

As discussed in Note 17 to the financial statements, during the year ended June 30, 2014, The University of North Carolina at Charlotte adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014 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 5, 2014

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

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### **Overview of the Financial Statements and Financial Analysis**

The University of North Carolina at Charlotte is pleased to present its annual financial statement report for the fiscal year ended June 30, 2014.

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, 2014, emphasizing current year data and material changes between the prior and current fiscal year. Comparative information for the year ended June 30, 2013 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**

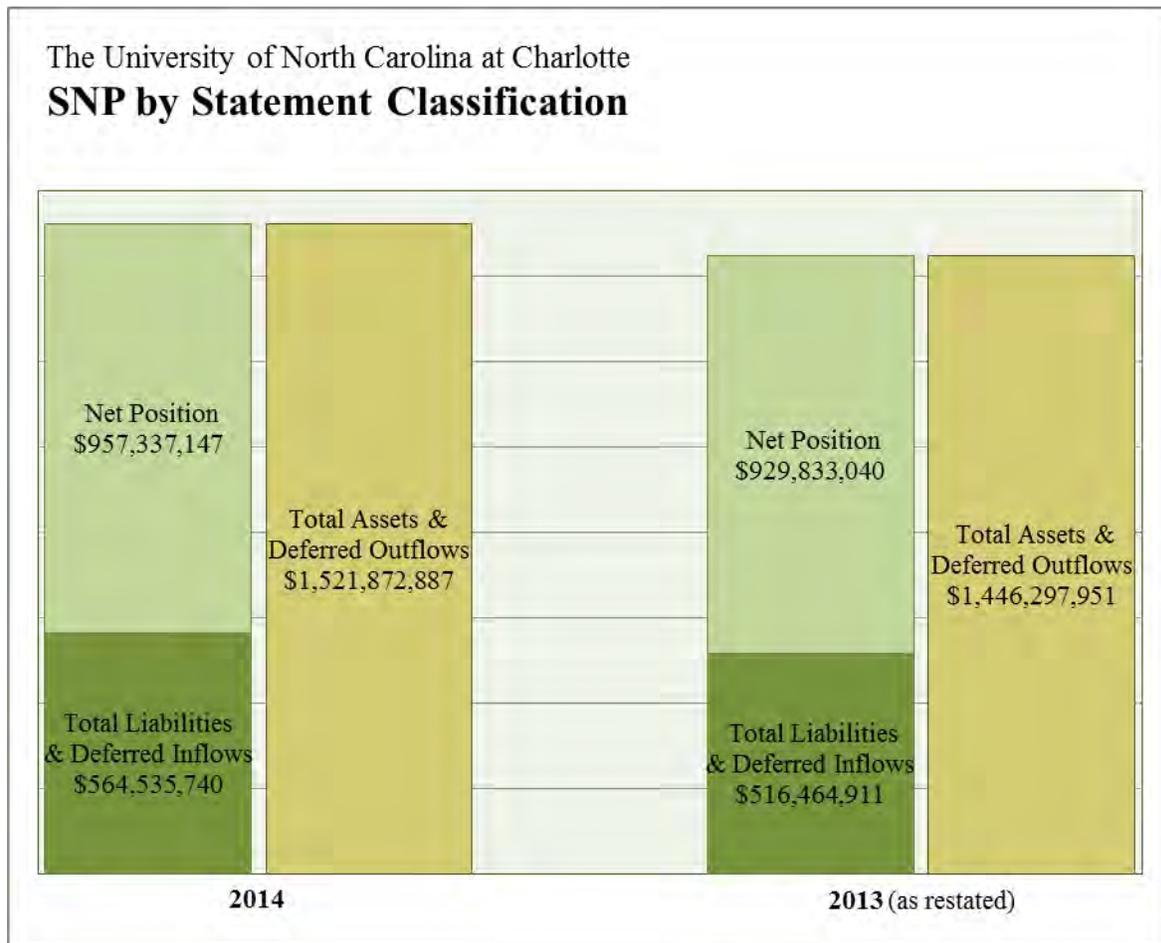
The Statement of Net Position (SNP) summarizes the financial position of the University by presenting the assets, deferred outflows, liabilities, deferred inflows, and net position, as applicable, as of the end of the fiscal year. The SNP is a point-in-time financial statement, the purpose of which is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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

inflows of resources represent the consumption or acquisition of net assets that are applicable to future periods but do not meet the definition of assets or liabilities. Finally, the SNP provides a picture of the net position, which represents the residual interest in the University's assets and deferred outflows of resources, net of its liabilities and deferred inflows of resources. 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, deferred outflows of resources, total liabilities, and deferred inflows of resources, as elements of net position, at June 30, 2014, and June 30, 2013, is presented below:



Net Position is divided into three major categories:

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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. 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, deferred outflows of resources, liabilities, deferred inflows of resources, and net position on June 30, 2014, and June 30, 2013.

Condensed Statement of Net Position	2014	2013 (as restated)	Increase/(Decrease)	
			Amount	Percent
<b>Assets:</b>				
Current Assets	\$ 244,882,780	\$ 233,253,998	\$ 11,628,782	5.0%
Noncurrent Assets:				
Endowment and Other Investments	83,925,475	77,476,362	6,449,113	8.3%
Capital Assets, Net	1,094,621,704	1,018,489,762	76,131,942	7.5%
Other Noncurrent Assets	96,340,807	114,653,913	(18,313,106)	-16.0%
<b>Total Assets</b>	<b>1,519,770,766</b>	<b>1,443,874,035</b>	<b>75,896,731</b>	<b>5.3%</b>
<b>Deferred Outflows of Resources:</b>				
Deferred Loss on Refunding	2,102,121	2,423,916	(321,795)	-13.3%
<b>Total Deferred Outflows of Resources</b>	<b>2,102,121</b>	<b>2,423,916</b>	<b>(321,795)</b>	<b>-13.3%</b>
<b>Liabilities:</b>				
Current Liabilities	41,008,605	37,028,763	3,979,842	10.7%
Noncurrent Liabilities:				
Funds Held in Trust	12,543,793	10,932,201	1,611,592	14.7%
Long-Term Liabilities	498,281,236	450,654,596	47,626,640	10.6%
Other Noncurrent Liabilities	12,702,106	17,849,351	(5,147,245)	-28.8%
<b>Total Liabilities</b>	<b>564,535,740</b>	<b>516,464,911</b>	<b>48,070,829</b>	<b>9.3%</b>
<b>Deferred Inflows of Resources:</b>				
Deferred Gain on Refunding				
<b>Total Deferred Inflows of Resources</b>				
<b>Net Position:</b>				
Net Investment in Capital Assets	692,328,641	676,137,391	16,191,250	2.4%
Restricted:				
Nonexpendable	40,537,091	38,320,962	2,216,129	5.8%
Expendable	43,232,066	33,444,528	9,787,538	29.3%
Unrestricted	181,239,349	181,930,159	(690,810)	-0.4%
<b>Total Net Position</b>	<b>\$ 957,337,147</b>	<b>\$ 929,833,040</b>	<b>\$ 27,504,107</b>	<b>3.0%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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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, 2014. Some highlights of the information presented on the SNP include:

- Total current assets at June 30, 2014 were \$244.9 million, an increase of \$11.6 million, or 5.0%, during the fiscal year. Of the increase in current assets, \$5.7 million was attributable to current cash and cash equivalents (unrestricted and restricted). That increase was due to \$2.6 million received for State-funded repair and renovation projects, a \$1.3 million increase in carry forward funds used for future construction projects, and an increase of \$1.7 million in construction-related accounts payable.
- Net accounts receivable increased by \$5.9 million from the prior year mainly due to a \$2.9 million federal financial aid receivable and a \$2.8 million dining services commission receivable.
- Total noncurrent assets increased by \$64.3 million, or 5.3%, during fiscal year 2014. Noncurrent restricted cash decreased by \$18.6 million due to the use of bond proceeds for construction projects. Capital assets increased by \$76.1 million, or 7.5%, for new construction, capital acquisitions, and \$1.4 million in donated assets. Total noncurrent endowment and other investments increased by \$6.4 million, or 8.3% mainly due to additional cash gifts of \$1.8 million, a \$1.6 million increase in pooled investments held for others, and an increased return on investment of 15.5%, up from 10.8% in fiscal year 2013.
- The University recognized the deferred loss on refunding of \$2.1 million as a deferred outflow of resources, due to new guidance under GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective this fiscal year. The deferred loss represents the difference between the net carrying amount of refunded debt less the cost of acquiring new debt to liquidate the refunded debt. Under GASB Statement No. 65, the deferred loss on refunding that would have been recognized in 2013 was \$2.4 million. The \$0.3 million decrease was due to associated annual amortization.
- Total liabilities increased by \$48.1 million, or 9.3%, to \$564.5 million at June 30, 2014. Current liabilities increased by \$4.0 million while noncurrent liabilities increased by \$44.1 million. The increase in current liabilities was predominantly due to a \$1.7 million increase in accounts payable associated with auxiliary funds. The additional \$2.3 million increase is due to increases in unearned revenue, interest payable, and the current portion of long-term liabilities offset by minor decreases in deposits payable and funds held for others. The increase in noncurrent liabilities was mainly due to \$58.7 million in tax-exempt general revenue bonds issued in April 2014, offset by bond principal payments made throughout the year. Noncurrent funds held for others also decreased by \$5.0 million, due to funds that The University of North Carolina at Charlotte Foundation divested from the State Treasurer's Short-Term Investment Fund.
- Net position increased from the prior fiscal year by \$27.5 million, or 3.0%, to \$957.3 million. This growth is due to a \$16.2 million, or 2.4%, increase in the net investment in capital assets, as well as an increase in nonexpendable and expendable

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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restricted net position of \$2.2 million and \$9.8 million, respectively, partially due to the increase in endowment and other investments discussed above, as well as the unspent portion of the current year bond issues.

