

# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**THE UNIVERSITY OF NORTH CAROLINA AT WILMINGTON**  
**WILMINGTON, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**THE UNIVERSITY OF NORTH CAROLINA AT WILMINGTON**  
**WILMINGTON, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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Ralph Campbell, Jr.  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Trustees, The University of North Carolina at Wilmington

This report presents the results of our financial statement audit of The University of North Carolina at Wilmington, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the University are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the University were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to The University of North Carolina at Wilmington. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to The University of North Carolina at Wilmington. A summary of our reporting objectives and audit results is:

- 1. Objective** - Express an opinion on the accompanying financial statements that relate solely to The University of North Carolina at Wilmington.

**Results** - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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2. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the University's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

**Results** - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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.

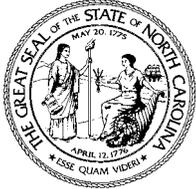


Ralph Campbell, Jr.  
State Auditor

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Ralph Campbell, Jr.  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying basic financial statements of The University of North Carolina at Wilmington, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Wilmington as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board 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* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.  
State Auditor

November 8, 2002

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Introduction

The University of North Carolina at Wilmington provides the following management's discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ending June 30, 2002. The following financial statements and footnotes comprise our complete set of financial information. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the previous year is not presented and is not required for this first year of GASB Statement No. 35 reporting. Consequently, comparative financial analysis is limited in this year's MD&A. Future financial analysis will have comparative data for the applicable years with emphasis on the most recent year being reported.

### Using the Financial Statements

The University's financial report includes three basic comprehensive financial statements that depict the financial activity and fiscal condition of the University for the current year: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles. During 2002, the University adopted GASB Statement No. 35, *Basic Financial Statements - Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. These GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories. Previous financial reporting requirements focused on the accountability of individual fund groups rather than on the University as a single unified entity. Our current statements present financial information in a form similar to that used by corporations. The accrual basis of accounting has been used to prepare the statements. This method of accounting requires that revenues and assets are recognized when the service is provided. Expenses and liabilities are recognized when others provide services, regardless of when cash is exchanged.

The Statement of Net Assets includes all University assets and liabilities. The University's net assets (the monetary difference between total assets and total liabilities) are one indicator of the University's financial viability. Over time, changes in net assets provide information on the improvement or erosion of the University's financial condition when considered with nonfinancial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the fiscal year. Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 classifies State appropriations and gifts as nonoperating revenues. With State appropriations and gifts being classified as nonoperating revenues, most public institutions will report an operating deficit. In the past,

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

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State appropriations and gifts were included as normal operating revenues and contributed to operation expenditures which generally resulted in a net positive number for operating income.

Another important factor to consider when evaluating the financial viability of the University is the ability to meet financial obligations as they mature. The Statement of Cash Flows presents information that allows the reader to evaluate the University's ability to meet its financial obligations on a current basis.

### **Financial Highlights**

During the last fiscal year, the State of North Carolina suffered one of the worst budget shortfalls in recent memory. This shortfall caused the University to revert \$6.5 million back to the State. This amount represents 10.9% of the University's State appropriation. Along with the \$6.5 million in reversion, the University endured a 2.09% permanent reduction of State appropriation in the amount of \$1.27 million. This severe reduction in financial resources caused the University to eliminate programs, as well as lay off employees, restrict the filling of some vacant positions and eliminate others.

Also during last fiscal year, the University did not receive State funds for repair and replacement, which are traditionally used to keep State-funded facilities properly maintained. Normally, the University expects to receive somewhere between \$1.5 and \$2 million in State repair and replacement funds. Consequently, State funding of the University was actually reduced by over \$9 million. Despite this decrease in State funding, the University's net assets increased by \$2.2 million last year. Most of this increase is due to increases in tuition and fee revenues, the University's cost-cutting efforts and the viability of non-State supported activities.

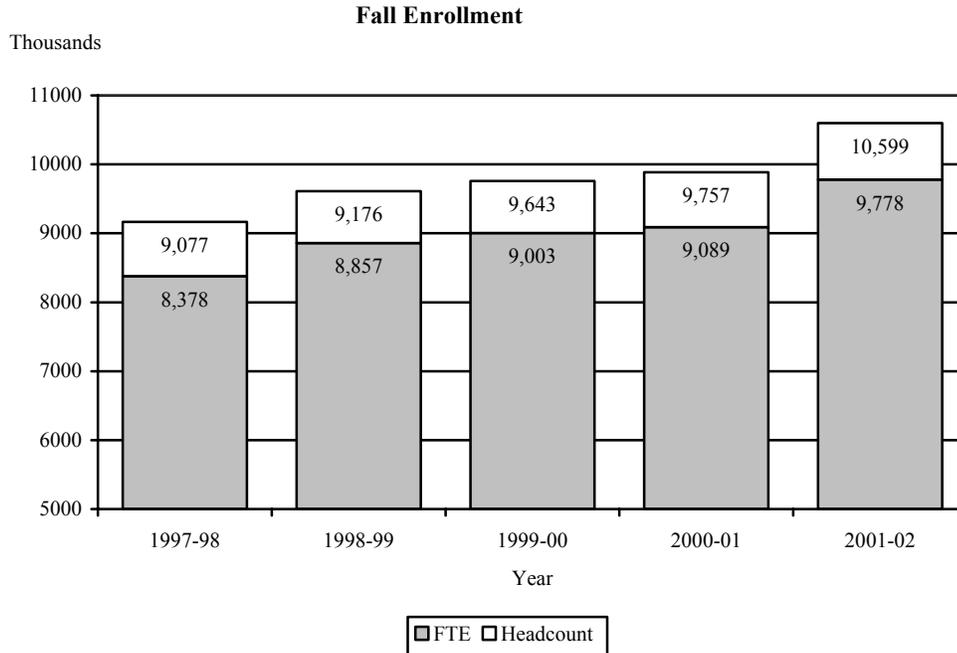
Capital projects continued to move ahead. The University expended \$1.9 million in State bond referendum capital funds. This capital funding is part of the bonds that were approved in 2000. The University is earmarked to receive a total of \$109.2 million for capital projects under the statewide bond program. Most of the funds received this year were used to begin construction on a new building for the Watson School of Education, scheduled to open in the fall of 2004.

Bonds payable for the University went up by \$9.2 million during 2002, as a result of issuing \$11.5 million in debt to begin constructing a new student residence hall. This new facility is needed to provide housing for our continuing student growth. The new residence hall will be located between the International and Honors residence halls. This building will be three stories high and contain 263 beds. This facility is scheduled to open in the fall of 2003.

The University's endowment received gifts of \$906,000 last fiscal year. The total return for the same period was -6.9%. This negative return reflects the fact that all equity indices had negative results for the same period.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The University is still experiencing strong enrollment growth as illustrated by the graph below, which depicts enrollment growth over the last five years. For the first time ever, the University's student enrollment surpassed the 10,000 milestone with a headcount of 10,599 for the fall semester of 2001.



