

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, 2004

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, 2004

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Ralph Campbell, Jr.
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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, 2004. 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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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, 2004, 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, 2004, 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 November 2, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 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 required 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

November 2, 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, 2004. 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 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 Government Accounting Standards Board (GASB) principles. During 2002, the University adopted GASB Statement No. 35, *Basic Financial Statements - Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. These GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes in 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 non-financial 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's continuing revenue shortfall caused the University to revert \$1.14 million (or 2% of State appropriation) back to the State, of which \$261,757 was transferred to the Hurricane Isabel Relief account. In addition, the University endured permanent reductions of \$1.84 million, and non-recurring reductions of \$455,343. The continuing reductions resulted in a decrease to the regular term instruction budget of \$1.4 million including the abolishment of 11.44 faculty positions, cuts in the temporary academic wages and reduced operating budgets.

Also during last fiscal year, the University did receive \$149,100 in 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 \$24.7 million last year. Most of this increase is due to increases in tuition and fee revenues, the University's cost-cutting efforts and the viability of non-state supported activities.

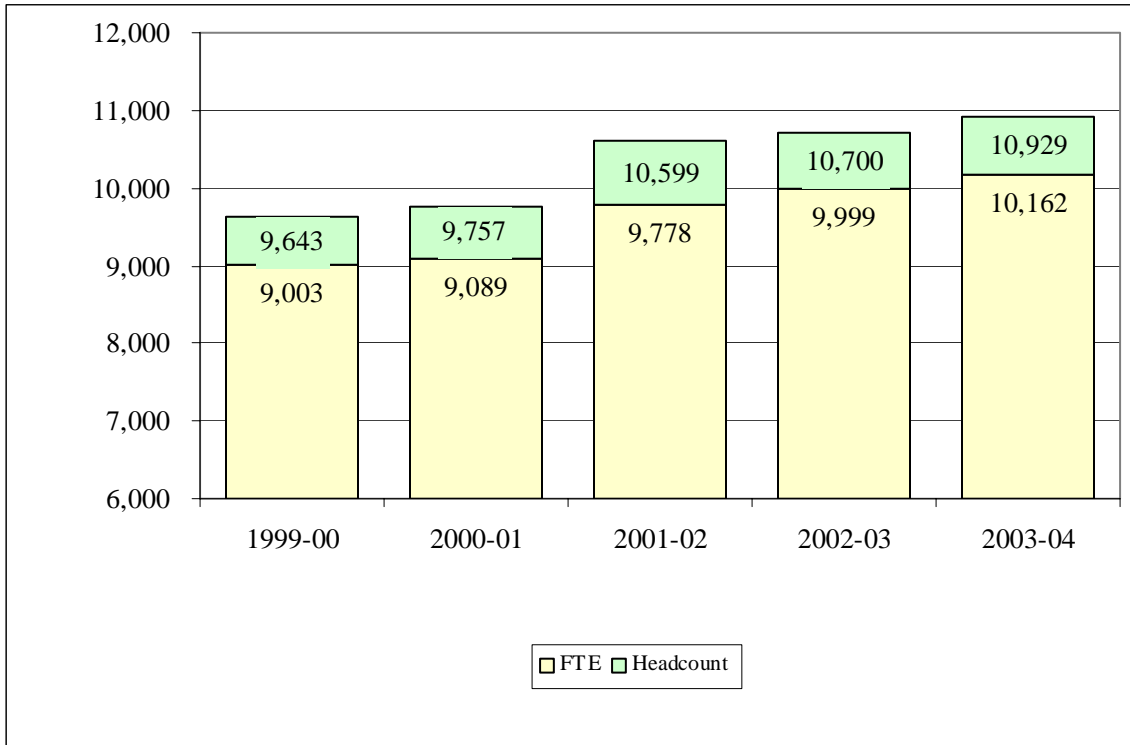
Capital projects continued to move ahead. The University expended \$33.9 million in State bond referendum capital funds. This capital funding is part of the bonds that were approved in 2000. The University is earmarked to receive a total of \$108.2 million for capital projects under the Statewide bond program. Most of the funds received this year were used to complete construction on a new building for the Watson School of Education, which is scheduled to open in the fall of 2004. Some of the other major capital projects are the University Union expansion, the creative art building, sports medicine building, and the renovation and addition to Hoggard Hall (information technology) and Westside Hall (student health). The pace of construction on campus continues to grow.

