



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, 2003

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, 2003

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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina 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** – To 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)

2. **Objective** – To 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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INDEPENDENT AUDITOR'S REPORT

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, 2003, 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, 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, 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2004 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), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

January 20, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

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, 2003. The preceding transmittal letter and the following financial statements and notes 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 presented to help the user better understand the financial information.

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: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental 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, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

The State again suffered a revenue shortfall that caused the University to revert \$3.0 million back to the State. This amount represents 5.2% of the University's State appropriation. Along with the \$3.0 million in reversion, the University endured a permanent reduction of State appropriation in the amount of \$2.03 million. This continuing 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. Despite this decrease in State funding, the University's net assets increased by \$13.2 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.

The University continued to grow with several capital projects. The University expended \$13.0 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 continue construction on a new building for the Watson School of Education and expand the warehouse and printing services. Both the primary infrastructure and technology infrastructure were in process. With debt proceeds, we funded the new residence building, Cornerstone Hall, located between the International and Honors residence halls. This building is three stories high and contains 263 beds. This facility opens in the fall of 2003.

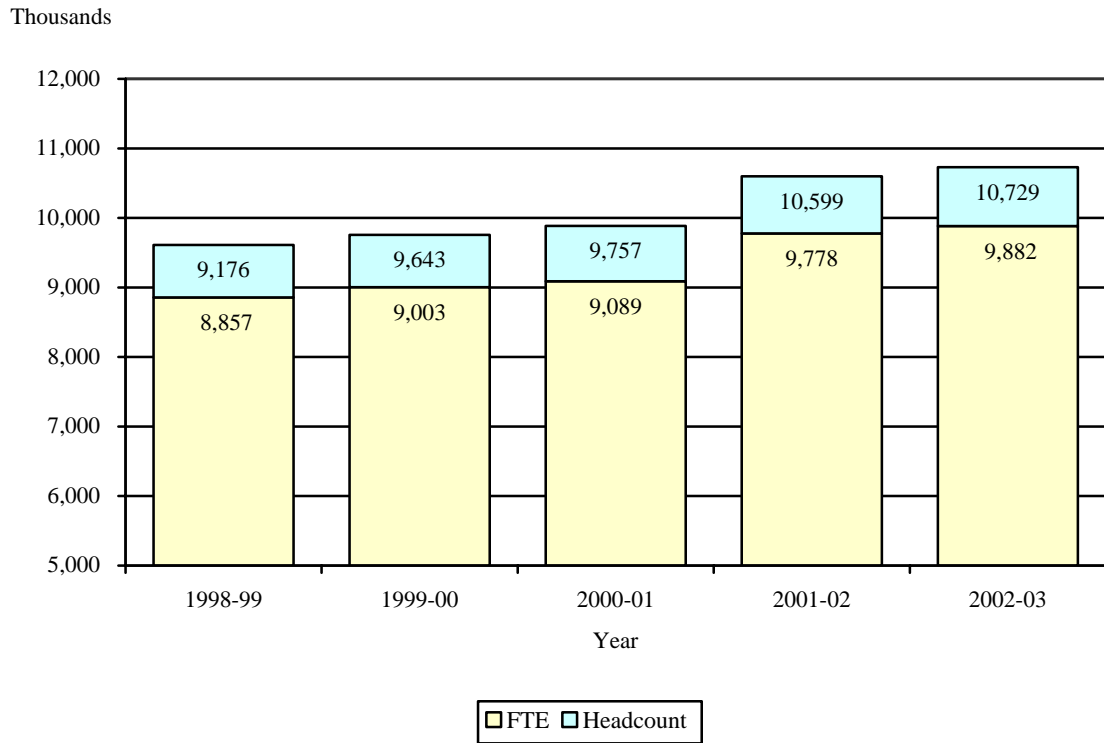
Bonds payable for the University went up by \$34.1 million during 2003, as a result of issuing \$36.7 million in debt to begin constructing a new student union and several campus renovations. This new union is needed to provide services for our continuing student growth.

The University's endowment received gifts of \$832,598 during the fiscal year. The total return for the same period was 1.9%. This positive return was the result of the improved performance of the equity markets.

The University is still experiencing strong enrollment growth as illustrated by the graph below, which depicts enrollment growth over the last five years. The headcount for the University is up by over 1,600 students over the last five years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fall Enrollment



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, 2003. 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, as Indicated

	2003		2002	
	Amount	Percent	Amount	Percent
Assets				
Current Assets	\$ 45,180,088	16.8%	\$ 36,019,093	16.9%
Noncurrent Assets	223,246,775	83.2%	177,408,336	83.1%
Total Assets	268,426,863	100.0%	213,427,429	100.0%
Liabilities				
Current Liabilities	16,184,414	16.1%	10,425,922	17.8%
Noncurrent Liabilities	84,282,386	83.9%	48,263,771	82.2%
Total Liabilities	100,466,800	100.0%	58,689,693	100.0%
Net Assets				
Invested in Capital Assets	113,383,372	67.5%	99,504,286	64.3%
Restricted - Nonexpendable	16,953,301	10.1%	15,259,886	9.9%
Restricted - Expendable	18,863,489	11.2%	20,644,391	13.3%
Unrestricted	18,759,900	11.2%	19,329,174	12.5%
Total Net Assets	\$ 167,960,062	100.0%	\$ 154,737,737	100.0%

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

On June 30, 2003 total University assets were \$268.4 million. The largest asset categories include the University's investment in capital assets (\$116.1 million), cash and cash equivalents (\$77.9 million) and endowment and other investments (\$30.5 million). The cash position increased by over \$30 million because the bond proceeds are sitting in the State Treasurer Investment Fund that we borrowed to build the new union.