- The University's liquidity remains strong. The current ratio, defined as current assets divided by current liabilities, of 5.97 indicates that the University, if needed, could satisfy payment of its current liabilities almost six times before current assets are exhausted. Total working capital, defined as current assets less current liabilities, of \$203.9 million at June 30, 2014, increased by 3.9% from the prior year, due to the net increase in current assets 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 state appropriations, are classified as nonoperating because they are provided to the University without the provider directly receiving commensurate goods and services for those revenues.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following table summarizes and compares the University's results of operations for the fiscal years ended June 30, 2014, and June 30, 2013.

Condensed Statement of Revenues, Expenses, and Changes in Net Position	2014	2013 (as restated)	Increase/(Decrease)	
			Amount	Percent
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 167,870,221	\$ 160,088,675	\$ 7,781,546	4.9%
Grants and Contracts	31,750,638	34,039,216	(2,288,578)	-6.7%
Sales and Services, Net	65,909,024	54,897,500	11,011,524	20.1%
Other Operating Revenues	4,113,357	2,651,024	1,462,333	55.2%
<b>Total Operating Revenues</b>	<b>269,643,240</b>	<b>251,676,415</b>	<b>17,966,825</b>	<b>7.1%</b>
<b>Operating Expenses:</b>				
Salaries and Benefits	303,264,946	291,608,396	11,656,550	4.0%
Supplies and Materials	45,418,344	36,995,079	8,423,265	22.8%
Services	86,956,541	77,502,764	9,453,777	12.2%
Scholarships and Fellowships	35,229,300	35,621,450	(392,150)	-1.1%
Utilities	12,614,725	12,336,399	278,326	2.3%
Depreciation/Amortization	24,731,108	22,580,278	2,150,830	9.5%
<b>Total Operating Expenses</b>	<b>508,214,964</b>	<b>476,644,366</b>	<b>31,570,598</b>	<b>6.6%</b>
<b>Operating Loss</b>	<b>(238,571,724)</b>	<b>(224,967,951)</b>	<b>13,603,773</b>	<b>6.0%</b>
<b>Nonoperating Revenues / (Expenses):</b>				
State Appropriations and State Aid	193,145,489	193,426,146	(280,657)	-0.1%
Noncapital Gifts and Grants	73,308,222	71,397,810	1,910,412	2.7%
Investment Gain, Net	8,882,478	5,704,995	3,177,483	55.7%
Interest and Fees on Debt	(15,289,837)	(11,014,631)	4,275,206	38.8%
Other Nonoperating Revenues / (Expenses)	(1,989,565)	780,335	(2,769,900)	-355.0%
<b>Total Nonoperating Revenues</b>	<b>258,056,787</b>	<b>260,294,655</b>	<b>(2,237,868)</b>	<b>-0.9%</b>
<b>Income Before Other Changes</b>	<b>19,485,063</b>	<b>35,326,704</b>	<b>(15,841,641)</b>	<b>-44.8%</b>
Capital Appropriations (Net of Refunds)	4,132,925	706,100	3,426,825	485.3%
Capital Grants	594,648	8,193,842	(7,599,194)	-92.7%
Capital Gifts	1,443,891	9,048,725	(7,604,834)	-84.0%
Additions to Endowment	1,847,580	1,825,160	22,420	1.2%
<b>Increase / (Decrease) in Net Position</b>	<b>27,504,107</b>	<b>55,100,531</b>	<b>(27,596,424)</b>	<b>-50.1%</b>
<b>Net Position, Beginning of Year (as restated)</b>	<b>929,833,040</b>	<b>874,732,509</b>	<b>55,100,531</b>	<b>6.3%</b>
<b>Net Position, End of Year</b>	<b>\$ 957,337,147</b>	<b>\$ 929,833,040</b>	<b>\$ 27,504,107</b>	<b>3.0%</b>

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 2014. Some highlights of the information presented on the SRECNP are as follows:

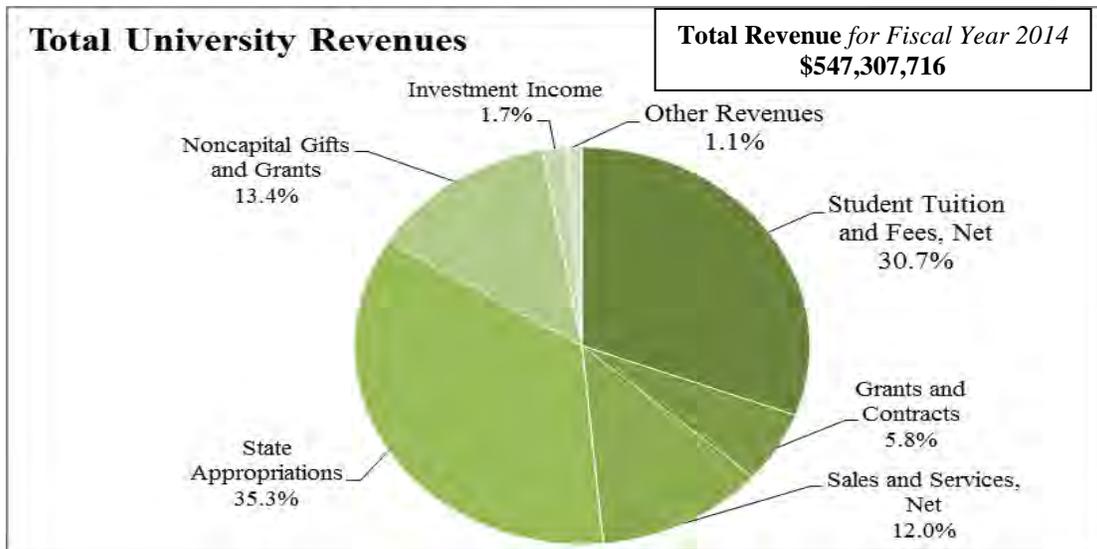
- Total operating revenues increased by \$18.0 million, or 7.1%, as compared to the prior fiscal year. This net increase is attributable to a \$7.8 million, or 4.9%, increase in student tuition and fees resulting from increases in official rates and the number of students enrolled, combined with an \$11.0 million, or 20.1%, increase in sales and services revenue for auxiliary services, \$7 million of which was attributable to increased student

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

housing and dining services (to accommodate the increase in student enrollment). The remaining change in operating revenue is attributable to a decrease in grant and contract revenue of \$2.3 million, or 6.7%, and a slight increase in other operating revenues.

- Net nonoperating revenues of \$258.1 million were generated by the University in fiscal year 2014, representing a \$2.2 million, or 1%, decrease compared to the prior year. This decrease is attributed to a slight decrease in state appropriations, a \$1.1 million decrease in noncapital grants associated with student financial aid, a \$4.3 million increase in interest and fees on debt associated with the addition of 2014 bonds sold for capital financing and a full year of interest expense recognized for 2013 bonds, and a \$2.8 million increase in other nonoperating expenses largely due to loss on disposal of property and equipment. These decreases were offset by an increase in noncapital gifts of \$3.0 million, an increase in net investment income of \$3.2 million, and a slight increase in federal interest subsidy on debt received.