Bonds payable for the University went up by \$140,000 during 2004, as a result of issuing a refunding bond for Series I Housing bond. This refunding will reduce future interest cost for the University.

The University's endowment received gifts of \$1,756,007 last fiscal year. The total return for the same period was 17.6%. The endowment closed the year with a record market value of \$28,672,799.

The University is still experiencing strong enrollment growth as illustrated by the following graph, depicting enrollment growth over the last five years. In the fall of 2003 the headcount was 10,929 and the full time equivalence of 10,162.

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, 2004. 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

	2004		2003	
	Amount	Percent	Amount	Percent
Assets				
Current Assets	\$ 48,895,617	16.9%	\$ 45,180,088	16.8%
Noncurrent Assets	240,139,966	83.1%	223,246,774	83.2%
Total Assets	289,035,583	100.0%	268,426,862	100.0%
Liabilities				
Current Liabilities	15,271,175	15.8%	16,184,414	16.1%
Noncurrent Liabilities	81,091,595	84.2%	84,282,386	83.9%
Total Liabilities	96,362,770	100.0%	100,466,800	100.0%
Net Assets				
Invested in Capital Assets	124,446,818	64.6%	113,383,372	67.5%
Restricted Nonexpendable	22,845,232	11.9%	16,953,301	10.1%
Restricted Expendable	23,017,848	11.9%	18,863,489	11.2%
Unrestricted	22,362,915	11.6%	18,759,900	11.2%
Total Net Assets	\$ 192,672,813	100.0%	\$ 167,960,062	100.0%

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

On June 30, 2004 total University assets were \$289 million. The largest asset categories include the University's investment in capital assets (\$164.8 million), cash and cash equivalents (\$77.1 million) and endowment and other investments (\$33.2 million).

University liabilities totaled \$96.3 million on June 30, 2004. Long-term debt of \$71.2 million, consisting of bonds payable, notes payable, and capitalized lease obligations, is the largest liability category. Total liabilities decreased \$4.1 million from June 30, 2003 primarily due to the payment of bond principal.

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

	2004		2003	
	Amount	Percent	Amount	Percent
Operating Revenues				
Tuition and Fees (Net)	\$ 46,666,124	51.2%	\$ 43,309,023	52.1%
Sales and Services (Net)	21,091,762	23.1%	18,593,634	22.4%
Grants and Contracts	20,907,343	22.9%	19,359,634	23.3%
Other Operating Revenues	2,446,672	2.8%	1,814,276	2.2%
Total Operating Revenues	91,111,901	100.0%	83,076,567	100.0%
Operating Expenses				
Salaries and Benefits	94,957,908	62.5%	86,724,676	61.0%
Supplies and Materials	3,376,723	2.2%	5,072,771	3.6%
Services	37,465,672	24.7%	34,698,684	24.4%
Scholarships and Fellowships	5,598,657	3.7%	5,490,928	3.9%
Utilities	5,157,856	3.4%	4,704,964	3.3%
Depreciation	5,315,764	3.5%	5,395,199	3.8%
Total Operating Expenses	151,872,580	100.0%	142,087,222	100.0%
Operating Loss	(60,760,679)		(59,010,655)	
Nonoperating Revenues				
State Appropriations	57,941,784	67.8%	55,586,556	76.5%
Capital Gifts and Grants	18,431,104	21.6%	12,698,880	17.5%
Noncapital Gifts and Grants	5,554,002	6.5%	4,179,297	5.7%
Other	3,546,539	4.1%	222,851	0.3%
Total Nonoperating Revenues	85,473,429	100.0%	72,687,584	100.0%
Increase in Net Assets	24,712,750		13,676,929	
Net Assets - Beginning of Year	167,960,063		154,737,736	
Restatements			(454,603)	
Net Assets - End of Year	\$ 192,672,813		\$ 167,960,062	

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Student tuition and fees (\$46.6 million) and sales and services from auxiliary enterprises (\$21.1 million) account for 74% of the University's operating revenue. Per GASB Statement No. 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 (\$94.9 million) and payments to vendors and suppliers for services and goods (\$40.8 million).