University liabilities totaled \$100.5 million on June 30, 2003. Long-term debt of \$74.1 million, consisting of bonds payable, notes payable, and capitalized lease obligations, is the largest liability category. Total liabilities increased \$41.8 million from June 30, 2002 primarily due to the issuance of \$36.7 million in bonds for the construction of a new student union and other renovations on campus.

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 For the Years Ended June 30, as Indicated

	2003		2002	
	Amount	Percent	Amount	Percent
Operating Revenues				
Tuition and Fees (Net)	\$ 43,309,023	52.1%	\$ 38,436,189	48.1%
Sales and Services (Net)	18,593,634	22.4%	21,377,055	26.8%
Grants and Contracts	19,359,634	23.3%	18,690,297	23.4%
Other	1,814,276	2.2%	1,410,454	1.8%
Total Operating Revenues	<u>83,076,567</u>	<u>100.0%</u>	<u>79,913,995</u>	<u>100.0%</u>
Operating Expenses				
Salaries and Benefits	86,724,676	61.0%	83,758,791	60.6%
Supplies and Materials	5,072,771	3.6%	7,875,129	5.7%
Services	34,698,684	24.4%	32,180,783	23.3%
Scholarships	5,490,928	3.9%	5,041,630	3.6%
Utilities	4,704,964	3.3%	4,323,613	3.1%
Depreciation	5,395,199	3.8%	4,950,312	3.6%
Total Operating Expenses	<u>142,087,222</u>	<u>100.0%</u>	<u>138,130,258</u>	<u>100.0%</u>
Operating Loss	<u>(59,010,655)</u>		<u>(58,216,263)</u>	
Nonoperating Revenues (Expenses)				
State Appropriations	55,586,556	76.5%	53,809,951	89.1%
Capital Gifts and Grants	12,698,880	17.5%	4,063,782	6.7%
Noncapital Gifts and Grants	4,179,297	5.7%	3,094,558	5.1%
Other	222,851	0.3%	(548,347)	-0.9%
Total Nonoperating Revenues	<u>72,687,584</u>	<u>100.0%</u>	<u>60,419,944</u>	<u>100.0%</u>
Increase in Net Assets	13,676,929		2,203,681	
Net Assets - Beginning of Year	154,737,736		242,802,147	
Restatements	<u>(454,603)</u>		<u>(90,268,090)</u>	
Net Assets - End of Year	<u>\$ 167,960,062</u>		<u>\$ 154,737,738</u>	

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Student tuition and fees (\$43.3 million) and sales and services from auxiliary enterprises (\$18.6 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 (\$86.7 million) and payments to vendors and suppliers for services and goods (\$44.5 million). These two expenses are the two major operating expenditures and account for over 85% of the University expenses.

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 For the Years Ended June 30, as Indicated

	<u>2003</u>	<u>2002</u>
Cash Provided (Used) by:		
Operating Activities	\$ (50,371,809)	\$ (54,582,209)
Noncapital Financing Activities	60,169,646	58,863,258
Capital Financing Activities	19,712,136	3,743,476
Investing Activities	5,812,469	(207,012)
	<u>35,322,442</u>	<u>7,817,513</u>
Net Change in Cash	35,322,442	7,817,513
Cash, Beginning of Year	<u>42,634,909</u>	<u>34,817,395</u>
	<u>\$ 77,957,351</u>	<u>\$ 42,634,908</u>

Major sources of funds included in operating activities are student tuition and fees (\$40.3 million), auxiliary enterprises (\$17.1 million), and contracts and grants (\$20.2 million).

Major uses of funds in operating activities are compensation to employees (\$85.2 million) and payments to suppliers for goods and services (\$41.8 million).

The largest inflow of cash in the noncapital financing activities is the State of North Carolina appropriation of \$55.6 million. The new accounting standards require the University to reflect this source of revenue as nonoperating even though the University's budget depends

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

on these funds to continue the current level of operations. Other noncapital financing activity includes gifts received (\$2.5 million).

Cash provided by capital financing activities during fiscal year 2003 include proceeds for a bond issue for a new student union in the amount of \$30.0 million and capital State appropriations of \$12.4 million.

Cash used in capital financing activities during fiscal year 2003 was primarily for the acquisition of capital assets (\$26.3 million) and the repayment of debt (\$2.8 million).

Capital Asset and Debt Administration

Capital Assets

The University had \$148.0 million invested in capital assets at year end.

Capital Assets June 30, as Indicated (Net of Depreciation)

	<u>2003</u>	<u>2002</u>
Land	\$ 3,118,678	\$ 2,928,678
Art, Literature, and Artifacts	814,733	774,954
Construction in Progress	28,052,609	12,605,090
Buildings	98,458,706	90,317,206
Machinery and Equipment	7,463,824	7,247,302
Infrastructure	<u>10,119,980</u>	<u>10,536,726</u>
 Total Capital Assets	 <u><u>\$ 148,028,530</u></u>	 <u><u>\$ 124,409,956</u></u>

Capital projects scheduled for completion in 2003-2004 include a new building for the Watson School of Education at a cost of \$16 million.