### Statement of Net Assets

The Statement of Net Assets presents the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (total assets minus total liabilities) of the University. This statement provides a fiscal snapshot of the University's financial position as of June 30, 2002. The data provides readers of this statement information on assets available to continue operations, amounts due vendors, investors and lending institutions, and the net assets available for expenditure by the University.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Assets June 30, 2002

	<u>Amount</u>	<u>Percent</u>
<b>Assets:</b>		
Current Assets	\$ 36,019,093	16.9
Noncurrent Assets	<u>177,408,336</u>	<u>83.1</u>
Total Assets	<u>213,427,429</u>	<u>100.0</u>
<b>Liabilities:</b>		
Current Liabilities	6,061,251	10.0
Noncurrent Liabilities	<u>52,628,441</u>	<u>90.0</u>
Total Liabilities	<u>58,689,692</u>	<u>100.0</u>
<b>Net Assets:*</b>		
Invested in Capital Assets, Net of Related Debt	99,504,286	64.3
Restricted – Nonexpendable	15,259,886	9.9
Restricted – Expendable	20,644,391	13.3
Unrestricted	<u>19,329,174</u>	<u>12.5</u>
Total Net Assets	<u>\$ 154,737,737</u>	<u>100.0</u>

\*Net asset categories are defined in Note 1, subsection L, of the Notes to the Financial Statements.

On June 30, 2002 total University assets were \$213.4 million. The largest asset categories include the University's investment in capital assets (\$124.4 million), cash and cash equivalents (\$42.6 million), and endowment and other investments (\$33.6 million).

University liabilities totaled \$58.7 million on June 30, 2002. Long term debt of \$40.2 million, consisting of bonds payable, notes payable, and capitalized lease obligations, is the largest liability category. Total liabilities increased \$16.5 million from June 30, 2001 primarily due to the issuance of \$11.5 million in bonds for the construction of a new student residence hall.

### Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets section are based on the activity reported in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, as well as any other revenues, expenses, gains and losses received or expended by the institution.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided, i.e., State appropriations and investment income. Nonoperating expenses include interest expense, extraordinary items, and accounting changes/corrections, i.e., expenses not involved in the normal operations of the University.

### Condensed Statement of Revenues, Expenses, and Changes in Net Assets June 30, 2002

	Amount	Percent
Operating Revenue		
Tuition and fees (net)	\$ 28,617,396	35.8
Sales and services (net)	31,195,849	39.2
Grants and contracts	18,690,297	23.4
Other	1,410,453	1.6
Total Operating Revenue	79,913,995	100.0
Operating Expenses		
Salaries and benefits	83,758,791	60.6
Supplies and materials	7,875,129	5.7
Services	32,180,783	23.3
Scholarships and fellowships	5,041,630	3.7
Utilities	4,323,613	3.1
Depreciation	4,950,312	3.6
Total Operating expenses	138,130,258	100.0
Operating Loss	(58,216,263)	
Nonoperating Revenues (Expenses)		
State appropriations	53,809,951	89.1
Capital gifts and grants	4,063,782	6.7
Noncapital gifts and grants	3,094,558	5.1
Other	(548,348)	(0.9)
Net Nonoperating Revenues (Expenses)	60,419,943	100.0
Increase in Net assets	2,203,680	
Net Assets – Beginning of Year	242,802,147	
Restatements	(90,268,090)	
Net Assets – End of Year	\$ 154,737,737	

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Student tuition and fees (\$28.6 million) and sales and services from auxiliary enterprises (\$31.2 million) account for 75% of the University's operating revenue. Per GASB #35, State appropriations must be reported as nonoperating revenue even though this revenue source covers operating expenses. The University's financial statements will show an operating loss in future years because of this required change in reporting revenue sources.

The major operating expense categories include salary and benefit payments to faculty and staff (\$83.8 million) and payments to vendors and suppliers for services and goods (\$32.2 million).

### Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. The Statement of Cash Flows also helps users assess the University's:

- ability to generate future net cash flows,
- ability to meet its obligations as they come due, and
- need for external financing.

### Condensed Statement of Cash Flows June 30, 2002

	<u>Amount</u>
<b>Cash Provided (Used) by:</b>	
Operating activities	\$ (54,582,209)
Noncapital financing activities	58,863,258
Capital financing activities	3,743,476
Investing activities	<u>(207,012)</u>
Net change in cash	7,817,513
Cash, beginning of year	<u>34,817,395</u>
Cash, end of year	<u>\$ 42,634,909</u>

Major sources of funds included in operating activities are student tuition and fees (\$28.6 million), auxiliary enterprises (\$31.3 million), and contracts and grants (\$17.8 million).

Major uses of funds in operating activities are compensation to employees (\$83.6 million) and payments to suppliers for goods and services (\$45.1 million).

The largest inflow of cash in the noncapital financing activities is the State of North Carolina appropriation of \$53.8 million. The new accounting standards require the University to reflect this source of revenue as nonoperating even though the University's budget depends on these funds to continue the current level of operations. Other noncapital financing activity includes gifts received (\$2.6 million).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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Cash provided by capital financing activities during fiscal year 2002 include proceeds for a bond issue for a new student residence hall in the amount of \$11.5 million and capital State appropriations of \$2.7 million.

Cash used in capital financing activities during fiscal year 2002 was primarily for the acquisition of capital assets (\$7.1 million) and the repayment of debt (\$4.1 million).

### Capital Asset and Debt Administration

#### A. Capital Assets

The University had \$124.4 million invested in capital assets at year end:

#### Capital Assets at Year End (Net of Depreciation)

	<u>Amount</u>
Land	\$ 2,928,678
Art, Literature, and Artifacts	774,954
Construction in Progress	12,605,090
Buildings	90,317,206
Machinery and Equipment	7,247,302
Infrastructure	10,536,726

Capital projects scheduled for completion in 2002-2003 include a new student residence hall at \$11.5 million and an annex to the Nixon building at \$1.1 million.

More detailed information on the University's capital assets is presented in Note 6 to the financial statements.

#### B. Debt

The University has \$39.7 million in outstanding bonds, notes, and capital leases on June 30, 2002 of which \$39.0 million is for outstanding bonds. New debt includes the issuance of bonds at \$11.5 million for constructing a new dormitory.

The University's general obligation bond rating increased from A- to A+. There have been no other significant changes in credit ratings or debt limitations that would affect future financing for the University.

More detailed information on the University's long-term obligations is presented in Note 8 to the financial statements.

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

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### **Economic Forecast**

Despite reductions to State appropriations support, management believes that the University is well positioned to continue its strong financial condition and level of excellence in service to students, the community, and other constituencies. The University's strong financial position should provide a high degree of flexibility in obtaining debt funds on competitive terms. This flexibility, along with the University's ongoing efforts toward revenue diversification and cost containment, will enable the University to provide the necessary resources to support a continued level of excellence well into the future.

A crucial element to the University's future will continue to be our relationship with the State of North Carolina and its ability to fund higher education. There is a direct relationship between the growth of State support and the University's ability to control increases in tuition rates. Decreased State support generally results in increased tuition levels.

The University will continue to execute its long-range plan to modernize and expand teaching and research facilities to address the issues of growth and the continuing effects of technology on teaching and research methodologies.