Statement of Cash Flows

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

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

Condensed Statement of Cash Flows For the Years Ended June 30, as Indicated

	2004	2003
	Amount	Amount
Cash Provided (Used) by:		
Operating Activities	\$ (52,539,729)	\$ (50,371,809)
Noncapital Financing Activities	62,272,937	60,169,646
Capital Financing Activities	(14,824,840)	19,712,136
Investing Activities	4,179,133	5,812,469
	<hr/>	<hr/>
Net Change in Cash	(912,499)	35,322,442
	<hr/>	<hr/>
Cash, Beginning of Year	77,957,351	42,634,909
	<hr/>	<hr/>
Cash, Ending of Year	\$ 77,044,852	\$ 77,957,351
	<hr/> <hr/>	<hr/> <hr/>

Major sources of funds included in operating activities are student tuition and fees (\$46.6 million), auxiliary enterprises (\$21.1 million), and contracts and grants (\$20.9 million).

Major uses of funds in operating activities are compensation to employees (\$93.8 million) and payments to suppliers for goods and services (\$43.3 million) on a cash basis.

The largest inflow of cash in the noncapital financing activities is the State of North Carolina appropriation of \$57.9 million. The new accounting standards require the University to

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

reflect this source of revenue as nonoperating even though the University's budget depends on these funds to continue the current level of operations. Other noncapital financing activity includes gifts received (\$3.3 million).

Cash provided by capital financing activities during fiscal year 2004 includes proceeds for a bond issue of \$5.1 million. The bond was a refunding bond used to retire older, more expensive bonds. Cash used in capital financing activities during fiscal year 2004 was primarily for the acquisition of capital assets (\$23.7 million) and the repayment of debt (\$8.3 million). The repayment of debt includes \$4.6 million from the refunding bond issued this year.

Capital Asset and Debt Administration

Capital Assets

The University had \$164.8 million invested in capital assets at year end.

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

	<u>2004</u>	<u>2003</u>
Land	\$ 4,574,910	\$ 3,118,678
Art, Literature and Artifacts	1,010,132	814,733
Construction in Progress	29,270,157	28,052,609
Buildings	111,276,226	98,458,706
Machinery and Equipment	7,568,525	7,463,824
Infrastructure	<u>11,093,817</u>	<u>10,119,980</u>
Total Capital Assets	<u>\$ 164,793,767</u>	<u>\$ 148,028,530</u>

Capital projects scheduled for completion in 2004-2005 include the new education building for the Watson School of Education with a cost of approximately \$24 million.

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

Debt

The University has \$70.9 million in outstanding bonds, notes and capital leases on June 30, 2004, of which \$70.06 million is for outstanding bonds. New debt includes the issuance of bonds at \$5.1 million for the refunding of Series I Dorm and Dining Hall bonds. This refunding will result in reduction of interest expense for the University due to the lower interest rates on the newly issued bonds. There have been no other significant changes in credit ratings or debt limitations that would affect future financing for the University.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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

Economic Forecast

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

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

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

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

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

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

Contacting the University's financial management

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

University of North Carolina at Wilmington
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	33,311,992.50
Restricted Cash and Cash Equivalents		10,205,524.43
Receivables, Net (Note 4)		3,751,083.88
Inventories		411,812.81
Notes Receivable, Net (Note 4)		892,926.62
Other Assets		322,276.70

Total Current Assets 48,895,616.94

Noncurrent Assets:

Restricted Cash and Cash Equivalents		33,527,335.28
Receivables, Net (Note 4)		91,150.56
Restricted Due from Primary Government		4,587,453.92
Endowment Investments		24,714,532.15
Other Long-Term Investments		8,456,066.14
Notes Receivable, Net (Note 4)		3,969,662.06
Capital Assets - Nondepreciable (Note 5)		34,855,198.64
Capital Assets - Depreciable, Net (Note 5)		129,938,568.04