More detailed information on the University's capital assets is presented in Note 5 to the financial statements.

Debt

The University has \$73.6 million in outstanding bonds, notes and capital leases on June 30, 2003 of which \$73.1 million is for outstanding bonds. New debt includes the issuance of bonds at \$30 million for constructing a new student union, and \$6.7 million for various housing, parking and food service projects.

More detailed information on the University's long-term obligations is presented in Note 7 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Economic Forecast

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.

The State appropriation for 2003 went up by \$1.8 million or 3.3% from the previous year. This increase is the result of increased funding for the enrollment increase on campus, and improvement in the State economy, which we hope continues to improve into 2004.

Capital gifts and grants were up by \$8.6 million over last year. This represents an increase of over 14% and is due to the increased funding for the capital project on campus with the 2000 statewide bond projects that were approved.

Tuition and fee income went from \$38.4 million in 2002 to \$43.3 million in 2003. This represents an increase of \$4.9 million and 12.7%. Tuition has become a larger percentage of operating income over the last several years. This will probably be true for 2004 which will have a 5% increase in both in-state and out-of-state tuition.

Private gifts and grants 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. Noncapital gifts increased this year by \$1.1 million to \$4.2 million.

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, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 28,304,763.56
Restricted Cash and Cash Equivalents	10,347,397.43
Receivables, Net (Note 4)	5,124,177.41
Inventories	550,053.14
Notes Receivable, Net (Note 4)	853,696.81

Total Current Assets 45,180,088.35

Noncurrent Assets:

Restricted Cash and Cash Equivalents	39,305,190.48
Receivables, Net (Note 4)	51,135.41
Restricted Due from Primary Government	1,511,799.63
Endowment Investments	18,845,913.26
Other Long-Term Investments	11,624,138.63
Notes Receivable, Net (Note 4)	3,880,067.09
Capital Assets - Nondepreciable (Note 5)	31,986,021.09
Capital Assets - Depreciable, Net (Note 5)	116,042,509.29

Total Noncurrent Assets 223,246,774.88

Total Assets 268,426,863.23

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	6,267,988.88
Arbitrage Rebate Payable (Note 7)	47,478.65
Due to Primary Government	22,586.73
Deferred Revenue	5,029,453.66
Interest Payable	1,254,386.70
Long-Term Liabilities - Current Portion (Note 7)	3,562,518.94

Total Current Liabilities 16,184,413.56

Noncurrent Liabilities:

Deferred Revenue	133,666.70
Funds Held for Others	4,642,166.14
U. S. Government Grants Refundable	4,163,126.52
Long-Term Liabilities (Note 7)	75,343,427.43

Total Noncurrent Liabilities 84,282,386.79

Total Liabilities 100,466,800.35

The University of North Carolina at Wilmington
Statement of Net Assets
June 30, 2003

Exhibit A

Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	113,383,371.76
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	7,698,039.02
Research	812,309.10
Endowed Professorships	2,487,362.64
Departmental Uses	5,186,454.39
Loans	769,135.64
Expendable:	
Scholarships and Fellowships	3,312,401.12
Research	320,683.40
Endowed Professorships	1,951,888.40
Departmental Uses	5,153,329.31
Loans	220,849.87
Capital Projects	3,239,392.33
Debt Service	4,664,946.00
Unrestricted	18,759,899.90
Total Net Assets	\$ 167,960,062.88

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
For the Fiscal Year Ended June 30, 2003***

Exhibit B

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$	43,309,022.66
Federal Grants and Contracts		16,862,073.68
State and Local Grants and Contracts		1,485,728.57
Nongovernmental Grants and Contracts		1,011,832.26
Sales and Services, Net (Note 9)		18,593,634.02
Interest Earnings on Loans		19,488.72
Other Operating Revenues		1,794,787.41
Total Operating Revenues		83,076,567.32

EXPENSES

Operating Expenses:

Salaries and Benefits		86,724,675.93
Supplies and Materials		5,072,770.78
Services		34,698,684.38
Scholarships and Fellowships		5,490,928.14
Utilities		4,704,964.33
Depreciation		5,395,198.50
Total Operating Expenses		142,087,222.06

Operating Loss (59,010,654.74)

NONOPERATING REVENUES (EXPENSES)

State Appropriations		55,586,555.82
Noncapital Grants		623,098.76
Noncapital Gifts, Net (Note 9)		2,723,601.24
Investment Income (Net of Investment Expense of \$31,505)		2,641,300.44
Interest and Fees on Capital Asset-Related Debt		(2,388,506.46)
Other Nonoperating Expenses		(29,943.36)

Net Nonoperating Revenues 59,156,106.44

Income Before Other Revenues, Expenses, Gains, or Losses 145,451.70

Capital Grants		12,377,145.00
Capital Gifts		321,734.51
Additions to Endowments		832,598.26