The University joined with other UNC constituent institutions and the Office of the President to endorse the migration from the SCT PLUS legacy system to the SCT BANNER relational database system for all administrative systems. This endorsement to the change in technology represents a five to six year commitment and a total financial commitment of approximately \$2.5 million.

Private gifts are an important supplement to the fundamental support from the State and student tuition. Gifts are also a significant factor in the growth and quality of academic units. Economic pressures affecting donors may also affect the future level of support the University receives from corporate and individual giving.

The University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility.

While it is not possible to predict the ultimate results, management believes that the University's financial condition is strong enough to weather any foreseeable economic uncertainties.

### **Contacting the University's Financial Management**

This financial report is designed to provide our students, citizens, investors, and creditors with a general overview of the University's finances and demonstrate accountability of all funds received. Questions or additional financial information may be obtained by contacting University Financial Services at 910-962-3144.

***The University of North Carolina at Wilmington  
Statement of Net Assets  
June 30, 2002***

***Exhibit A***

<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$	24,083,489.42
Restricted Cash and Cash Equivalents		5,120,291.24
Receivables, Net (Note 5)		5,515,421.08
Due from Primary Government		2,599.14
Inventories		459,302.56
Notes Receivable, Net (Note 5)		837,989.80
Total Current Assets		36,019,093.24
<b>Noncurrent Assets</b>		
Restricted Cash and Cash Equivalents		13,431,128.41
Receivables, Net (Note 5)		5,721.48
Restricted Due from Primary Government		2,134,847.27
Endowment Investments		22,879,161.25
Other Long-Term Investments		10,742,531.07
Notes Receivable, Net (Note 5)		3,804,989.59
Capital Assets, Net (Note 6)		124,409,956.71
Total Noncurrent Assets		177,408,335.78
Total Assets		213,427,429.02

***The University of North Carolina at Wilmington  
Statement of Net Assets  
June 30, 2002***

***Exhibit A***

***Page 2***

**LIABILITIES**

**Current Liabilities**

Accounts Payable and Accrued Liabilities (Note 7)	2,179,705.99
Due to Primary Government	18,416.40
Deposits Payable	4,364,670.77
Deferred Revenue	360,099.30
Interest Payable	687,757.89
Long-Term Liabilities - Current Portion (Note 8)	2,815,271.45
<b>Total Current Liabilities</b>	<b>10,425,921.80</b>

**Noncurrent Liabilities**

Funds Held for Others	3,995,814.88
U. S. Government Grants Refundable	4,043,788.69
Long-Term Liabilities (Note 8)	40,224,167.11
<b>Total Noncurrent Liabilities</b>	<b>48,263,770.68</b>
<b>Total Liabilities</b>	<b>58,689,692.48</b>

**NET ASSETS**

**Net Assets**

Invested in Capital Assets, Net of Related Debt	99,504,286.42
Restricted for:	
Nonexpendable	
Scholarships and Fellowships	7,032,109.75
Research	812,309.10
Endowed Professorships	2,487,362.64
Departmental Uses	4,928,104.20
Expendable	
Scholarships and Fellowships	3,545,818.39
Research	258,847.37
Endowed Professorships	1,640,011.12
Departmental Uses	5,622,027.58
Loans	984,364.23
Capital Projects	3,928,376.21
Debt Service	4,664,946.00
Unrestricted	19,329,173.53
<b>Total Net Assets</b>	<b>\$ 154,737,736.54</b>

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

***The University of North Carolina at Wilmington  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
Year Ended June 30, 2002***

***Exhibit B***

**REVENUES**

**Operating Revenues**

Student Tuition and Fees, Net (Note 10)	\$	28,617,395.73
Federal Grants and Contracts		16,074,366.21
State and Local Grants and Contracts		1,680,030.88
Nongovernmental Grants and Contracts		935,900.38
Sales and Services, Net (Note 10)		31,195,848.49
Interest Earnings on Loans		8,058.11
Other Operating Revenues		1,402,395.03
Total Operating Revenues		79,913,994.83

**EXPENSES**

**Operating Expenses**

Salaries and Benefits		83,758,790.70
Supplies and Materials		7,875,128.79
Services		32,180,783.04
Scholarships and Fellowships		5,041,630.22
Utilities		4,323,613.65
Depreciation		4,950,311.80
Total Operating Expenses		138,130,258.20
Operating Loss		(58,216,263.37)

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations		53,809,950.89
Noncapital Grants		515,677.21
Noncapital Gifts, Net (Note 10)		2,578,880.45
Investment Income (Net of Investment Expense of \$58,284.09)		241,506.78
Interest and Fees on Capital Asset-Related Debt		(1,485,406.32)
Other Nonoperating Expenses		(210,532.19)
Net Nonoperating Revenues		55,450,076.82
Loss Before Other Revenues, Expenses, Gains, or Losses		(2,766,186.55)
Capital Grants		3,436,550.82
Capital Gifts, Net		627,230.83
Additions to Permanent Endowments		906,085.04
Increase in Net Assets		2,203,680.14

**NET ASSETS**

<b>Net Assets - July 1, 2001, as Restated (Note 18)</b>		152,534,056.40
<b>Net Assets - June 30, 2002</b>	\$	154,737,736.54

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

***The University of North Carolina at Wilmington  
Statement of Cash Flows  
Year Ended June 30, 2002***

***Exhibit C***

<b>Cash Flows from Operating Activities</b>		
Received from Customers		\$ 79,265,730.28
Payments to Employees and Fringe Benefits		(83,601,226.16)
Payments to Vendors and Suppliers		(44,770,055.33)
Payments for Scholarships and Fellowships		(5,041,630.22)
Loans Issued		(1,200,000.00)
Collection of Loans		658,872.50
Other Receipts		1,698,005.36
Net Cash Used by Operating Activities		(52,990,303.57)
<b>Cash Flows from Noncapital Financing Activities</b>		
State Appropriations		53,809,950.89
Grants for Other than Capital Purposes		486,735.82
Noncapital Gifts		3,435,901.42
Net Cash Provided by Noncapital Financing Activities		57,732,588.13
<b>Cash Flows from Capital Financing and Related Financing Activities</b>		
Proceeds from Capital Debt		11,500,000.00
Capital Grants		2,696,111.50
Capital Gifts		627,230.83
Acquisition and Construction of Capital Assets		(7,054,714.02)
Principal Paid on Capital Debt and Leases		(2,573,004.02)
Interest and Fees Paid on Capital Debt and Leases		(1,558,714.02)
Net Cash Provided by Capital Financing and Related Financing Activities		3,636,910.27
<b>Cash Flows from Investing Activities</b>		
Proceeds from Sales and Maturities of Investments		33,111,232.36
Interest on Investments		1,411,780.46
Purchase of Investments and Related Fees		(35,084,693.81)
Net Cash Used by Investing Activities		(561,680.99)
<b>Net Increase in Cash and Cash Equivalents</b>		7,817,513.84
<b>Cash and Cash Equivalents - July 1, 2001</b>		34,817,395.23
<b>Cash and Cash Equivalents - June 30, 2002</b>		<b>\$ 42,634,909.07</b>