Total Noncurrent Assets 240,139,966.79

Total Assets 289,035,583.73

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		4,949,508.70
Due to Primary Government		33,954.23
Deposits Payable		79.00
Deferred Revenue		4,825,063.47
Interest Payable		1,485,764.94
Long-Term Liabilities - Current Portion (Note 7)		3,976,805.07

Total Current Liabilities 15,271,175.41

Noncurrent Liabilities:

Funds Held for Others		3,414,857.78
U. S. Government Grants Refundable		4,309,218.54
Long-Term Liabilities (Note 7)		73,367,518.66

Total Noncurrent Liabilities 81,091,594.98

Total Liabilities 96,362,770.39

University of North Carolina at Wilmington
Statement of Net Assets
June 30, 2004

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	124,446,817.95
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	11,245,535.31
Research	904,058.51
Endowed Professorships	4,687,088.51
Departmental Uses	4,948,374.77
Loans	1,060,176.15
Expendable:	
Scholarships and Fellowships	2,913,304.23
Research	1,634,115.69
Endowed Professorships	408,832.55
Departmental Uses	5,546,077.28
Loans	215,047.03
Capital Projects	6,696,843.87
Debt Service	5,603,627.63
Unrestricted	22,362,913.86
Total Net Assets	\$ 192,672,813.34

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

University of North Carolina at Wilmington
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 46,666,123.73
Federal Grants and Contracts	18,821,297.60
State and Local Grants and Contracts	1,545,501.94
Nongovernmental Grants and Contracts	540,543.96
Sales and Services, Net (Note 9)	21,091,762.41
Interest Earnings on Loans	17,527.57
Other Operating Revenues	2,429,143.70

Total Operating Revenues 91,111,900.91

EXPENSES

Operating Expenses:

Salaries and Benefits	94,957,908.20
Supplies and Materials	3,376,723.11
Services	37,465,671.65
Scholarships and Fellowships	5,598,657.45
Utilities	5,157,855.75
Depreciation	5,315,764.12

Total Operating Expenses 151,872,580.28

Operating Loss (60,760,679.37)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	57,941,784.32
Noncapital Grants	465,214.03
Noncapital Gifts, Net (Note 9)	3,332,781.97
Investment Income (Net of Investment Expense of \$75,168)	6,822,570.98
Interest and Fees on Capital Asset-Related Debt	(3,434,012.82)
Other Nonoperating Expenses	157,979.99

Net Nonoperating Revenues 65,286,318.47

Income Before Other Revenues, Expenses, Gains, or Losses 4,525,639.10

Capital Appropriations	149,100.00
Capital Grants	16,983,040.00
Capital Gifts	1,298,964.31
Additions to Endowments	1,756,007.05

Increase in Net Assets 24,712,750.46

NET ASSETS

Net Assets - July 1, 2003 167,960,062.88

Net Assets - June 30, 2004 \$ 192,672,813.34

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

University of North Carolina at Wilmington
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 87,720,506.66
Payments to Employees and Fringe Benefits	(93,824,821.25)
Payments to Vendors and Suppliers	(43,333,276.63)
Payments for Scholarships and Fellowships	(5,598,657.45)
Loans Issued	(1,089,239.00)
Collection of Loans	956,604.00
Interest Earned on Loans	12,993.03
Other Receipts	2,616,161.06
Net Cash Used by Operating Activities	(62,539,729.58)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	57,941,784.32
Noncapital Grants	623,194.02
Noncapital Gifts	3,312,898.13
Additions to Permanent and Term Endowments	1,756,007.05
Related Activity Agency Receipts	(1,360,946.46)
Net Cash Provided by Noncapital Financing Activities	62,272,937.06