Increase in Net Assets 13,676,929.47

NET ASSETS

Net Assets - July 1, 2002, as Restated (Note 16) 154,283,133.41

Net Assets - June 30, 2003 \$ 167,960,062.88

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
For the Fiscal Year Ended June 30, 2003

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 80,530,845.43
Payments to Employees and Fringe Benefits	(85,161,797.99)
Payments to Vendors and Suppliers	(41,807,304.99)
Payments for Scholarships and Fellowships	(5,490,928.14)
Loans Issued	(1,029,495.00)
Collection of Loans	942,520.00
Interest Earned on Loans	16,859.45
Other Receipts	1,627,492.24
Net Cash Used by Operating Activities	(50,371,809.00)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	55,586,555.82
Grants for Other than Capital Purposes	424,279.54
Noncapital Gifts	2,546,194.38
Additions to Permanent and Term Endowments	832,598.26
Related Activity Agency Receipts	780,017.96
Net Cash Provided by Noncapital Financing Activities	60,169,645.96

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	37,239,022.25
Capital Grants	13,026,925.97
Capital Gifts	321,734.51
Acquisition and Construction of Capital Assets	(26,330,623.87)
Principal Paid on Capital Debt and Leases	(2,805,374.44)
Interest and Fees Paid on Capital Debt and Leases	(1,821,876.65)
Other Receipts	82,328.41
Net Cash Provided by Capital Financing and Related Financing Activities	19,712,136.18

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	25,051,923.98
Investment Income	2,467,685.07
Purchase of Investments and Related Fees	(21,707,139.79)
Net Cash Provided by Investing Activities	5,812,469.26

Net Increase in Cash and Cash Equivalents	35,322,442.40
Cash and Cash Equivalents - July 1, 2002	42,634,909.07
Cash and Cash Equivalents - June 30, 2003	\$ 77,957,351.47

The University of North Carolina at Wilmington
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003

Exhibit C
Page 2

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

Operating Loss	\$ (59,010,654.74)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,395,198.50
Changes in Assets and Liabilities:	
Receivables (Net)	(509,368.25)
Due from Primary Government	943,785.06
Inventories	(90,750.58)
Other Assets	178,927.88
Accounts Payable and Accrued Liabilities	917,628.51
Deferred Revenue	465,083.62
Compensated Absences	1,432,860.00
Note Principal Repayments	934,976.00
Notes Issued	(1,029,495.00)
Net Cash Used by Operating Activities	\$ (50,371,809.00)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 28,304,763.56
Restricted Cash and Cash Equivalents	10,347,397.43
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	39,305,190.48
Total Cash and Cash Equivalents - June 30, 2003	\$ 77,957,351.47

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

	\$ 3,254,728.48
Assets Acquired through the Assumption of a Liability	24,109.00
Assets Acquired through a Gift	(202,562.28)
Change in Fair Value of Investments	890,607.32
Reinvested Distributions	

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

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THE UNIVERSITY OF NORTH CAROLINA AT WILMINGTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

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 28403-5952, or by calling (910) 962-3133. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment portfolio. 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, limited partnerships, real

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

estate investment trusts, 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 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 provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for general 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- I. **Restricted Assets** – Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- 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 of unamortized premiums or discounts and deferred losses on refundings. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refundings are amortized over the life of the old debt using the straight-line method.

- 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.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the North Carolina General Assembly to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

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 classifies its revenues and expenses as operating or nonoperating in the accompanying

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, State and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. **Deposits** – Unless specifically exempt, the University is required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to General Statute 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

Deposits include cash and cash equivalents and certificates of deposit totaling \$78,455,186.40. At year-end, cash on hand was \$25,200.00. The University's portion of the State Treasurer's Investment Pool was \$77,278,324.98. 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 for 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 \$653,826.49 and the bank balance was \$653,826.49. Of the bank balance, \$66,673.88 was covered by federal depository insurance and \$587,152.61 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.

The financial statements and disclosures for the State Treasurer's 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and Chapter VI of the Administrative Manual of the University of North Carolina, to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as 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. are 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2003 is presented below:

Long-Term Investment Pool

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
U.S. Government Securities	\$ 83,563.13	\$ 0.00	\$ 2,527,791.48	\$ 2,611,354.61
Corporate Bonds	4,307.58		8,016.12	12,323.70
Corporate Stocks	244,779.29		455,518.69	700,297.98
Repurchase Agreement			1,602,330.00	1,602,330.00
Total Categorized Investments	<u>\$ 332,650.00</u>	<u>\$ 0.00</u>	<u>\$ 4,593,656.29</u>	4,926,306.29
Investments Not Categorized:				
Money Market Funds				6,324,998.57
Mutual Funds				18,635,368.03
Certificates of Deposit				523,034.93
Total Investments Not Categorized				<u>25,483,401.53</u>
Total Long-Term Investments				<u>\$ 30,409,707.82</u>

Non-Pooled Investments

Investments Not Categorized:		
Real Estate		\$ 765.63
Corporate Stock		41,795.71
Life Insurance		17,782.73
Total Investments Not Categorized		<u>60,344.07</u>
Total Non-Pooled Investments		<u>\$ 60,344.07</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
Total Categorized Investments	\$ 332,650.00	\$ 0.00	\$ 4,593,656.29	\$ 4,926,306.29
Total Investments Not Categorized				25,543,745.60
Total Investments				\$ 30,470,051.89