***The University of North Carolina at Wilmington  
Statement of Cash Flows  
Year Ended June 30, 2002***

***Exhibit C  
Page 2***

<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities:</b>	
Operating Loss	\$ (58,216,263.37)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,950,311.80
Nonoperating Other Income	74,567.28
Changes in Assets and Liabilities:	
Receivables (Net)	(1,162,673.52)
Inventories	341,466.97
Interest Receivable on Loans	(165,436.76)
Accounts Payable and Accrued Liabilities	(860,975.68)
Due to Primary Government	18,416.40
Funds Held for Others	1,431,041.16
U.S. Government Grants Refundable	192,396.92
Deferred Revenue	47,667.29
Compensated Absences	268,127.00
Deposits Payable	474,799.79
Note Principal Repayments	816,251.15
Notes Issued	(1,200,000.00)
<b>Net Cash Used by Operating Activities</b>	<b>\$ (52,990,303.57)</b>
<b>Noncash Investing, Capital and Financing Activities:</b>	
Assets Acquired through the Assumption of a Liability	\$ 611,878.97
Assets Acquired through a Gift	67,125.00
Change in Fair Value of Investments	(1,170,273.68)
Reinvested Distributions	791,712.05
<b>Reconciliation of Cash and Cash Equivalent Balances:</b>	
Current Assets	
Cash and Cash Equivalents	24,083,489.42
Restricted Cash and Cash Equivalents	5,120,291.24
Noncurrent Assets	
Restricted Cash and Cash Equivalents	13,431,128.41
<b>Total Cash and Cash Equivalent Balances</b>	<b>\$ 42,634,909.07</b>
The accompanying notes to the financial statements are an integral part of this statement.	

**THE UNIVERSITY OF NORTH CAROLINA AT WILMINGTON**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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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, 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 Wilmington is a constituent institution of the sixteen-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. Although legally separate, the Donald R. Watson Foundation, Inc. (Foundation) is a component unit of the University, and is reported as if it were part of the University.

The Foundation is governed by a five-member board of which three are appointed by the Board of Trustees of the University of North Carolina at Wilmington. Although legally separate, the Foundation is reported as if it were part of the University because its sole purpose is to operate exclusively to solicit and receive contributions and to distribute income and principal to carry out the purposes of selected organizations including the University.

Separate financial statements for the Foundation may be obtained from the University Financial Services Office, 601 South College Road, Wilmington, NC 28403 or by calling (910) 962-3144. Other related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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* effective for the University’s year ended June 30, 2002, the full scope of the University’s activities is considered to be a single business-type activity (BTA) 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.

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, money market accounts, cash on deposit with fiscal agents, and short-term investments with the State Treasurer’s Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio 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** - This classification includes long-term fixed income investments, repurchase agreements, equity investments, mutual funds, money market funds, certificates of deposit, real estate, and other asset holdings by the University. Except for money market funds, certificates of deposit, real estate not held by a governmental external investment

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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pool, and other asset holdings, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds, certificates of deposit, 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.

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.
- 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 University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for infrastructure, 50 years for buildings, and 3 to 10 years for equipment.

The University does not capitalize the Rare Book and the Museum of World Cultures collections. These collections adhere to the University's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for, and preserve; and requires proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**I. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

**J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net deferred losses on refundings, which are amortized over the life of the old debt using the straight-line method. Premiums, discounts, and issuance costs are expensed.

**K. 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 1st or for which an employee can be paid upon termination of employment. 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

**L. Net Assets** – The University's net assets are classified as follows:

**Invested in Capital Assets, Net of Related Debt** – This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

**Restricted Net Assets – Nonexpendable** – Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources and, as a condition of the gift, the principal is to be maintained in perpetuity.

**Restricted Net Assets – Expendable** – Expendable restricted net assets include resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Unrestricted Net Assets** – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University.

- M. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- N. Revenue and Expense Recognition** – The University presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the University. Operating revenues include all charges to customers, grants received for student financial assistance, research contracts and grants, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the University. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either noncapital or capital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to noncapital or capital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

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

### NOTE 2 - BUDGETING AND BUDGETARY CONTROL

The State of North Carolina operates on a biennial budget cycle with separate annual departmental and institutional certified budgets adopted by the General Assembly.

Chapter 116, Article 1, Part 2A of the North Carolina General Statutes authorizes the universities within the sixteen-campus University of North Carolina System to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget codes are also used to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management. Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. The University of North Carolina at Wilmington has applied for and received special responsibility status.

After the budget is approved by the General Assembly and adopted by the Board of Governors, the University follows an established system of budgetary controls. Periodic interim budget statements to department heads guide them in managing budget allocations. Monthly financial reports, which include budget and actual data, are provided for each fund to individual managers responsible for the fund. When actual conditions require changes to the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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budget, revisions are prepared and communicated to those affected. Changes to the budget are reviewed and approved at the University or State level as required. The University maintains an encumbrance accounting system as another method to ensure that imposed expenditure constraints are observed. The State budgetary control is maintained on a cash basis of accounting.

### NOTE 3 - DEPOSITS AND INVESTMENTS

**A. Deposits** - The University is required by General Statute 147-77 to deposit its budget code cash, as defined in Note 2, and by the University of North Carolina Board of Governors pursuant to General Statute 116-36.1 to deposit its institutional trust funds in the State Treasurer's Cash and Investment Pool. In addition, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds and debt service funds with the State Treasurer's Cash and Investment Pool. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

Deposits include cash and cash equivalents and certificates of deposit totaling \$45,610,709.07. At year-end, cash on hand was \$24,200.00. The University's portion of the State Treasurer's Cash and Investment Pool was \$42,505,994.96. It is the State Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and investments to be held by the State's agent in the State's name. The carrying amount of the University's deposits not with the State Treasurer was \$104,714.11 and the bank balance was \$156,913.96. Of the bank balance, \$152,199.85 was covered by federal depository insurance and \$4,714.11 was uninsured and uncollateralized.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The financial statements and disclosures for the State Treasurer's Cash and Investment Pool 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.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 116-36.2 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 previously discussed.

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

General Statute 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 unit, the Donald R. Watson Foundation, Inc. is subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

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

**Long-Term Investment Pool** - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unitized method. Under this method, each participating fund's investment balance is determined on the basis of the number of units purchased multiplied by the current unit market value. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

**Credit Risk Categories** - The University's investments (pooled and non-pooled) are categorized below to give an indication of the level of risk

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the University's name.