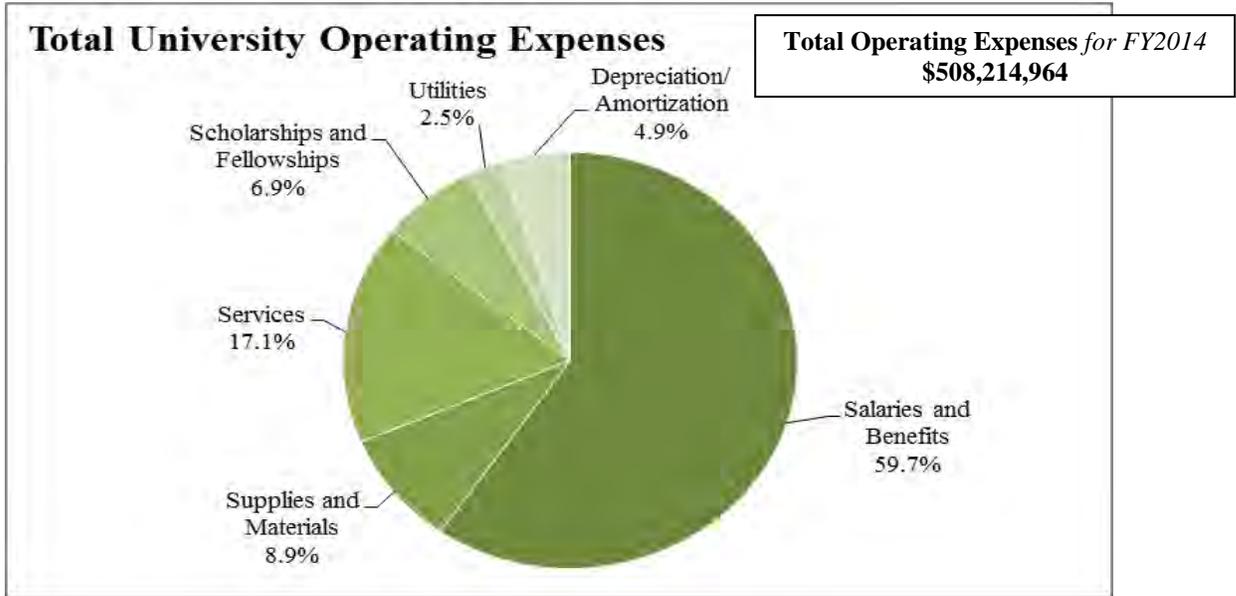
A summary of total revenues by source (both operating and nonoperating), which were used to fund the University's operating activities for the fiscal year ended June 30, 2014, is shown below.



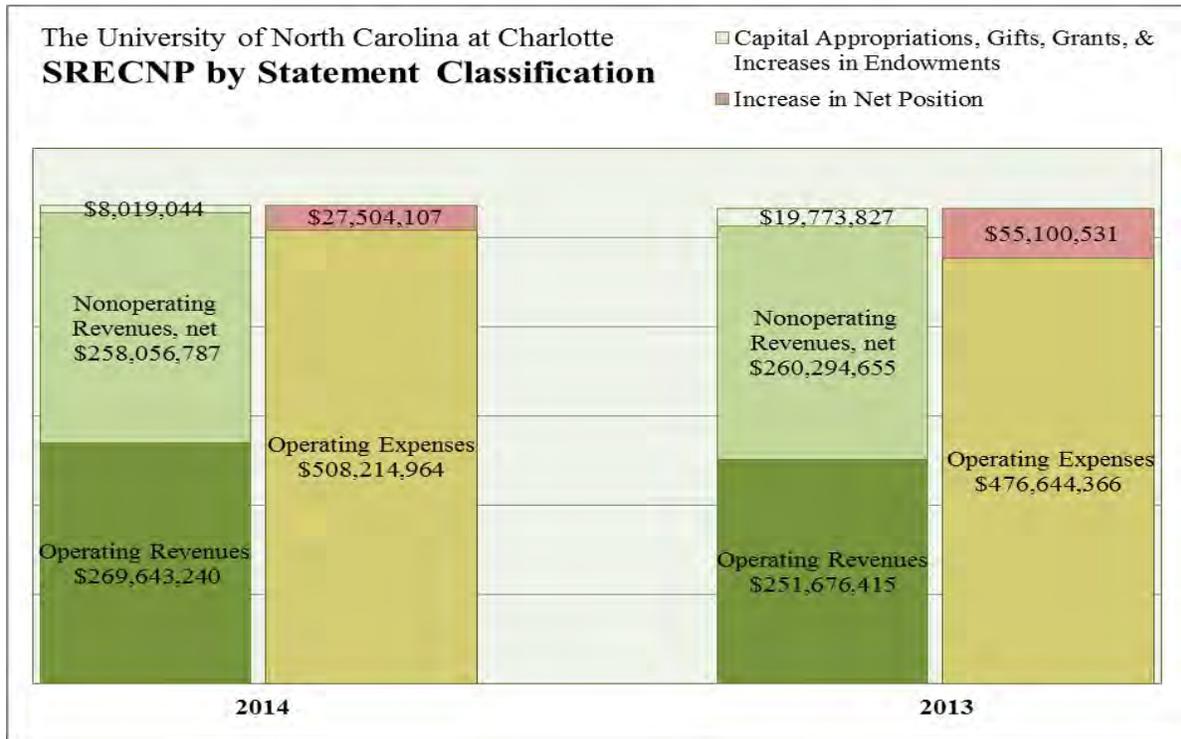
Total operating expenses increased by \$31.6 million, or 6.6%, from the prior year. This increase was attributable to an \$11.7 million, or 4.0%, increase in salary and benefits due to an increase in filled positions. In addition, there was an increase in supplies and materials purchased of \$8.4 million, or 22.8%, mainly due to new furniture and equipment purchased for capital additions and improvements, and an increase in services purchased of \$9.5 million, or 12.2%, mainly due to an increase of \$7.7 million in repairs related to an Energy Savings Performance Contract project and an increase in contracted services of \$1.8 million for improvements to wireless access in residential buildings. Depreciation and amortization expense also increased by \$2.2 million due to the increase in depreciable and amortizable capital assets.

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

A summary of total operating expenses by natural classification for the fiscal year ended June 30, 2014, is shown below.

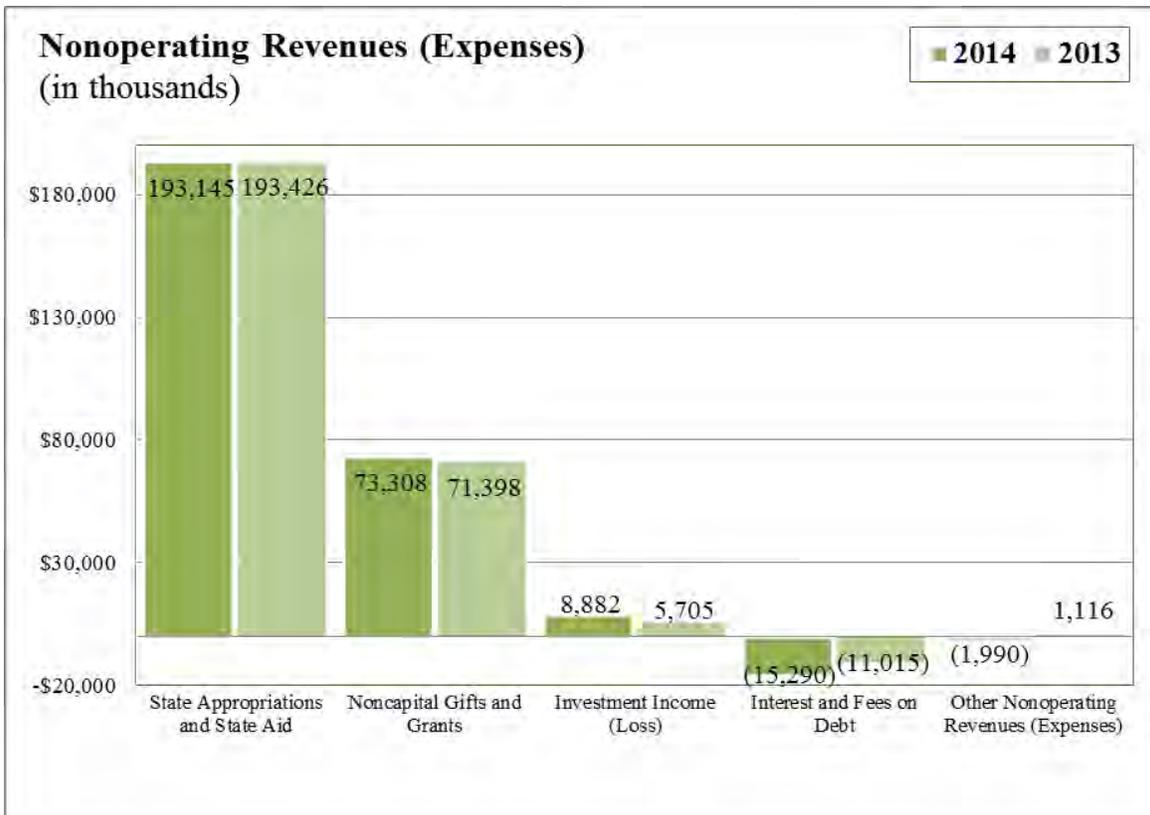
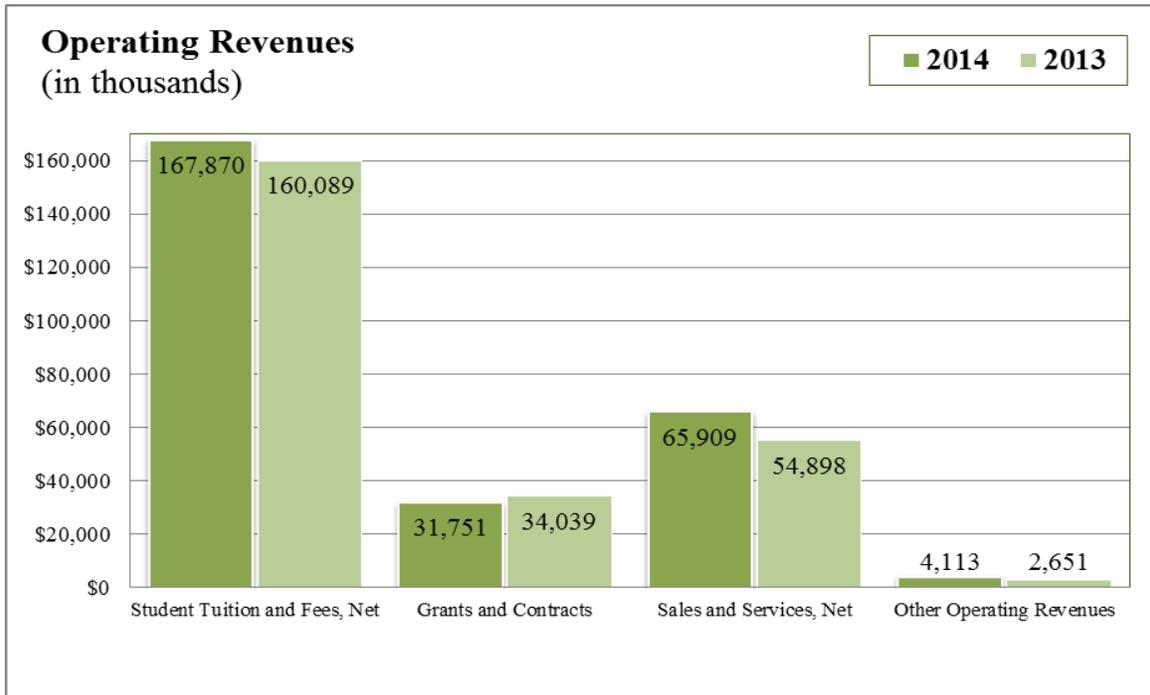