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

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

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. 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, 2003, net appreciation of \$4,293,937.10 was available to be spent, of which \$733,694.25 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 1,467,152.78	\$ 146,715.28	\$ 1,320,437.50
Accounts	1,813,409.01		1,813,409.01
Intergovernmental	1,422,995.24		1,422,995.24
Pledges	196,381.55	9,819.08	186,562.47
Interest on Loans	313,583.19		313,583.19
Other	67,190.00		67,190.00
Total Current Receivables	<u>\$ 5,280,711.77</u>	<u>\$ 156,534.36</u>	<u>\$ 5,124,177.41</u>
Noncurrent Receivables:			
Pledges	<u>\$ 53,932.91</u>	<u>\$ 2,797.50</u>	<u>\$ 51,135.41</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 857,234.29	\$ 85,468.62	\$ 771,765.67
Institutional Student Loan Programs	78,121.14		78,121.14
Other	3,810.00		3,810.00
Total Notes Receivable - Current	<u>\$ 939,165.43</u>	<u>\$ 85,468.62</u>	<u>\$ 853,696.81</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 4,298,716.93	\$ 426,269.64	\$ 3,872,447.29
Other	7,619.80		7,619.80
Total Notes Receivable - Noncurrent	<u>\$ 4,306,336.73</u>	<u>\$ 426,269.64</u>	<u>\$ 3,880,067.09</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:					
Land	\$ 2,928,678.30	\$ 0.00	\$ 190,000.00	\$ 0.00	\$ 3,118,678.30
Art, Literature, and Artifacts	774,953.98		39,779.33		814,733.31
Construction in Progress	12,605,089.69		27,084,309.10	11,636,789.31	28,052,609.48
Total Capital Assets, Nondepreciable	16,308,721.97		27,314,088.43	11,636,789.31	31,986,021.09
Capital Assets, Depreciable:					
Buildings	133,176,975.77		10,927,237.94		144,104,213.71
Machinery and Equipment	18,618,989.98		2,419,196.68	485,447.75	20,552,738.91
General Infrastructure	16,428,690.31		516,431.37		16,945,121.68
Total Capital Assets, Depreciable	168,224,656.06		13,862,865.99	485,447.75	181,602,074.30
Less Accumulated Depreciation/Amortization for:					
Buildings	42,859,769.98		2,785,738.28		45,645,508.26
Machinery and Equipment	11,371,687.57		2,130,885.86	413,657.94	13,088,915.49
General Infrastructure	5,891,963.77	454,603.13	478,574.36		6,825,141.26
Total Accumulated Depreciation	60,123,421.32	454,603.13	5,395,198.50	413,657.94	65,559,565.01
Total Capital Assets, Depreciable, Net	108,101,234.74		8,467,667.49	71,789.81	116,042,509.29
Capital Assets, Net	\$ 124,409,956.71	\$ 454,603.13	\$ 35,781,755.92	\$ 11,708,579.12	\$ 148,028,530.38

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 4,612,279.46
Accrued Payroll	517,288.10
Contract Retainage	1,127,227.58
Other	11,193.74
Total Accounts Payable and Accrued Liabilities	\$ 6,267,988.88

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2003 is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Notes Payable	\$ 272,836.58	\$ 0.00	\$ 91,816.48	\$ 181,020.10	\$ 56,546.43
Bonds Payable	39,035,000.00	37,276,547.72	2,662,525.47	73,649,022.25	3,180,000.00
Arbitrage Rebate Payable	10,301.45	37,177.20		47,478.65	47,478.65
Capital Leases Payable	366,028.98		88,557.96	277,471.02	96,597.51
Compensated Absences	3,365,573.00	1,432,860.00		4,798,433.00	229,375.00
Total Long-Term Liabilities	\$ 43,049,740.01	\$ 38,746,584.92	\$ 2,842,899.91	\$ 78,953,425.02	\$ 3,609,997.59