A summary of the University's investments at June 30, 2002 is presented below:

### *Long-Term Investment Pool*

	Fair Value			Total
	Risk Category			
	1	2	3	
<b>Categorized Investments:</b>				
U. S. Government Securities	\$ 0.00	\$ 0.00	\$ 1,335,750.00	\$ 1,335,750.00
<b>Investments Not Categorized:</b>				
Money Market Funds				2,092,222.30
Mutual Funds				15,077,114.47
Certificates of Deposit				3,000,000.00
<b>Total Investments Not Categorized</b>				20,169,336.77
<b>Total Temporary Pool Investments</b>				\$ 21,505,086.77

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### *Non-Pooled Investments*

	Fair Value			
	Risk Category			Total
	1	2	3	
<b>Categorized Investments:</b>				
U.S. Government Securities	\$ 105,854.93	\$ 0.00	\$ 2,789,654.18	\$ 2,895,509.11
Corporate Bonds	11,450.00		25,966.80	37,416.80
Corporate Stocks	229,839.23		551,353.50	781,192.73
Repurchase Agreements			1,602,330.00	1,602,330.00
<b>Total Categorized Investments</b>	<b>\$ 347,144.16</b>	<b>\$ 0.00</b>	<b>\$ 4,969,304.48</b>	<b>5,316,448.64</b>
<b>Investments Not Categorized:</b>				
Money Market Funds				5,038,272.40
Mutual Funds				1,746,965.29
Real Estate				765.63
Other Investments				14,153.59
<b>Total Investments Not Categorized</b>				<b>6,800,156.91</b>
<b>Total Non-Pooled Investments</b>				<b>\$ 12,116,605.55</b>

### *Total Investments*

	Fair Value			
	Risk Category			Total
	1	2	3	
<b>Total Categorized Investments</b>	<b>\$ 347,144.16</b>	<b>\$ 0.00</b>	<b>\$ 6,305,054.48</b>	<b>\$ 6,652,198.64</b>
<b>Total Investments Not Categorized</b>				<b>26,969,493.68</b>
<b>Total Investments</b>				<b>\$ 33,621,692.32</b>

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

- C. Derivative and Similar Transactions** - A derivative is a financial instrument created from, or whose value depends on (is derived from), the value of one or more underlying assets, reference rates, or indexes of asset values. These instruments may include forwards, futures, currency and interest rate swaps, options, floaters/inverse floaters, and caps/floors/collars. During the year the University did not invest in derivative investments but did invest in transactions similar to a derivative instrument. Investment transactions similar to a derivative may include securitized assets, such as mortgage-backed securities and other asset-backed securities. As required by accounting principles generally

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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accepted in the United States of America, the nature of derivative or similar transactions entered into by the University, and the reasons for entering into those transactions follow:

**Indirect Derivative Holdings** - The University identifies various external investment funds (mutual funds) that meet asset allocation and investment management objectives. The University invests in these funds to increase the yield and return on its investment portfolio given the available alternative investment opportunities and to diversify its asset holdings. Fund investments generally include equity and bond funds. Certain funds expose the University to significant amounts of market risk by trading or holding derivative instruments and by leveraging the securities in the fund.

The University limits the amount of funds managed by any single asset manager and also limits the amount of funds to be invested in particular security classes. The investment funds that utilized derivative securities for the fiscal year ending June 30, 2002 are summarized below.

**Vanguard Fund** – The Vanguard Fund is an open-ended management investment company that offers approximately twenty-five diversified and nondiversified portfolios that each has unique investment objectives and strategies. The University participates in eight of these portfolios which invest in a variety of currency, interest rate, and indexed derivative securities including futures, options on futures, structured notes, structured securities, forwards and swaps. As of June 30, 2002, the University's investment in the Vanguard Fund was \$29,185.48.

### NOTE 4 - 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.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). When administering its power to spend net appreciation, the Board of Trustees is required to consider the University's "long and short term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Board of Trustees chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Board, 4.5 percent of the average market value of endowment investments at the end of the previous three years has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income.

At June 30, 2002, net appreciation of \$3,072,287.66 was available to be spent of which \$2,513,305.91 was restricted to specific purposes.

### NOTE 5 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 983,964.73	\$ 98,396.47	\$ 885,568.26
Accounts	355,455.06		355,455.06
Intergovernmental	2,375,244.79		2,375,244.79
Pledges	63,691.94	3,184.90	60,507.04
Interest on Loans	279,548.34		279,548.34
Other	1,559,097.59		1,559,097.59
<b>Total Current Receivables</b>	<b>\$ 5,617,002.45</b>	<b>\$ 101,581.37</b>	<b>\$ 5,515,421.08</b>
<b>Noncurrent Receivables:</b>			
Pledges	\$ 6,033.98	\$ 312.50	\$ 5,721.48
<b>Notes Receivables:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 814,953.20	\$ 81,417.44	\$ 733,535.76
Institutional Student Loan Programs	104,454.04		104,454.04
<b>Total Notes Receivable - Current</b>	<b>\$ 919,407.24</b>	<b>\$ 81,417.44</b>	<b>\$ 837,989.80</b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 4,227,766.22	\$ 422,776.63	\$ 3,804,989.59

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
<b>Capital Assets, Non-Depreciable:</b>				
Land	\$ 2,589,338.30	\$ 450,000.00	\$ 110,660.00	\$ 2,928,678.30
Art, Literature, and Artifacts	655,993.60	118,960.38		774,953.98
Construction in Progress	9,021,038.64	5,739,129.27	2,155,078.22	12,605,089.69
<b>Total Capital Assets, Non-Depreciable</b>	<b>12,266,370.54</b>	<b>6,308,089.65</b>	<b>2,265,738.22</b>	<b>16,308,721.97</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	132,345,893.33	831,082.44		133,176,975.77
Machinery and Equipment	17,490,441.43	2,226,408.18	1,097,859.63	18,618,989.98
General Infrastructure	16,202,810.41	225,879.90		16,428,690.31
<b>Totals</b>	<b>166,039,145.17</b>	<b>3,283,370.52</b>	<b>1,097,859.63</b>	<b>168,224,656.06</b>
<b>Less Accumulated Depreciation/Amortization for:</b>				
Buildings	40,186,158.61	2,673,611.37		42,859,769.98
Machinery and Equipment	10,365,638.80	1,818,808.93	812,760.16	11,371,687.57
General Infrastructure	5,434,072.27	457,891.50		5,891,963.77
<b>Totals</b>	<b>55,985,869.68</b>	<b>4,950,311.80</b>	<b>812,760.16</b>	<b>60,123,421.32</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>110,053,275.49</b>	<b>(1,666,941.28)</b>	<b>285,099.47</b>	<b>108,101,234.74</b>
<b>Capital Assets, Net</b>	<b>\$ 122,319,646.03</b>	<b>\$ 4,641,148.37</b>	<b>\$ 2,550,837.69</b>	<b>\$ 124,409,956.71</b>

### NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	Amount
Accounts Payable	\$ 1,766,977.21
Accrued Payroll	387,270.16
Arbitrage Rebate Payable	10,301.45
Other	15,157.17
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 2,179,705.99</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - LONG-TERM LIABILITIES