A comparison of annual activity by statement classification, as well as a comparison of total operating revenues, nonoperating revenues, and other increases in net position as elements of operating expenses, at June 30, 2014, and June 30, 2013, is presented below:



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

Comparisons of the operating and nonoperating revenues for the fiscal years ended June 30, 2014, and June 30, 2013, 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, 2014, and June 30, 2013. Information regarding changes in capital assets is also disclosed in Note 5.

Capital Assets, net of Accumulated Depreciation or Amortization	2014	2013 (as restated)	Increase/(Decrease)	
			Amount	Percent
Land	\$ 7,452,329	\$ 7,331,270	\$ 121,059	1.7%
Rare Book, Manuscript, Art and Artifact Collections	30,458,181	30,029,293	428,888	1.4%
Construction in Progress	78,254,915	118,000,334	(39,745,419)	-33.7%
Buildings	739,519,001	656,193,564	83,325,437	12.7%
Machinery and Equipment	49,186,079	49,027,705	158,374	0.3%
General Infrastructure	182,919,714	150,631,663	32,288,051	21.4%
Computer Software	6,831,485	7,275,933	(444,448)	-6.1%
<b>Total Capital Assets, Net</b>	<b>1,094,621,704</b>	<b>1,018,489,762</b>	<b>76,131,942</b>	<b>7.5%</b>

During fiscal year 2014, 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 \$78.3 million, a \$39.7 million decrease from the prior year due to the completion of major building and infrastructure projects, including Belk and Hunt residence hall projects, the Partnership, Outreach, and Research to Accelerate Learning (PORTAL) building, South Village infrastructure projects, and a parking deck. Projects currently under construction include South Village Dining Hall as well as Phase XII and XIII residence hall projects.

The Partnership, Outreach, and Research to Accelerate Learning (PORTAL) building was completed in January 2014 and 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 provides 96,000 square feet of state-of-the-art space where business partners 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 houses 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.

The newly opened Belk Hall and Hunt Hall, Phase X and XI residence hall projects, respectively, were completed in July 2013 and provide suite- and apartment-style accommodations for students and feature study rooms, lounges and other amenities that encourage interaction while contributing to a community atmosphere. Belk Hall was awarded with a two Green Globes® rating from the Green Building Initiative and was the first state-

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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owned building to earn this cost effective yet rigorous certification that respects our limited resources. This award demonstrates the University's continued commitment to the construction of green buildings that improves the efficiency of operations, reduces operating costs, protects the environment, and transforms the living and learning experience for our students.

The University also had \$96.4 million in outstanding commitments on construction contracts for capital expenditures at June 30, 2014. The bulk of these commitments relate to the following construction projects: Residence Hall Phase XIII (\$28.9 million), Holshouser Residence Hall Renovation (\$15.8 million), Belk Gym Renovations (\$15.1 million), Residence Hall Phase XII (\$7.7 million), Oak Hall Renovations (\$7.6 million), Residence Dining Hall Renovation (\$3.9 million), Colvard Renovations (\$2.6 million), and Cone Plaza Renovations (\$1.6 million).

The University received \$4.1 million in state capital appropriations during the fiscal year for repair and renovations funded by the State. Capital grants provided by the State decreased \$7.6 million to \$0.6 million as a result of the completion of capital projects funded by these grants including the Energy Production and Infrastructure Center (EPIC) building, Center City building and Bioinformatics building. Capital gifts of equipment, sculptures, art, rare books, and manuscript collections of approximately \$1.4 million were made to the University during the fiscal year.

The University's long-term debt is primarily issued for specific capital needs with a designated revenue stream. In 2014, the University issued \$58.7 million of General Revenue Bonds, Series 2014. Proceeds from Series 2014 bonds will finance the construction and equipping of a housing facility with approximately 400 beds and the modernization of two existing residence halls.

The University received an affirmed credit rating of 'Aa3' with a stable outlook from Moody's Investor Service and an affirmed credit rating of 'AA-' with a revised negative outlook from Standard & Poor's in February 2014 on its issuance of \$58.7 million of General Revenue Bonds, Series 2014. Moody's determined its rating due in part to growing enrollment, stable demand, healthy operations, and above-average operating and capital support from Aaa-rated State of North Carolina. Standard & Poor's based its rating on similar factors that were also noted by Moody's, but in addition, considered more heavily the University's plans for future additional debt to meet our capital master plans; Standard & Poor's did recognize our deliberate, well thought out approach to facilities and campus improvements financing, but felt that a conservative approach to our rating outlook was warranted.

### **Economic Outlook**

The University's financial position remains strong and net position grew by \$27.5 million to \$957.3 million during fiscal year 2014, a 3.0% increase over prior year net position, 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 achieve its goals to send degree recipients out into our community as productive

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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and engaged members. Today is truly *Our Time, Our Future* as UNC Charlotte plays a pivotal role in achieving the goals established under the UNC System's strategic plan.

UNC Charlotte continues to focus on its instructional mission and enrollment grew to nearly 27,250 students for the fall 2014 semester, the highest enrollment in the University's history. Student demand for higher education and for enrollment at UNC Charlotte continues to increase. There were no increases in tuition rates for undergraduate residents of North Carolina and a \$642, or 4.0%, 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. Completed applications for freshman admission for the fall 2014 semester reached 15,600, an 80% increase since 2005 and the third-highest in the UNC system. From the fall of 2008 to the fall of 2013, UNC Charlotte was responsible for 48% of total enrollment growth in the 17-campus UNC system, further delivering on its promise to the citizens of North Carolina.

UNC Charlotte continues to build on its educational value by strengthening existing academic programs and creating new ones to meet the needs of our society and its demands for an educated workforce. This past year, UNC Charlotte was approved for and added its 21st doctoral degree, the Ph.D. in Public Health Sciences, and added two regionally important master's degrees: the Master's in Applied Energy and Electromechanical Systems and the Professional Science Master's in Data Science and Business Analytics (DSBA), an interdisciplinary program designed to develop a new generation of data scientists, business analysts, and managers who will have both technical and business skills to transform data into smart, innovative business solutions. We also continue to hire and retain high-caliber faculty, such as those in the College of Liberal Arts and Sciences that have collectively published more than 40 books and hundreds of articles just in the past year. In addition, UNC Charlotte faculty contributed to securing external awards of more than \$36 million and advanced technology transfer efforts by filing 58 patents, securing 11 awarded patents, and spinning off four start-up companies. These accomplishments reflect the strength of our people, the most important asset in building and maintaining a strong academic curriculum.

The following are a few highlights from the fiscal year that demonstrate the spirit of UNC Charlotte's commitment to strategic growth, outreach, accessibility, sustainability, 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; it is about the University, the city, the community, the public, 49er students, 49er alums, and 49er fans. The spirit and excitement fueled our engagement efforts and provided our students a complete experience in college, re-engaged our alumni and found a way to connect to the community. As a result of our campus-wide efforts, we completed our first football year by being ranked #1 in a national survey of the quality of the game day experience. Our culture of

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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collaboration will be showcased as a team of students and staff accept the National Association of College Auxiliary Services' 2014 Innovative Achievement Award for the Zero Waste program that was initiated in our first football season at Jerry Richardson stadium.

Sustainability is a core value of the university as reflected in programs like Zero Waste. UNC Charlotte launched its Energy Savings Initiative as part of its ongoing efforts to reduce campus energy consumption by 30% by 2015, leveraging use of energy savings contracts to reach these goals cost effectively. The Student Union's use of industrial food pulper to turn food waste into environmentally friendly compost for local community farms and extract water to be recycled and recirculated throughout the dining operations reflect this focus. This commitment begins with our campus facility designs and the South Village Dining project is an example of many environmentally sound features projected to earn Green Globe certification upon its completion in Fall 2014. Our students are actively engaged as well, including UNC Charlotte's Sustainably Integrated Buildings and Sites (SIBS) program comprised of Architectural and Engineering students in partnership with Envision: Charlotte, and other organizations to reduce energy use in Charlotte.