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

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 06/30/2003	Principal Outstanding 06/30/2003
Parking Lot Construction	Centura	6.37%	08/15/2003	\$ 698,300.00	\$ 687,017.41	\$ 11,282.59
Parking Lot Construction	BB&T	5.23%	02/01/2007	430,000.00	260,262.49	169,737.51
Total Notes Payable				<u>\$ 1,128,300.00</u>	<u>\$ 947,279.90</u>	<u>\$ 181,020.10</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 06/30/2003	Principal Outstanding 06/30/2003
<u>Dormitories and Dining Hall</u>						
Construct Dormitory	B	7.5-8.0%	01/2009	\$ 1,400,000.00	\$ 815,000.00	\$ 585,000.00
Construct Dormitory	C	5.5-6.0%	01/2003	1,600,000.00	1,600,000.00	
Construct Dormitory	D	5.5-6.0%	01/2004	1,600,000.00	1,475,000.00	125,000.00
Construct Dormitory	H	5.9-6.75%	01/2004	3,285,000.00	2,910,000.00	375,000.00
Construct Dormitory	I	4.2-5.0%	01/2009	10,735,000.00	4,865,000.00	5,870,000.00
Construct Honors Dormitory	J	4.6-5.4%	01/2018	6,440,000.00	1,060,000.00	5,380,000.00
Total Dormitories and Dining Hall				<u>25,060,000.00</u>	<u>12,725,000.00</u>	<u>12,335,000.00</u>
<u>Physical Education System</u>						
Construct Trask Coliseum	B	3.3-5.5%	01/2010	1,140,000.00	535,000.00	605,000.00
<u>Union Revenue System</u>						
Refund 1990	1997	4.8-5.0%	01/2011	4,300,000.00	1,105,000.00	3,195,000.00
<u>Recreation Revenue</u>						
Construction Recreation Facility	1998	4.5-4.75%	01/2019	10,300,000.00	1,430,000.00	8,870,000.00
<u>General Revenue</u>						
Construct Dormitory	2002A	3.0-5.0%	01/2023	11,500,000.00		11,500,000.00
Westside, Parking, Apartments	2002B	3.0-5.0%	10/2022	6,735,000.00	95,000.00	6,640,000.00
Union Construction	2003A	3.0-5.0%	01/2028	30,000,000.00		30,000,000.00
Total General Revenue				<u>48,235,000.00</u>	<u>95,000.00</u>	<u>48,140,000.00</u>
Total Bonds Payable (principal only)				<u>\$ 89,035,000.00</u>	<u>\$ 15,890,000.00</u>	<u>73,145,000.00</u>
Less: Bond Issuance						(303,996.48)
Plus: Unamortized Premium						<u>808,018.73</u>
Total Bonds Payable						<u>\$ 73,649,022.25</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2003 are as follows:

<u>Fiscal Year</u>	Annual Requirements			
	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2004	\$ 3,180,000.00	\$ 3,061,234.22	\$ 56,546.43	\$ 8,091.35
2005	3,575,000.00	3,298,298.76	45,263.16	5,622.25
2006	3,725,000.00	3,150,886.26	45,263.16	3,254.99
2007	3,875,000.00	2,995,358.76	33,947.35	887.72
2008	3,890,000.00	2,830,181.26		
2009-2013	15,890,000.00	11,744,316.30		
2014-2018	16,405,000.00	8,135,930.00		
2019-2023	13,380,000.00	4,075,722.50		
2024 and thereafter	9,225,000.00	1,317,956.28		
Total Requirements	\$ 73,145,000.00	\$ 40,609,884.34	\$ 181,020.10	\$ 17,856.31

NOTE 8 - 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, 2003:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 116,995.44
2005	116,995.44
2006	77,996.95
Total Minimum Lease Payments	311,987.83
Amount Representing Interest (8.72% Rate of Interest)	34,516.81
Present Value of Future Lease Payments	\$ 277,471.02

Equipment acquired under capital lease amounted to \$178,214.59 at June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Operating Lease Obligations – The University entered into operating leases for rental of office space, boat slips, and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 465,710.10
2005	344,828.82
2006	201,715.05
2007	<u>88,980.88</u>
Total Minimum Lease Payments	<u>\$ 1,101,234.85</u>

Rental expense for all operating leases during the year was \$440,350.26.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>	<u>Net Revenues Pledged as Security for Debt</u>
Operating Revenues:						
Student Tuition and Fees	<u>\$ 46,503,281.00</u>	<u>\$ 0.00</u>	<u>\$ 3,121,564.68</u>	<u>\$ 72,693.66</u>	<u>\$ 43,309,022.66</u>	<u>\$ 2,047,073.70</u>
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 7,704,351.81	\$ 0.00	\$ 0.00	\$ 5,989.96	\$ 7,698,361.85	\$ 7,698,361.85
Dining	5,670,498.65			2,698.00	5,667,800.65	5,667,800.65
Student Union Services	104,127.15			1,860.09	102,267.06	102,267.06
Health, Physical Education, and Recreation Services	271,803.71			3,861.73	267,941.98	267,941.98
Parking	1,435,249.77			6,932.91	1,428,316.86	
Athletic	1,516,268.03			4,568.86	1,511,699.17	
Other	6,236,749.32	6,087,608.77		7,066.57	142,073.98	
Sales and Services of Educational and Related Activities	<u>1,775,172.47</u>				<u>1,775,172.47</u>	
Total Sales and Services	<u>\$ 24,714,220.91</u>	<u>\$ 6,087,608.77</u>	<u>\$ 0.00</u>	<u>\$ 32,978.12</u>	<u>\$ 18,593,634.02</u>	<u>\$ 13,736,371.54</u>
Nonoperating - Noncapital Gifts	<u>\$ 2,736,217.82</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 12,616.58</u>	<u>\$ 2,723,601.24</u>	<u>\$ 0.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 44,620,252.87	\$ 1,069,561.81	\$ 5,028,305.64	\$ 140,156.25	\$ 0.00	\$ 0.00	\$ 50,858,276.57
Research	6,531,876.66	1,015,982.69	5,346,696.13	45,418.65	16,753.61		12,956,727.74
Public Service	1,236,283.91	87,621.63	690,891.28	33,139.00			2,047,935.82
Academic Support	5,804,499.53	234,785.02	3,980,585.72				10,019,870.27
Student Services	3,998,275.37	343,616.86	1,456,671.28				5,798,563.51
Institutional Support	9,822,573.60	291,291.77	3,094,268.20				13,208,133.57
Operations and Maintenance of Plant	7,581,890.11	804,778.45	6,583,179.79		3,554,282.07		18,524,130.42
Student Financial Aid		282.32	70,949.60	5,272,214.24			5,343,446.16
Auxiliary Enterprises	7,129,023.88	1,224,850.23	8,447,136.74		1,133,928.65		17,934,939.50
Depreciation						5,395,198.50	5,395,198.50
Total Operating Expenses	\$ 86,724,675.93	\$ 5,072,770.78	\$ 34,698,684.38	\$ 5,490,928.14	\$ 4,704,964.33	\$ 5,395,198.50	\$ 142,087,222.06

NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the University had a total payroll of \$73,733,257.22, of which \$36,404,838.14 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$2,184,290.29. No

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employer contributions were required. The University made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$682,208.50 and \$1,740,503.13, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.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 that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products. 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 the carrier of their choice. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2003, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the year ended June 30, 2003, the University had a total payroll of \$73,733,257.22, of which \$26,900,296.94 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$1,614,017.82 and \$1,839,980.31, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$131,078.93 for the year ended June 30, 2003.

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, 2003 were \$51,526.98. The voluntary contributions by employees amounted to \$525,433.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$1,208,656.86 for the year ended June 30, 2003.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2003, the University's total contribution to the Plan was \$1,487,670.67. 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 and 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, 2003, the University's total contribution to the DIPNC was \$329,186.70. The University assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years. Tort claims of up to \$500,000 are self-insured

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 except for theft losses carry a \$1,000 per occurrence deductible. The University also purchased through the Fund extended coverage for buildings and contents, sprinkler leakage, business interruptions, vandalism, theft and "all risks" for buildings and contents. Wind coverage is provided by the Fund and its reinsurer but the University has \$100,000 deductible per building or \$500,000 deductible per occurrence. However, for losses involving a named storm, such as a hurricane, the University's deductible is increased to 1% of the total value of a building and its contents up to a maximum of \$3,000,000 per occurrence, but not less than \$100,000 per occurrence. 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 and out-of-State are \$1,000,000 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. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence with a \$50,000 deductible and a 10% participation in each loss above the deductible.

Other coverage not handled by the North Carolina Department of Insurance is purchased through the State's insurance agent of record.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$21,185,225.25 and on other purchases were \$3,836,977.43 at June 30, 2003.
- B. Pending Litigation and Claims** – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$92,724,655.00 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 resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot 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	\$ 61,820.25

NOTE 15 - 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. There is one separately incorporated nonprofit corporation associated with the University. It is the UNCW Corporation, 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

supplements, and unrestricted funds to specific colleges and the University's overall academic environment and educational mission. The University's financial statements do not include the assets (except for cash and investments for which the University has a custodial responsibility), liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. This support approximated \$1,457,958.00 for the year ended June 30, 2003.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2002, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2002 Net Assets as Previously Reported	\$ 154,737,736.54
Record Accumulated Depreciation for Landscaping	<u>(454,603.13)</u>
July 1, 2002 Net Assets as Restated	<u><u>\$ 154,283,133.41</u></u>

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, 2003

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Started							
School of Education	Dec 1998	\$ 15,816,338.00	\$ 922,900.00	\$ 16,739,238.00	\$ 7,085,715.00	42.33%	Apr 2004
Academic Classroom Facility	Jan 2001	31,095,245.00		31,095,245.00	1,271,884.00	4.09%	Feb 2006
General Classroom Building	Jan 2001	12,014,650.00		12,014,650.00	619,014.00	5.15%	Apr 2005
King Hall Building Renovation	Apr 2001	2,439,930.00		2,439,930.00	34,723.00	1.42%	Mar 2005
Hoggard Hall Renovation / Academic Computer Center Addition	Apr 2001	5,998,485.00		5,998,485.00	227,260.00	3.79%	Jul 2005
Alderman Hall Renovation	Mar 2002	2,422,760.00		2,422,760.00	179,072.00	7.39%	May 2004
Westside Hall Renovation and Addition	Jun 2002	2,372,935.00	3,000,000.00	5,372,935.00	399,392.00	7.43%	Aug 2004
Kenan Auditorium Renovation	Mar 2003	2,506,988.00		2,506,988.00	434,935.00	17.35%	Jan 2007
Hinton James Hall	Dec 2002	1,183,600.00		1,183,600.00			May 2006
Marine Science Operations Facility	Aug 2002	2,783,120.00		2,783,120.00	81,720.00	2.94%	Sep 2005
Academic Support Facilities - Print Shop/Warehouse Expansion	Dec 2000	1,140,000.00	315,000.00	1,455,000.00	1,268,524.00	87.18%	Aug 2003
Infrastructure Expansion	Jul 2002	4,747,240.00	105,250.00	4,852,490.00	897,945.00	18.50%	Jan 2005
Land Acquisition	Jun 2000	2,100,000.00		2,100,000.00	635,000.00	30.24%	Jun 2004
Primary Electrical Distribution System Improvements	Jul 2002	2,206,040.00	85,800.00	2,291,840.00	507,615.00	22.15%	Apr 2004
Technology Infrastructure Improvements	Jul 2000	2,801,550.00		2,801,550.00	1,655,824.00	59.10%	Mar 2004
Effective Project Manager Reserve	Jul 2000	5,323,090.00		5,323,090.00	1,075,158.00	20.20%	Jun 2007
Inflationary Cost Reserve	Jul 2000	2,360,329.00		2,360,329.00			Jun 2007
Projects Not Started - To Be Funded in Future Years							
Kenan Hall Renovation		2,580,770.00		2,580,770.00			Jan 2007
Friday Hall Laboratory Renovations		7,308,730.00		7,308,730.00			Oct 2006
Total All Projects		\$ 109,201,800.00	\$ 4,428,950.00	\$ 113,630,750.00	\$ 16,373,781.00		

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.