#### A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Notes, Bonds, and Capital Leases Payable					
Notes Payable	\$ 364,653.06	\$ 0.00	\$ 91,816.48	\$ 272,836.58	\$ 91,816.48
Bonds Payable	29,935,000.00	11,500,000.00	2,400,000.00	39,035,000.00	2,530,000.00
Capital Leases Payable	447,216.52		81,187.54	366,028.98	88,557.97
<b>Total Notes, Bonds, and Capital Leases</b>	<u>30,746,869.58</u>	<u>11,500,000.00</u>	<u>2,573,004.02</u>	<u>39,673,865.56</u>	<u>2,710,374.45</u>
Compensated Absences	3,097,446.00	424,869.00	156,742.00	3,365,573.00	104,897.00
<b>Total Long-Term Liabilities</b>	<u>\$ 33,844,315.58</u>	<u>\$ 11,924,869.00</u>	<u>\$ 2,729,746.02</u>	<u>\$ 43,039,438.56</u>	<u>\$ 2,815,271.45</u>

Additional information regarding capital lease obligations is included in Note 9.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount Of Issue	Principal Paid Through 06/30/2002	Principal Outstanding 06/30/2002
Parking Lot Construction	Centura	6.37	08/15/2003	\$ 698,300.00	\$ 640,463.41	\$ 57,836.59
Parking Lot Construction	BB&T	5.23	02/01/2007	430,000.00	215,000.01	214,999.99
<b>Total Notes Payable</b>				<u>\$ 1,128,300.00</u>	<u>\$ 855,463.42</u>	<u>\$ 272,836.58</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### C. Bonds Payable - The University was indebted for bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2002	Principal Outstanding 06/30/2002
<u>Dormitories and Dining Hall</u>						
Construct Dormitory	B	7.5-8.0	01/2009	\$ 1,400,000.00	\$ 740,000.00	\$ 660,000.00
Construct Dormitory	C	5.5-6.0	01/2003	1,600,000.00	1,475,000.00	125,000.00
Construct Dormitory	D	5.5-6.0	01/2004	1,600,000.00	1,360,000.00	240,000.00
Construct Dormitory	H	5.9-6.75	01/2004	3,285,000.00	2,560,000.00	725,000.00
Construct Dormitory	I	4.2-5.0	01/2009	10,735,000.00	3,995,000.00	6,740,000.00
Construct Honors Dormitory	J	4.6-5.4	01/2018	6,440,000.00	830,000.00	5,610,000.00
Total Dormitories and Dining Hall				<u>25,060,000.00</u>	<u>10,960,000.00</u>	<u>14,100,000.00</u>
<u>Physical Education System</u>						
Construct Trask Coliseum	B	3.3-5.5	01/2010	1,140,000.00	465,000.00	675,000.00
<u>Union Revenue System</u>						
Refund 1990	1997	4.8-5.0	01/2011	4,300,000.00	790,000.00	3,510,000.00
<u>Recreation Revenue</u>						
Construction Recreation Facility	1998	4.5-4.75	01/2019	10,300,000.00	1,050,000.00	9,250,000.00
<u>General Revenue</u>						
Construct General Facilities	2002	3.0-5.0	01/2023	11,500,000.00		11,500,000.00
<b>Total Bonds Payable</b>				<u>\$ 52,300,000.00</u>	<u>\$ 13,265,000.00</u>	<u>\$ 39,035,000.00</u>

### D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2002 are as follows:

Fiscal Year	Annual Requirements			
	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2003	\$ 2,530,000.00	\$ 1,658,231.00	\$ 91,816.48	\$ 11,986.12
2004	2,920,000.00	1,759,451.25	56,546.43	8,103.34
2005	2,525,000.00	1,619,165.00	45,263.16	5,622.25
2006	2,650,000.00	1,502,052.50	45,263.16	3,254.99
2007	2,775,000.00	1,377,600.00	33,947.35	887.71
2008-2012	10,795,000.00	5,091,315.00		
2013-2017	8,265,000.00	2,964,342.50		
2018 and thereafter	6,575,000.00	976,680.00		
<b>Total Requirements</b>	<u>\$ 39,035,000.00</u>	<u>\$ 16,948,837.25</u>	<u>\$ 272,836.58</u>	<u>\$ 29,854.41</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 9 - LEASE OBLIGATIONS

- A. CAPITAL LEASE OBLIGATIONS** - Capital lease obligations relating to Athletic Field Lighting equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$ 116,995.44
2004	116,995.44
2005	116,995.44
2006	<u>77,996.94</u>
Total Minimum Lease Payments	\$ 428,983.26
Amount Representing Interest (8.72% Rate of Interest)	<u>62,954.28</u>
Present Value of Future Lease Payments	<u><u>\$ 366,028.98</u></u>

Leased assets amounted to \$611,342.00 at June 30, 2002.

- B. OPERATING LEASE OBLIGATIONS** - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$ 432,175.45
2004	346,470.13
2005	344,828.82
2006	195,788.29
2007	<u>88,980.88</u>
Total Minimum Lease Payments	<u><u>\$ 1,408,243.57</u></u>

Rental expense for all operating leases during the year was \$416,626.60.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - REVENUES

A summary of eliminations and allowances by revenue classification and revenues pledged as security for revenue bonds is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	
Operating Revenues:						
Student Tuition and Fees	\$ 30,937,713.05	\$ 0.00	\$ 2,283,214.49	\$ 37,102.83	\$ 28,617,395.73	
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 7,438,762.95	\$ 19,142.25	\$ 593,057.55	\$ 3,998.11	\$ 6,822,565.04	(A)
Dining	5,373,427.39	3,512.58	439,552.16	1,903.11	4,928,459.54	(A)
Student Union Services	1,648,146.07		146,975.48	1,809.54	1,499,361.05	(C)
Student Recreation Center	2,144,345.38			5,386.16	2,138,959.22	(D)
Physical Education	183,833.06			224.80	183,608.26	(B)
Health	1,582,915.85		113,544.96	1,461.06	1,467,909.83	
Bookstore	5,015,501.07			4,934.32	5,010,566.75	
Parking	1,399,074.12			4,439.36	1,394,634.76	
Athletic	5,043,891.84		317,307.06	2,000.86	4,724,583.92	
Other	5,562,305.01	3,912,166.53	254,958.30	460.00	1,394,720.18	
Sales and Services of Educational and Related Activities	1,630,479.94				1,630,479.94	
Total Sales and Services	\$ 37,022,682.68	\$ 3,934,821.36	\$ 1,865,395.51	\$ 26,617.32	\$ 31,195,848.49	
Nonoperating - Noncapital Gifts	\$ 2,582,377.55	\$ 0.00	\$ 0.00	\$ 3,497.10	\$ 2,578,880.45	
Revenue Bonds Secured by Pledged Revenues:						
(A) Dormitory and Dining Hall System						
(B) Physical Education System						
(C) Student Union System						
(D) Student Recreation Center System						

### NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 43,458,912.45	\$ 697,549.28	\$ 3,610,065.46	\$ 168,173.89	\$ 98.51	\$ 0.00	\$ 47,934,799.59
Research	6,314,315.34	950,062.16	5,887,753.79	70,211.13	14,768.19		13,237,110.61
Public Service	1,251,322.55	63,159.34	639,754.26	32,544.00			1,986,780.15
Academic Support	5,646,863.27	208,120.74	3,786,894.76				9,641,878.77
Student Services	3,521,246.71	177,733.90	1,078,684.07	2,591.02			4,780,255.70
Institutional Support	9,182,940.44	214,381.75	1,831,655.01				11,228,977.20
Operations and Maintenance of Plant	7,196,445.76	726,658.67	8,153,428.91		3,169,007.86		19,245,541.20
Student Financial Aid		126.18	83,146.13	5,283,454.65			5,366,726.96
Auxiliary Enterprises	7,186,744.18	4,837,336.77	7,109,400.65	(515,344.47)	1,139,739.09		19,757,876.22
Depreciation						4,950,311.80	4,950,311.80
Total Operating Expenses	\$ 83,758,790.70	\$ 7,875,128.79	\$ 32,180,783.04	\$ 5,041,630.22	\$ 4,323,613.65	\$ 4,950,311.80	\$ 138,130,258.20

### NOTE 12 - PENSION PLANS

**A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. The Teachers'

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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and State Employees' Retirement System (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statute 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, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the University had a total payroll of \$71,923,341.24 of which \$34,629,822.37 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$2,077,789.35 and \$682,207.50, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$682,207.50, \$1,740,503.13, and \$2,446,560.07, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina *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.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The Optional Retirement Program (Program) is a defined contribution retirement plan, which provides retirement benefits with options for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products. The Board has authorized the following carriers: Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the University contributions to any one of the carriers or may direct their contributions to one carrier and the University contributions to another. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

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, 2002, 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.

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.

For the year ended June 30, 2002, the University had a total payroll of \$71,923,341.24 of which \$26,245,360.46 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$1,574,721.63 and \$1,795,182.66, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans**
- IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred*

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*Compensation Trust Fund.* The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$49,558.66 for the year ended June 30, 2002.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2002 were \$50,615.71. The voluntary contributions by employees amounted to \$466,031.00 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$1,143,354.90 for the year ended June 30, 2002.

### **NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS**

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 2.35% of the covered payroll under the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2002, the University's total contribution to the Plan was \$1,430,566.80. 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*.

- B. Long-Term Disability** - The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2002, the University's total contribution to the DIPNC was \$316,550.95. 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 14 - RISK MANAGEMENT

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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cost to 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 \$500 per occurrence deductible. The University also purchased through the Fund extended coverage for buildings and contents, "all-risks" for modular units, vandalism for track and sports courts, and theft for certain equipment. Losses are subject to a \$500 per occurrence deductible, except theft losses which carry a \$1,000 per occurrence deductible.

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 occurring in State are \$500,000 per claim and \$5,000,000 per occurrence. The University pays premiums to the 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. Coverage limit is \$5,000,000 per occurrence with a \$50,000 deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

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 is self-insured for workers' compensation.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer's Office and funded via employer contributions.

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 15 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$30,685,717.63 and on other purchases were \$3,951,790.69 at June 30, 2002.
- B. Pending Litigation and Claims** – The University is a party to other 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.
- C. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. The University's remaining authorization of \$105,101,800.00 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.
- D. Other Contingent Receivables** – The University has received notification of other gifts and grants for which funds have not been disbursed by the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, can not begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

<u>Purpose</u>	<u>Amount</u>
Permanent Endowment	\$ 21,554.00

### NOTE 16 - FOUNDATIONS

There are three separately incorporated nonprofit foundations associated with the University. These foundations are The Foundation of The University of North Carolina at Wilmington, Inc., The University of North Carolina at Wilmington Alumni Association, Inc., and The University of North Carolina at Wilmington Student Aid Association, Inc.

These organizations serve as the primary fundraising arm of the University through which individuals, corporations and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. This support approximated \$1,611,845.63 for the year ended June 30, 2002.

### NOTE 17 - ACCOUNTING CHANGES

Effective July 1, 2001, the University implemented 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 financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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In addition, the University implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include the major components of receivable and payable balances.

### NOTE 18 - NET ASSET RESTATEMENT

As referred to in Note 17, the University implemented 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*.

July 1, 2001 Fund Equity as previously reported	\$ 242,802,146.84
Implementation of GASB 34/35	<u>(90,268,090.44)</u>
<b>July 1, 2001 Net Assets as Restated</b>	<b><u>\$ 152,534,056.40</u></b>

### NOTE 19 - SUBSEQUENT EVENTS

On October 15, 2002, the University of North Carolina Board of Governor’s ratified the issuance of bonds for a system wide tax-exempt bond financing. The University intends to borrow approximately \$7,000,000.00 through the financing.

**The University of North Carolina at Wilmington  
Schedule of General Obligation Bond Project Authorizations,  
Budgets, and Expenditures  
For Project-to-Date as of June 30, 2002**

**Schedule 1**

<b>Capital Improvement Projects</b>	<b>Projected Start Date</b>	<b>General Obligation Bonds Authorized</b>	<b>Other Sources</b>	<b>Total Project Budget</b>	<b>Amount Expended</b>	<b>Percent Completed</b>	<b>Expected Completion Date</b>
<i>Projects Started</i>							
School of Education	Dec 1998	\$ 15,896,088.00	\$ 744,200.00	\$ 16,640,288.00	\$ 754,854.64	4.54%	Mar 2004
Academic Classroom Facility	Jan 2001	31,380,495.00		31,380,495.00	246,433.04	0.79%	Aug 2006
General Classroom Building	Jan 2001	12,014,650.00		12,014,650.00	260,734.48	2.17%	Apr 2005
King Hall Building Renovation	Apr 2001	2,562,530.00		2,562,530.00	20,915.68	0.82%	Apr 2005
Hoggard Hall Renovation/Academic Computer Center Addition	Apr 2001	6,589,485.00		6,589,485.00	91,400.00	1.39%	May 2005
Alderman Hall Renovation	Mar 2002	2,793,760.00		2,793,760.00	5,035.00	0.18%	Jun 2007
Westside Hall Renovation and Addition	Jun 2002	2,552,935.00	1,000,000.00	3,552,935.00	84,046.54	2.37%	Aug 2004
Kenan Auditorium Renovation	Mar 2003	2,940,535.00		2,940,535.00	14,777.43	0.50%	Oct 2006
Marine Science Operations Facility	Aug 2002	2,783,120.00		2,783,120.00	24,500.00	0.88%	Jul 2005
Academic Support Facilities - Print Shop/Warehouse Expansion	Dec 2000	1,140,000.00	315,000.00	1,455,000.00	85,116.91	5.85%	Mar 2003
Infrastructure Expansion	Jul 2002	1,686,250.00		1,686,250.00	221,383.45	13.13%	Jun 2003
Land Acquisition	Jun 2000	2,100,000.00		2,100,000.00	300,000.00	14.29%	Jun 2003
Primary Electrical Distribution System Improvements	Jul 2002	2,126,290.00		2,126,290.00	55,650.00	2.62%	Aug 2003
Technology Infrastructure Expansion	Jul 2000	2,801,550.00		2,801,550.00	813,786.53	29.05%	Mar 2004
Effective Project Management Reserve	Jul 2000	5,355,090.00		5,355,090.00	16,444.50	0.31%	Jun 2007
Inflationary Costs Reserve	Jul 2000	2,871,922.00		2,871,922.00			Jun 2007
<i>Projects Not Started - To Be Funded in Future Years</i>							
Kenan Hall Renovation	Apr 2003	2,903,770.00		2,903,770.00			Oct 2006
Hinton James Renovation	Dec 2002	1,394,600.00		1,394,600.00			May 2006
Friday Hall Laboratory Renovation	Oct 2004	7,308,730.00		7,308,730.00			Jul 2008
<b>Total All Projects</b>		<b>\$ 109,201,800.00</b>	<b>\$ 2,059,200.00</b>	<b>\$ 111,261,000.00</b>	<b>\$ 2,995,078.20</b>		
<p>Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.</p>							