The University's focus on sustainability is long term and we are actively engaged in educating the next generation as 100 ninth graders from the community arrived on campus in August as the inaugural class of the Charlotte Engineering Early College High School program. Pioneering a new curriculum of classes and projects that will tap into the energy and sustainability themes, students will spend three years completing high school work and two years enrolled in college classes at no cost. These students will build traditions and be a key part of the history of UNC Charlotte and the region as they shape new strategies for protecting our natural resources.

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

Elizabeth A. Hardin  
Vice Chancellor for Business Affairs

**The University of North Carolina at Charlotte**  
**Statement of Net Position**  
**June 30, 2014**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 186,711,628
Restricted Cash and Cash Equivalents	37,387,369
Receivables, Net (Note 4)	16,683,958
Inventories	315,651
Notes Receivable, Net (Note 4)	919,607
Prepaid Items	2,864,567

Total Current Assets	244,882,780
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	91,956,580
Endowment Investments	66,210,410
Restricted Investments	17,715,065
Notes Receivable, Net (Note 4)	4,384,227
Capital Assets - Nondepreciable (Note 5)	116,165,425
Capital Assets - Depreciable, Net (Note 5)	978,456,279

Total Noncurrent Assets	1,274,887,986
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Total Assets	1,519,770,766
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Loss on Refunding	2,102,121
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	10,321,085
Deposits Payable	1,417,978
Funds Held for Others	6,903
Unearned Revenue	7,737,533
Interest Payable	5,547,425
Long-Term Liabilities - Current Portion (Note 7)	15,977,681

Total Current Liabilities	41,008,605
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Noncurrent Liabilities:

Funds Held for Others	7,240,052
U. S. Government Grants Refundable	5,462,054
Funds Held in Trust for Pool Participants	12,543,793
Long-Term Liabilities, Net (Note 7)	498,281,236

Total Noncurrent Liabilities	523,527,135
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Total Liabilities	564,535,740
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**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows of Resources	0
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*The University of North Carolina at Charlotte*  
*Statement of Net Position*  
*June 30, 2014*

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

**NET POSITION**

Net Investment in Capital Assets	692,328,641
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,136,770
Endowed Professorships	29,114,153
Departmental Uses	3,949,735
Loans	2,120,435
Other	215,998
Expendable:	
Scholarships and Fellowships	3,926,585
Research	55,637
Endowed Professorships	11,755,157
Departmental Uses	3,732,678
Capital Projects	22,218,093
Debt Service	562,597
Other	981,319
Unrestricted	<u>181,239,349</u>
Total Net Position	<u>\$ 957,337,147</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, 2014***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 167,870,221
Federal Grants and Contracts	25,442,035
State and Local Grants and Contracts	2,536,080
Nongovernmental Grants and Contracts	3,772,523
Sales and Services, Net (Note 9)	65,909,024
Interest Earnings on Loans	148,116
Other Operating Revenues	3,965,241
	<hr/>
Total Operating Revenues	269,643,240
	<hr/>

**EXPENSES**

Operating Expenses:

Salaries and Benefits	303,264,946
Supplies and Materials	45,418,344
Services	86,956,541
Scholarships and Fellowships	35,229,300
Utilities	12,614,725
Depreciation/Amortization	24,731,108
	<hr/>
Total Operating Expenses	508,214,964
	<hr/>

Operating Loss (238,571,724)

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	193,145,489
Noncapital Grants - Student Financial Aid	62,060,121
Noncapital Gifts	11,248,101
Investment Income (Net of Investment Expense of \$404,518)	8,882,478
Interest and Fees on Debt	(15,289,837)
Federal Interest Subsidy on Debt	1,923,769
Other Nonoperating Expenses	(3,913,334)
	<hr/>
Net Nonoperating Revenues	258,056,787
	<hr/>

Income Before Other Revenues 19,485,063

Capital Appropriations	4,132,925
Capital Grants	594,648
Capital Gifts	1,443,891
Additions to Endowments	1,847,580
	<hr/>
Increase in Net Position	27,504,107

**NET POSITION**

Net Position - July 1, 2013, as Restated (Note 17)	<hr/> 929,833,040
Net Position - June 30, 2014	<hr/> <hr/> \$ 957,337,147

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, 2014***

***Exhibit A-3***

***Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 262,495,032
Payments to Employees and Fringe Benefits	(302,761,279)
Payments to Vendors and Suppliers	(144,509,669)
Payments for Scholarships and Fellowships	(35,229,300)
Loans Issued	(1,250,300)
Collection of Loans	842,528
Interest Earned on Loans	116,925
Student Deposits Received	953,150
Student Deposits Returned	(947,800)
Other Receipts	4,062,212
	<hr/>
Net Cash Used by Operating Activities	(216,228,501)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	193,145,489
Noncapital Grants - Student Financial Aid	62,253,032
Noncapital Gifts	11,248,101
Additions to Endowments	1,847,580
William D. Ford Direct Lending Receipts	129,038,744
William D. Ford Direct Lending Disbursements	(130,898,610)
Related Activity Agency Receipts	18,094,325
Related Activity Agency Disbursements	(18,107,660)
External Participation in Investment Fund Receipts	256,731
External Participation in Investment Fund Disbursements	(419,433)
Other Payments	(4,985,402)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	261,472,897

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

Proceeds from Capital Debt	62,743,342
State Capital Appropriations	4,132,925
Capital Grants	594,648
Proceeds from Sale of Capital Assets	68,954
Acquisition and Construction of Capital Assets	(102,509,046)
Principal Paid on Capital Debt and Leases	(13,780,690)
Interest and Fees Paid on Capital Debt and Leases	(15,158,480)
Federal Interest Subsidy on Debt Received	1,923,769
Other Payments	(381,695)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(62,366,273)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	12,990,573
Investment Income	1,119,096
Purchase of Investments and Related Fees	(9,901,871)
	<hr/>
Net Cash Provided by Investing Activities	4,207,798
	<hr/>
Net Decrease in Cash and Cash Equivalents	(12,914,079)
Cash and Cash Equivalents - July 1, 2013	328,969,656
	<hr/>
Cash and Cash Equivalents - June 30, 2014	\$ 316,055,577



***The Foundation of the University of North Carolina at Charlotte, Inc.***  
***Statement of Financial Position***  
***June 30, 2014***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$ 14,663,831
Accounts Receivable	52,442
Prepaid Expenses	15,294
Pledges Receivable, Net	13,588,161
Beneficial Interest in Lead Trust	1,039,882
Investments	95,491,307
Assets Held Under Split-interest Agreements	887,557
Cash Surrender Value of Life Insurance	852,578
Note Receivable	75,000
Property Held for Investment	9,563,967
Building and Equipment, Net	340,185
Other Assets	10,488
	<hr/>
Total Assets	136,580,692
	<hr/>

**LIABILITIES**

Accounts Payable and Accrued Expenses	36,693
Unearned Revenue	119,734
Liability Under Split-interest Agreements	302,664
Funds Held for Others	44,616
Line of Credit	1,492,248
Notes Payable	2,974,973
	<hr/>
Total Liabilities	4,970,928
	<hr/>

**NET ASSETS**

Unrestricted	20,474,492
Temporarily Restricted	66,822,395
Permanently Restricted	44,312,877
	<hr/>
Total Net Assets	\$ 131,609,764
	<hr/> <hr/>

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

***The Foundation of the University of North Carolina at Charlotte, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2014***

***Exhibit B-2***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>				
Public Contributions	\$ 262,190	\$ 15,505,583	\$ 597,618	\$ 16,365,391
Grants and Contracts	-	7,822		7,822
Interest and Dividend Income	31,001	172,921		203,922
Net Gain on Investments	4,099,925	8,789,485		12,889,410
Change in Value of Split-interest Agreements	-	(300,859)	(121,537)	(422,396)
Other Income	205,281	113,911	-	319,192
Subtotal	4,598,397	24,288,863	476,081	29,363,341
Net Assets Released from Restrictions	11,766,189	(11,766,189)		
Total Revenue, Gains and Other Support	16,364,586	12,522,674	476,081	29,363,341
<b>EXPENSES</b>				
Program Services:				
Contributions to UNC Charlotte	11,894,850			11,894,850
Grants and Research	13,044			13,044
Other Program Services	244,033			244,033
Total Program Services	12,151,927			12,151,927
Support Services:				
Fundraising Support	54,504			54,504
Professional Fees	78,836			78,836
Investment Expenses	697,864			697,864
Interest Expense	134,678			134,678
Other General and Administrative	52,085			52,085
Total Support Services	1,017,967			1,017,967
Total Expenses	13,169,894			13,169,894
Change in Net Assets	3,194,692	12,522,674	476,081	16,193,447
Net Assets, Beginning of Year	17,279,800	54,299,721	43,836,796	115,416,317
Net Assets, End of Year	\$ 20,474,492	\$ 66,822,395	\$ 44,312,877	\$ 131,609,764

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

**THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are either blended or discretely presented in the University's financial statements. See below for further discussion of the University's component units.