The University of North Carolina at Wilmington
Intercollegiate Athletics Program
Statement of Revenues and Expenses
Year Ended June 30, 2003

Schedule 2

	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues					
Operating Revenues:					
Student Fees, Net (Note 2)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,942,215.06	\$ 3,942,215.06
Ticket Sales	326,892.81	5,915.06	12,209.23	17,000.00	362,017.10
Program Sales			28,660.00		28,660.00
Contest Guarantees	85,000.00				85,000.00
Advertising Income				21,050.00	21,050.00
Institutional Sports Camps and Clinics	207,641.00	160,635.00	268,254.53	22,510.00	659,040.53
NCAA/Conference USA				304,678.85	304,678.85
Other Sources	10,500.00	300.00	4,952.94	169,031.43	184,784.37
Total Operating Revenues	630,033.81	166,850.06	314,076.70	4,476,485.34	5,587,445.91
Expenses					
Operating Expenses:					
Coaches' Salaries	353,790.00	195,102.00	787,534.00		1,336,426.00
Other Salaries	16,814.85	11,264.98	34,224.85	754,145.88	816,450.56
Fringe Benefits	93,087.70	45,449.85	170,692.29	203,653.93	512,883.77
Travel:					
Team	140,328.39	74,130.73	359,334.99	1,160.28	574,954.39
Recruiting	47,764.66	27,443.11	42,865.87	40,347.63	158,421.27
Financial Aid, Net	229,756.36	205,497.46	823,074.30	71,799.50	1,330,127.62
Supplies and Uniforms	60,961.31	23,000.22	119,457.01	246,154.96	449,573.50
Telephone	7,741.18	8,213.85	11,887.38	24,357.35	52,199.76
Entertainment	2,812.73	1,208.97	300.50	4,967.35	9,289.55
Contest Guarantees	6,500.00	1,500.00			8,000.00
Radio and TV			76,838.94	37,033.00	113,871.94
Printing and Binding	10,113.25	2,388.79	1,713.68	75,566.96	89,782.68
Repairs and Maintenance		4,260.00		5,193.59	9,453.59
Advertising			137.10	13,571.21	13,708.31
Equipment Rentals			149.10	9,968.14	10,117.24
Other Fixed Charges	22,849.64	3,467.46	19,674.03	56,378.42	102,369.55
Other Contractual Services	82,652.90	54,693.65	38,634.42	79,928.00	255,908.97
Depreciation Expense				243,249.13	243,249.13
Miscellaneous	85,994.50	45,226.62	50,028.43	303,040.31	484,289.86
Total Operating Expenses	1,161,167.47	702,847.69	2,536,546.89	2,170,515.64	6,571,077.69
Operating Income (Loss)	(531,133.66)	(535,997.63)	(2,222,470.19)	2,305,969.70	(983,631.78)
Nonoperating Revenues					
State Appropriations			178,285.00		178,285.00
Gifts:					
Noncapital	61,670.47		114,984.00	763,084.01	939,738.48
Capital				26,818.47	26,818.47
Net Nonoperating Revenues	61,670.47		293,269.00	789,902.48	1,144,841.95
Excess (Deficiency) of Revenues Over Expenses	\$ (469,463.19)	\$ (535,997.63)	\$ (1,929,201.19)	\$ 3,095,872.18	\$ 161,210.17

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 Revenues and Expenses 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 expenses by major program. This Statement has 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 net assets and cash flows.
- C. Basis of Accounting** - The preceding Statement of Revenues and Expenses was 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.
- D. Nonmonetary 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.

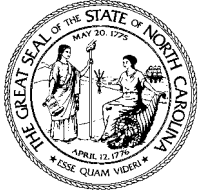
During the year, leased vehicles were provided at no charge to the University. The values of these donations have been recorded as other sources in the preceding Statement of Revenues and Expenses.

NOTE 2 - 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 and Expenses. 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 and Expenses. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount. The amount of tuition discounting applicable to athletics was \$357,210.82.

NOTE 3 - 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 \$825,692.71 in direct support from the Association, as well as \$45,916.28 in indirect support through payments made on behalf of the University by the Association. These amounts are reported as gifts and expenses in the preceding Statement of Revenues and Expenses.



Ralph Campbell, Jr.
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**

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, 2003, and have issued our report thereon dated January 20, 2004.

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*.

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

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
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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

January 20, 2004

DISTRIBUTION OF AUDIT REPORT

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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The Honorable Roy A. Cooper, III	Attorney General
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Mr. James D. Johnson	Director, Fiscal Research Division
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April 29, 2004

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