**The University of North Carolina at Wilmington**  
**Intercollegiate Athletics Program**  
**Statement of Current Funds Revenues and Expenditures**  
**Year Ended June 30, 2002**

**Schedule 2**

	<b>Men's Basketball</b>	<b>Women's Basketball</b>	<b>Other Sports</b>	<b>Nonprogram Specific</b>	<b>Total</b>
<b>Revenues:</b>					
Student Fees	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,708,033.68	\$ 3,708,033.68
Ticket Sales	319,600.84	1,852.00	8,736.20	34,399.00	364,588.04
Contest Guarantees	90,000.00		6,200.00		96,200.00
Advertising Income				58,965.03	58,965.03
Institutional Sports Camps and Clinics	172,993.75	53,025.00	198,366.48		424,385.23
Concessions				12,302.78	12,302.78
Gifts:					
Unrestricted	82,768.53	4,400.00	139,523.80	538,595.15	765,287.48
Investment Income:					
Unrestricted				37,414.81	37,414.81
Tournament Revenue	6,395.00			316,859.92	323,254.92
State Appropriations			176,411.00	232,667.00	409,078.00
Other Sources			36,898.05	248,125.41	285,023.46
<b>Total Revenues</b>	<b>671,758.12</b>	<b>59,277.00</b>	<b>566,135.53</b>	<b>5,187,362.78</b>	<b>6,484,533.43</b>
<b>Expenditures:</b>					
Coaches' Salaries	406,790.00	166,311.00	766,665.00		1,339,766.00
Other Salaries	83,731.33	62,102.78	154,090.08	982,999.93	1,282,924.12
Travel:					
Team	102,523.14	71,915.91	297,643.47	54,926.96	527,009.48
Recruiting	59,995.46	23,479.42	40,267.59		123,742.47
Financial Aid	170,078.47	215,809.14	724,928.76	22,178.50	1,132,994.87
Maintenance and General Administration	148,219.03	47,946.53	107,895.83	400,837.02	704,898.41
Supplies and Uniforms	33,738.34	22,149.03	104,797.81	110,826.47	271,511.65
Equipment Purchases	5,789.35		5,755.22	88,747.67	100,292.24
Publicity				278,571.69	278,571.69
Officials	78,974.95	41,220.55	55,549.42	15,374.00	191,118.92
Contractual Services	14,490.00	1,300.00	2,400.00	38,809.00	56,999.00
Insurance	7,370.00	4,370.00	19,933.00	60,463.24	92,136.24
Telephone	6,334.85	6,517.40	9,530.61	19,098.14	41,481.00
Miscellaneous	7,500.00				7,500.00
<b>Total Expenditures</b>	<b>1,125,534.92</b>	<b>663,121.76</b>	<b>2,289,456.79</b>	<b>2,072,832.62</b>	<b>6,150,946.09</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>\$ (453,776.80)</b>	<b>\$ (603,844.76)</b>	<b>\$ (1,723,321.26)</b>	<b>\$ 3,114,530.16</b>	<b>\$ 333,587.34</b>
The accompanying notes are an integral part of this statement.					

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The University of North Carolina at Wilmington is a constituent institution of The 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 University of North Carolina at Wilmington is classified as a Division I institution by the National Collegiate Athletic Association (NCAA).
- B. Basis of Presentation** - The preceding statement of current funds revenues and expenditures presents the University's intercollegiate athletic program's activity in accordance with the National Collegiate Athletic Association Financial Audit Guidelines. Those guidelines issued on May 2, 1996 require only a presentation of the current funds revenues and expenditures by major program and have not been updated for Governmental Accounting Standards Board 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* and Statement No. 38, *Certain Financial Statement Note Disclosures*. This presentation is not intended to provide a complete presentation of the program's financial position or its changes in fund balances.
- C. Revenue Recognition** – Current funds revenues include all gifts, grants, fees, sales receipts, and other resources earned and for which the resource provider condition(s) attached to those amounts were satisfied during the reporting period.
- D. Basis of Accounting** - The preceding statement of current funds revenues and expenditures was prepared in accordance with the accrual basis of accounting, except that no depreciation expense is reflected.
- E. Non-Monetary Transactions** - The University reports goods and services received either by donation or in an exchange transaction at their fair value at the date of receipt. Only services of those individuals possessing skills which would be purchased if not received through a non-monetary transaction are recorded.

During the year, leased vehicles were provided at no charge to the University. The values of these donations have been recorded as Other Sources on the preceding statement of current funds revenues and expenditures.

**NOTE 2 - THE UNIVERSITY OF NORTH CAROLINA AT WILMINGTON STUDENT AID ASSOCIATION, INC.**

The University of North Carolina at Wilmington Student Aid Association, Inc. (Association) is a separate and legal entity established to promote and support the University's intercollegiate athletics program. During the fiscal year, the University received direct current funds support from the Association, as well as indirect support through payments made on behalf of the University's current fund activities by the Association. These amounts are reported as contributions and expenditures on the preceding statement of current funds revenues and expenditures. The amounts provided as direct support and as indirect support follow:

<u>Current Funds</u>	
Direct Support	\$ 765,287.48
Indirect Support Funds	33,861.98

In addition to supporting the University's current fund activities, the Association also provided resources during the year for the following noncurrent funds activities:

<u>Noncurrent Funds</u>	
Endowment Funds	\$ 68,500.00



Ralph Campbell, Jr.  
State Auditor

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**Office of the State Auditor**

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**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING 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 Wilmington  
Wilmington, North Carolina

We have audited the financial statements of The University of North Carolina at Wilmington, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 8, 2002. As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board 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* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

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.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

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

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Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Audit Committee, the Board of Trustees and Board of Governors, management and staff of the University, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.  
State Auditor

November 8, 2002

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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Mr. Robert L. Powell	State Controller
Ms. Molly Corbett Broad	President, The University of North Carolina
Dr. James R. Leutze	Chancellor
	The University of North Carolina at Wilmington
Mr. Timothy A. Jordan	Vice Chancellor for Business Affairs
	The University of North Carolina at Wilmington
Mr. Franklin L. Block	Chairman, Board of Trustees
	The University of North Carolina at Wilmington

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Majority Leader of the N. C. Senate  
Minority Leader of the N. C. Senate  
Minority Leader of the N. C. House of Representatives  
N. C. House Speaker Pro-Tem  
Director, Fiscal Research Division

December 18, 2002

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