**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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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). The Investment Fund is a governmental external investment pool. 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@unccl.edu](mailto:controller@unccl.edu), or by calling (704) 687-5759. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying statements.

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 nonprofit 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 42 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 nonprofit organization that reports its financial results under Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2014, the Foundation distributed \$11,894,850 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Controller's Office at [controller@uncc.edu](mailto:controller@uncc.edu), or by calling (704) 687-5759.

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

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

- 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. The fair value for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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investments in the UNC Investment Fund was based on amounts reported to the University by UNC Management Company, Inc. and Global Endowment Management. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Real estate not held by a governmental external investment pool and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories held by the University are valued at cost using the last invoice cost method. Inventories consist of expendable supplies, postage, fuel held for consumption, and other merchandise for resale.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of two or more years except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, generally 10 to

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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75 years for general infrastructure, 10 to 75 years for buildings and building improvements, 5 to 20 years for equipment, and 10 to 20 years for computer software.

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

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted 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. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Deferred charges on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are included as Deferred Outflows of Resources on the Statement of Net Position. Issuance costs are expensed.

- L. Compensated Absences** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the University has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

**M. Net 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. Additionally, deferred outflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

**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. Both

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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restricted and unrestricted net position include consideration of deferred inflows and outflows of resources.

**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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$315,680,442 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 1.3 years as of June 30, 2014. 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, 2014 was \$53,765. The carrying amount of the University's deposits not with the State Treasurer was \$321,370 and the bank balance was \$1,976,644. 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, 2014, the University's bank balance was exposed to custodial credit risk as follows:

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	\$ <u>1,566,458</u>
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Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. At June 30, 2014, \$29,921 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; certificates of deposit and other deposit accounts of specified institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### Risk

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

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

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

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

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

	Fair Value	AAA Aaa	AA Aa	A
U.S. Agencies	\$ 574,708	\$ 0	\$ 574,708	\$ 0
Collateralized Mortgage Obligations	70,871		70,871	
Money Market Mutual Funds	10,107,774	10,107,774		
Domestic Corporate Bonds	992,124		567,913	424,211
<b>Totals</b>	<b>\$ 11,745,477</b>	<b>\$ 10,107,774</b>	<b>\$ 1,213,492</b>	<b>\$ 424,211</b>

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	\$ 689,865	\$ 0	\$ 436,145	\$ 253,720	\$ 0
U.S. Agencies	574,708	95,327	428,929	50,452	
Collateralized Mortgage Obligations	70,871		5,750	4,573	60,548
Money Market Mutual Funds	10,107,774	10,107,774			
Domestic Corporate Bonds	992,124	72,537	470,496	449,091	
<b>Total</b>	<b>\$ 12,435,342</b>	<b>\$ 10,275,638</b>	<b>\$ 1,341,320</b>	<b>\$ 757,836</b>	<b>\$ 60,548</b>

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 external investment pool. Fund ownership is measured using the pro rata

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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share method. Under this method, each participating fund's investment balance is determined based on its pro rata share of the fair market value of the investment pool at the beginning of each monthly period. The external participant's share of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

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

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

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

A summary of investments is as follows:

	Valuation	<u>Total</u>
<b>Non-pooled Investments</b>		
Money Market Mutual Fund	Fair Value	\$ 5,200,356
U.S. Treasuries	Fair Value	689,865
U.S. Agencies	Fair Value	574,708
Collateralized Mortgage Obligations	Fair Value	70,871
Domestic Corporate Bonds	Fair Value	992,124
Domestic Stocks	Fair Value	1,925,445
Real Estate	Cost or fair value if donated	6,642,104
Cash Surrender Value of Life Insurance		<u>28,994</u>
<b>Total Non-pooled Investments</b>		<u>16,124,467</u>
<b>Pooled Investments</b>		
Money Market Mutual Fund	Fair Value	4,907,418
UNC Investment Fund, LLC	Fair Value	73,600,113
Private Equity Limited Partnership	Fair Value	<u>79,305,177</u>
<b>Total Pooled Investments</b>		157,812,708
Less Amounts Invested by the Foundation		<u>(90,011,700)</u>
<b>Pooled Investments for the University</b>		<u>67,801,008</u>
<b>Total Investments</b>		<u><u>\$ 83,925,475</u></u>

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

**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	\$ 854,318
Mutual Funds	5,424,065
Equity Securities and Other Investments	88,781
UNCCIF External Investment Pool	90,011,700
<b>Total Investments</b>	<b>\$ 96,378,864</b>

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the University as of June 30, 2014, is as follows:

Cash on Hand	\$ 53,765
Amount of Deposits with Private Financial Institutions	321,370
Deposits in the Short-Term Investment Fund	315,680,442
Long-Term Investment Pool	67,801,008
Non-Pooled Investments	16,124,467
<b>Total Deposits and Investments</b>	<b>\$ 399,981,052</b>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 186,711,628
Restricted Cash and Cash Equivalents	37,387,369
Noncurrent:	
Restricted Cash and Cash Equivalents	91,956,580
<b>Total Deposits</b>	316,055,577
Investments	
Noncurrent:	
Endowment Investments	66,210,410
Restricted Investments	17,715,065
<b>Total Investments</b>	83,925,475
<b>Total Deposits and Investments</b>	<b>\$ 399,981,052</b>

### NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of the average trailing twelve quarters endowment principal's market value. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2014, net appreciation of \$27,793,754 was available to be spent, of which \$15,507,673 was restricted to specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 6,751,701	\$ 1,824,565	\$ 4,927,136
Accounts	4,098,224		4,098,224
Intergovernmental	6,856,410		6,856,410
Investment Earnings	42		42
Interest on Loans	141,835		141,835
Federal Interest Subsidy on Debt	494,270		494,270
Other	166,041		166,041
<b>Total Current Receivables</b>	<u>\$ 18,508,523</u>	<u>\$ 1,824,565</u>	<u>\$ 16,683,958</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 907,231	\$ 26,240	\$ 880,991
Institutional Student Loan Programs	40,160	1,544	38,616
<b>Total Notes Receivable - Current</b>	<u>\$ 947,391</u>	<u>\$ 27,784</u>	<u>\$ 919,607</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 4,271,272	\$ 214,255	\$ 4,057,017
Institutional Student Loan Programs	349,571	22,361	327,210
<b>Total Notes Receivable - Noncurrent</b>	<u>\$ 4,620,843</u>	<u>\$ 236,616</u>	<u>\$ 4,384,227</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, 2014, is presented as follows:

	Balance July 1, 2013 (as restated)	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 7,331,270	\$ 121,059	\$ 0	\$ 7,452,329
Rare Book, Manuscript, Art and Artifact Collections	30,029,293	428,888		30,458,181
Construction in Progress	118,000,334	96,694,683	136,440,102	78,254,915
<b>Total Capital Assets, Nondepreciable</b>	<b>155,360,897</b>	<b>97,244,630</b>	<b>136,440,102</b>	<b>116,165,425</b>
Capital Assets, Depreciable:				
Buildings	775,987,297	100,362,032	4,988,978	871,360,351
Machinery and Equipment	102,452,181	7,157,726	4,281,710	105,328,197
General Infrastructure	175,849,450	36,210,020		212,059,470
Computer Software	7,489,059			7,489,059
<b>Total Capital Assets, Depreciable</b>	<b>1,061,777,987</b>	<b>143,729,778</b>	<b>9,270,688</b>	<b>1,196,237,077</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	119,793,733	14,049,956	2,002,339	131,841,350
Machinery and Equipment	53,424,476	6,314,735	3,597,093	56,142,118
General Infrastructure	25,217,787	3,921,969		29,139,756
Computer Software	213,126	444,448		657,574
<b>Total Accumulated Depreciation/Amortization</b>	<b>198,649,122</b>	<b>24,731,108</b>	<b>5,599,432</b>	<b>217,780,798</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>863,128,865</b>	<b>118,998,670</b>	<b>3,671,256</b>	<b>978,456,279</b>
<b>Capital Assets, Net</b>	<b>\$ 1,018,489,762</b>	<b>\$ 216,243,300</b>	<b>\$ 140,111,358</b>	<b>\$ 1,094,621,704</b>

During the year ended June 30, 2014, the University incurred \$19,424,039 in interest costs related to the acquisition and construction of capital assets. Of this total, \$15,289,837 was charged in interest expense, and \$4,134,202 was capitalized.

The University has pledged Greek Village student housing with a carrying value of \$16,499,035 as security for Certificates of Participation, the University of North Carolina at Charlotte Student Housing Project, Series 2005. 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, 2014, were as follows:

	Amount
<b>Accounts Payable and Accrued Liabilities</b>	
Accounts Payable	\$ 2,544,595
Accounts Payable - Construction	4,288,138
Accrued Payroll	1,190,871
Contract Retainage	1,459,462
Other	838,019
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 10,321,085</b>

### NOTE 7 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013 (As Restated)	Additions	Reductions	Balance June 30, 2014	Current Portion
Revenue Bonds Payable	\$ 416,948,099	\$ 58,745,000	\$ 11,706,770	\$ 463,986,329	\$ 13,186,157
Certificates of Participation	15,080,000		1,160,000	13,920,000	415,000
Plus: Unamortized Premium	17,833,994	4,346,585	907,738	21,272,841	
Less: Unamortized Discount	(264,503)	(348,243)	(15,076)	(597,670)	
Total Revenue Bonds and Certificates of Participation Payable, Net	449,597,590	62,743,342	13,759,432	498,581,500	13,601,157
Capital Leases Payable	1,640,365	0	913,918	726,447	669,616
Compensated Absences	14,642,550	10,032,949	9,787,840	14,887,659	1,643,597
Workers Compensation Obligation		63,311		63,311	63,311
<b>Total Long-Term Liabilities</b>	<b>\$ 465,880,505</b>	<b>\$ 72,839,602</b>	<b>\$ 24,461,190</b>	<b>\$ 514,258,917</b>	<b>\$ 15,977,681</b>

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Principal Outstanding June 30, 2014	See Table Below
<b>Revenue Bonds Payable</b>							
<b>General Revenue Bonds Payable</b>							
Partial Refund of Housing Phase 7	2006A		2014	\$ 1,920,000	\$ 1,920,000	\$ 0	
Parking Deck G	2006 A	4.00%-5.00%	2036	10,545,000	1,695,000	8,850,000	
Student Union Taxable	2007-A	5.25%-5.68%	2023	18,140,000	6,495,000	11,645,000	
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	3%	2017	2,720,000	1,315,000	1,405,000	
Housing Phase 9-Tax Exempt	2009-A	3%	2017	5,610,000	2,735,000	2,875,000	
Football Stadium BABs	2010	2.745%-6.52%	2040	* 40,895,000	2,950,000	37,945,000	
Portal Building	2012-A	3.00%-5.00%	2041	2,615,000	50,000	2,565,000	
South Village Dining	2012-A	3.00%-5.00%	2041	3,470,000	70,000	3,400,000	
Regional Utility Plant	2012-A	3.00%-5.00%	2041	4,140,000	35,000	4,105,000	
Refi-Sprinkler Loan	2012-A	3.00%-4.00%	2022	3,645,000	595,000	3,050,000	
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	150,000	14,535,000	
Residence Hall Phase 10	2012-A	3.00%-5.00%	2041	30,290,000	605,000	29,685,000	
Residence Hall Phase 11	2012-A	3.00%-5.00%	2041	28,890,000	580,000	28,310,000	
2012 Sprinkler Project	2012-A	3.00%-5.00%	2041	3,260,000	65,000	3,195,000	
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	.971%-4.55%	2041	25,575,000	605,000	24,970,000	
South Village Dining-Taxable	2012-B	.971%-4.451	2041	8,655,000	205,000	8,450,000	
Regional Utility Plant-Taxable	2012-B	.971%-4.251	2032	2,710,000	115,000	2,595,000	
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	2,030,000	6,610,000	
Campus Infrastructure	2013-B	.526-4.123	2043	35,240,000	875,000	34,365,000	
Refinancing 2004-A Parking Bonds	2013-B	3.75-4.00%	2021	2,545,000	310,000	2,235,000	
Energy Savings Bonds	2013	4.41%	2029	8,443,099	21,770	8,421,329	
Housing Phase 13	2014	3.00-5.00%	2044	34,220,000		34,220,000	
Oak Hall Renovations	2014	3.00-5.00%	2044	8,765,000		8,765,000	
Holshouser Hall Renovations	2014	3.00-5.00%	2044	15,760,000		15,760,000	
<b>Total General Revenue Bonds</b>				<b>455,633,099</b>	<b>24,181,770</b>	<b>431,451,329</b>	
<b>The University of North Carolina System Pool Revenue Bonds</b>							
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	3.75%-5.00%	2021	6,185,000	605,000	5,580,000	
Final Refinance of Housing Phase 7	2010-B1	5.25%	2024	2,665,000		2,665,000	
Partial Refund of Housing Phase 8	2010-B1	3.00%-5.25%	2025	13,770,000	1,765,000	12,005,000	
Refund of Parking Series 2002 Bonds	2010-B1	3.00%-5.25%	2027	6,300,000	2,200,000	4,100,000	
<b>Total The University of North Carolina System Pool Revenue Bonds</b>				<b>40,775,000</b>	<b>8,240,000</b>	<b>32,535,000</b>	
<b>Certificates of Participation</b>							
Banner COPS	2004		2014	5,925,000	5,925,000	0	
Greek Village COPS	2005	4.00%-4.75%	2035	16,745,000	2,825,000	13,920,000	(1)
<b>Total Certificates of Participation</b>				<b>22,670,000</b>	<b>8,750,000</b>	<b>13,920,000</b>	
<b>Total Revenue Bonds Payable and Certificates of Participation (principal only)</b>				<b>\$ 519,078,099</b>	<b>\$ 41,171,770</b>	<b>477,906,329</b>	
Less: Unamortized Discount						(597,670)	
Plus: Unamortized Premium						21,272,841	
<b>Total Revenue Bonds Payable and Certificates of Participation, Net</b>						<b>\$ 498,581,500</b>	

\* The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 32% 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 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)	Housing revenues- Greek Village	\$ 22,215,500	\$ 1,811,965	\$ 400,000	\$ 660,094	59%

**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2014, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
2015	\$ 13,186,157	\$ 21,390,995	\$ 415,000	\$ 644,094
2016	14,082,396	20,930,107	430,000	627,494
2017	14,616,912	20,420,110	450,000	610,294
2018	14,611,799	19,897,407	465,000	592,294
2019	15,141,801	19,302,652	485,000	573,694
2020-2024	77,954,177	86,453,455	2,775,000	2,513,275
2025-2029	77,458,087	68,787,018	3,475,000	1,813,006
2030-2034	87,515,000	49,516,775	4,415,000	874,637
2035-2039	99,580,000	25,983,941	1,010,000	46,712
2040-2044	49,840,000	5,164,356		
<b>Total Requirements</b>	<b>\$ 463,986,329</b>	<b>\$ 337,846,816</b>	<b>\$ 13,920,000</b>	<b>\$ 8,295,500</b>

### COMPONENT UNITS

As of June 30, 2014, 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.

As of June 30, 2014, the Foundation had an unsecured loan payable in the amount of \$474,973 for the purpose of constructing the Alumni Center Facility. The loan accrues 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. Such note is secured with a collateral account totaling \$667,331. Under the terms of the loan, the Foundation is required to maintain \$7,500,000 in unrestricted net assets. At June 30, 2014 unrestricted net assets exceeded \$7,500,000.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

On September 5, 2013, the Foundation entered into a line of credit agreement allowing it to borrow up to \$5,000,000. As of June 30, 2014, line of credit draws totaled \$1,492,248. The line of credit carries a variable rate of interest equal to the One-Month LIBOR plus 1.10% (1.3125 as of June 30, 2014), and is due in full at maturity on September 5, 2015. The loan agreement contains a liquidity covenant and also requires that the Foundation maintain a minimum average deposit account balance of \$200,000 with the lender.

Principal maturities of long-term debt as of June 30, 2014 are:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 2,768,744
2016	1,698,477
<b>Total</b>	<b>\$ 4,467,221</b>

Interest expense during 2014 was \$169,147.

### NOTE 8 - LEASE OBLIGATIONS

**A. Capital Lease Obligations** - Capital lease obligations relating to network and server equipment as well as the related software are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 683,902
2016	56,992
Total Minimum Lease Payments	740,894
Amount Representing Interest (3.39% Rate of Interest)	14,447
<b>Present Value of Future Lease Payments</b>	<b>\$ 726,447</b>

Machinery and equipment acquired under capital lease amounted to \$2,887,594 and related software acquired under capital leases amounted to \$247,538 at June 30, 2014. Depreciation for the capital assets associated with capital leases is included in depreciation expense and accumulated depreciation for assets acquired under capital lease totaled \$1,225,856 at June 30, 2014.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**B. Operating Lease Obligations** - The University entered into operating leases for noncapital network and server equipment and related software; classroom and warehouse space; parking spaces, vehicles, heavy equipment, copiers, and fiber optic cable. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

Fiscal Year	Amount
2015	\$ 1,403,493
2016	238,637
2017	24,157
2018	11,400
2019	11,400
2020-2024	19,950
<b>Total Minimum Lease Payments</b>	<b>\$ 1,709,037</b>

Rental expense for all operating leases during the year was \$1,827,652.

### 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
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 212,303,542	\$ 0	\$ 43,598,907	\$ 834,414	\$ 167,870,221
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 32,093,570	\$ 440,966	\$ 7,753,946	\$ 304,457	\$ 23,594,201
Dining	20,431,188	127,673	3,851,295	215,677	16,236,543
Student Union Services	5,528,219	1,643,105			3,885,114
Health Services	2,902,936	33,019		133,066	2,736,851
Parking	9,405,570	360,663		23,136	9,021,771
Athletics	4,372,518	40,000			4,332,518
Facilities	19,768,854	19,133,882			634,972
Telecommunications	2,890,172	2,566,558			323,614
Other Revenue	3,326,935	912,402			2,414,533
Sales and Services of Education and Related Activities	3,446,940	718,033			2,728,907
<b>Total Sales and Services</b>	<b>\$ 104,166,902</b>	<b>\$ 25,976,301</b>	<b>\$ 11,605,241</b>	<b>\$ 676,336</b>	<b>\$ 65,909,024</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 168,292,251	\$ 7,051,694	\$ 15,473,973	\$ 0	\$ 276	\$ 0	\$ 190,818,194
Research	13,452,092	3,143,324	5,097,008		101		21,692,525
Public Service	2,175,867	52,571	311,294				2,539,732
Academic Support	20,179,804	9,250,938	10,630,231		74		40,061,047
Student Services	16,243,845	1,640,903	4,271,154		6,754		22,162,656
Institutional Support	25,593,599	1,532,557	7,311,090		537		34,437,783
Operations and Maintenance of Plant	22,271,802	8,002,443	12,892,367		8,624,054		51,790,666
Student Financial Aid				35,229,300			35,229,300
Auxiliary Enterprises	35,055,686	14,743,914	30,969,424		3,982,929		84,751,953
Depreciation/Amortization						24,731,108	24,731,108
Total Operating Expenses	<u>\$ 303,264,946</u>	<u>\$ 45,418,344</u>	<u>\$ 86,956,541</u>	<u>\$ 35,229,300</u>	<u>\$ 12,614,725</u>	<u>\$ 24,731,108</u>	<u>\$ 508,214,964</u>

### NOTE 11 - PENSION PLANS

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

The Teachers' and State Employees' Retirement System (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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$240,890,586, of which \$96,704,555 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$8,403,626 and \$5,802,273, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$8,403,626, \$7,933,535, and \$6,735,742, 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 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, 2014, 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 \$240,890,586, of which \$106,929,639 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$7,313,987 and \$6,415,778, respectively.

### **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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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 5.40% 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, 2013, and 2012, were 5.30% and 5.0%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$10,996,246, \$10,338,012, and \$9,213,710, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2014, 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, 2013, and 2012, were .44% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$895,990, \$858,250, and \$958,226, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

### **NOTE 13 - RISK MANAGEMENT**

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

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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and contents within the buildings. Extended coverage includes the perils of windstorm, hail, explosion, smoke, aircraft or vehicles, riot or civil commotion.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

The University mitigated additional risks with the following insurance programs as of June 30, 2014:

A separate professional liability policy underwritten by Medical Mutual Insurance is provided to healthcare professionals. The limit of liability is \$1,000,000 per claim and \$3,000,000 aggregate annually.

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$96,373,552 at June 30, 2014.
- 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.

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 \$2,187,462 for the year ended June 30, 2014.

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 \$90,300 for the year ended June 30, 2014.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 16 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2014, is presented as follows:

#### *Condensed Statement of Net Position June 30, 2014*

	<u>University</u>	<u>FDC</u>	<u>UNCCIF</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>					
Current Assets	\$ 244,468,210	\$ 24,507	\$ 5,010,437	\$ (4,620,374)	\$ 244,882,780
Capital Assets	1,078,122,669	16,499,035			1,094,621,704
Other Noncurrent Assets	<u>167,550,127</u>	<u>562,425</u>	<u>152,905,290</u>	<u>(140,751,560)</u>	<u>180,266,282</u>
Total Assets	<u>1,490,141,006</u>	<u>17,085,967</u>	<u>157,915,727</u>	<u>(145,371,934)</u>	<u>1,519,770,766</u>
Deferred Outflows of Resources	<u>2,102,121</u>				<u>2,102,121</u>
<b>LIABILITIES</b>					
Current Liabilities	40,374,013	634,592	103,019	(103,019)	41,008,605
Noncurrent Liabilities	<u>497,444,999</u>	<u>13,538,343</u>	<u>157,812,708</u>	<u>(145,268,915)</u>	<u>523,527,135</u>
Total Liabilities	<u>537,819,012</u>	<u>14,172,935</u>	<u>157,915,727</u>	<u>(145,371,934)</u>	<u>564,535,740</u>
Deferred Inflows of Resources					
<b>NET POSITION</b>					
Net Investment in Capital Assets	689,782,949	2,545,692			692,328,641
Restricted - Nonexpendable	40,537,091				40,537,091
Restricted - Expendable	42,669,641	562,425			43,232,066
Unrestricted	<u>181,434,434</u>	<u>(195,085)</u>			<u>181,239,349</u>
Total Net Position	<u>\$ 954,424,115</u>	<u>\$ 2,913,032</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 957,337,147</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### *Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2014*

	University	FDC	UNCCIF	Eliminations	Total
<b>OPERATING REVENUES</b>					
Student Tuition and Fees, Net	\$ 167,870,221	\$ 0	\$ 0	\$ 0	\$ 167,870,221
Grants & Contracts	31,750,638				31,750,638
Sales and Services, Net	64,648,579	1,260,445			65,909,024
Other Operating Revenues	4,113,357				4,113,357
Total Operating Revenues	<u>268,382,795</u>	<u>1,260,445</u>			<u>269,643,240</u>
<b>OPERATING EXPENSES</b>					
Operating Expenses	483,348,207	135,649			483,483,856
Depreciation	24,490,246	240,862			24,731,108
Total Operating Expenses	<u>507,838,453</u>	<u>376,511</u>			<u>508,214,964</u>
Operating Income (Loss)	<u>(239,455,658)</u>	<u>883,934</u>			<u>(238,571,724)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State Appropriations	193,145,489				193,145,489
Grants and Gifts	73,308,222				73,308,222
Investment Income (Net of Investment Expense)	8,882,411	67	21,128,101	(21,128,101)	8,882,478
Interest and Fees on Debt	(14,636,683)	(653,154)			(15,289,837)
Allocation to Owners			(21,128,101)	21,128,101	-
Other	(1,989,565)				(1,989,565)
Net Nonoperating Revenues (Expenses)	<u>258,709,874</u>	<u>(653,087)</u>			<u>258,056,787</u>
Capital Contributions	6,171,464				6,171,464
Additions to Endowments	1,847,580				1,847,580
Increase (Decrease) in Net Position	<u>27,273,260</u>	<u>230,847</u>			<u>27,504,107</u>
<b>NET POSITION</b>					
Net Position, July 1, 2013, as Restated	927,150,855	2,682,185			929,833,040
Net Position, June 30, 2014	<u>\$ 954,424,115</u>	<u>\$ 2,913,032</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 957,337,147</u>

### *Condensed Statement of Cash Flows June 30, 2014*

	University	FDC	Total
Net Cash Provided (Used) by Operating Activities	\$ (217,356,991)	\$ 1,128,490	\$ (216,228,501)
Net Cash Provided (Used) by Noncapital Financing Activities	261,472,897		261,472,897
Net Cash Provided (Used) by Capital and Related Financing Activities	(61,306,179)	(1,060,094)	(62,366,273)
Net Cash Provided (Used) by Investing Activities	4,285,096	(77,298)	4,207,798
Net Increase (Decrease) in Cash and Cash Equivalents	(12,905,177)	(8,902)	(12,914,079)
Cash and Cash Equivalents, July 1, 2013	328,952,854	16,802	328,969,656
Cash and Cash Equivalents, June 30, 2014	<u>\$ 316,047,677</u>	<u>\$ 7,900</u>	<u>\$ 316,055,577</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 17 - NET POSITION RESTATEMENT

As of July 1, 2013, net position as previously reported was restated as follows:

	Amount
July 1, 2013 Net Position as Previously Reported	\$ 930,168,951
Restatement:	
Expense Previously Amortized Bond Issuance Cost Pursuant to GASB Statement No. 65 Requirements	(335,911)
<b>July 1, 2013 Net Position as Restated</b>	<b>\$ 929,833,040</b>

### NOTE 18 - SUBSEQUENT EVENT

In September 2014, UNC General Administration initiated an “Energy Savings Improvement” project which will use energy savings to finance energy saving improvements across several UNC system schools over a seven-year period. The Energy Savings Company (ESCO), Johnson Controls, Inc., will replace old inefficient fluorescent lights with more efficient LED lights and install occupancy sensors across more than 30 campus buildings at UNC Charlotte. Building-mounted exterior lights will also be converted to LEDs on those buildings.

As part of this project, the University entered into an Installment Financing Agreement, dated September 1, 2014, with the Board of Governors of the University of North Carolina and the financial institution that will serve as the “Fiscal Agent” under this agreement, U.S. Bank National Association. The Fiscal Agent will function as a trustee-like entity that will be responsible for holding the original proceeds for expenditure on the improvements and administering the computation of and collection of payments from the University on its share of the debt service, which is expected to be approximately \$2.87 million. The University will repay this debt over a seven-year period as specified in the Installment Financing Agreement.

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**Office of the State Auditor**

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

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

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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, 2014, 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 5, 2014. 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)**

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. 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 5, 2014

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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For additional information contact:

Bill Holmes

Director of External Affairs