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	5,141,805.83
State Capital Appropriations	149,100.00
Capital Grants	13,907,385.71
Capital Gifts	1,298,964.31
Acquisition and Construction of Capital Assets	(23,717,146.63)
Principal Paid on Capital Debt and Leases	(8,333,143.94)
Interest and Fees Paid on Capital Debt and Leases	(3,202,633.58)
Other Payments	(69,171.85)
Net Cash Used by Capital Financing and Related Financing Activities	(14,824,840.15)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	36,991,203.72
Investment Income	2,852,476.80
Purchase of Investments and Related Fees	(35,664,547.11)
Net Cash Provided by Investing Activities	4,179,133.41

Net Decrease in Cash and Cash Equivalents	(912,499.26)
Cash and Cash Equivalents - July 1, 2003	77,957,351.47
Cash and Cash Equivalents - June 30, 2004	\$ 77,044,852.21

University of North Carolina at Wilmington
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

Page 2

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

Operating Loss	\$	(60,760,679.37)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		5,315,764.12
Allowances, Write-Offs, and Amortizations		146,092.02
Changes in Assets and Liabilities:		
Receivables (Net)		1,040,027.58
Due from Primary Government		172,777.17
Due from State of North Carolina Component Units		71,000.00
Inventories		138,240.33
Accounts Payable and Accrued Liabilities		447,925.26
Due to Primary Government		11,367.50
Deferred Revenue		(204,390.19)
Compensated Absences		1,200,505.00
Deposits Payable		970,880.00
Notes Issued		(1,089,239.00)
Net Cash Used by Operating Activities	\$	<u>(52,539,729.58)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	33,311,992.50
Restricted Cash and Cash Equivalents		10,205,524.43
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>33,527,335.28</u>
Total Cash and Cash Equivalents - June 30, 2004	\$	<u>77,044,852.21</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$	5,141,805.83
Assets Acquired through a Gift		172,642.00
Change in Fair Value of Investments		4,027,203.00
Reinvested Distributions		(117,451.27)

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, 2004

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 unit. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component unit is blended into the University's financial statements. The blended component unit, although legally separate, is, in substance, part of the University's operations and therefore, is reported as if it were part of the University.

Blended Component Unit - Although legally separate, The Donald R. Watson Foundation, Inc. (Foundation) a component unit of the University, is reported as if it were part of the University. This 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 and to carry out the purposes of selected organizations including the University.

Separate financial statements for the Foundation may be obtained from the Financial Services Office, 601 South College Road, Wilmington, NC 28406-5952, or by calling 910-962-3244. 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,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

money market funds, certificates of deposit, limited partnerships, real 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 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 sale, are valued at the lower of cost or market 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 Museum of World Cultures collections. These collections adhere to the University's policy to maintain for public exhibition, education or research, protect, keep

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

unencumbered, care for and preserve, and requires proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- 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, compensated absences, and other payables 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 and issuance costs over the life of the bonds 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 bonuses awarded by the North Carolina General Assembly to all full-time permanent employees as of September 30, 2002 and as of July 1, 2003. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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, copy centers, 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 \$77,438,852.21. At year-end, cash on hand was \$24,700.00. The University's portion of the State Treasurer's Investment Pool was \$76,905,137.90. 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 \$115,014.31 and the bank balance was \$161,783.16. Of the bank balance, \$100,000.00 was covered by federal depository insurance and \$61,783.16 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

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

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

Investments of the University's component unit, the Donald R. Watson Foundation, Inc., is subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on it 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 pool:

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 times 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the University's name.

A summary of the University's investments at June 30, 2004 is presented below:

Long-Term Investment Pool

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
U.S. Government Securities	\$ 54,744.13	\$ 0.00	\$ 1,158,759.99	\$ 1,213,504.12
Corporate Bonds	3,501.87		7,596.83	11,098.70
Corporate Stocks	314,606.09		692,501.32	1,007,107.41
Repurchase Agreements			671,930.00	671,930.00
Total Categorized Investments	\$ 372,852.09	\$ 0.00	\$ 2,530,788.14	2,903,640.23
Investments Not Categorized:				
Certificate of Deposits				394,000.00
Mutual Funds				23,517,886.59
Money Market Funds				6,300,187.45
Total Investments Not Categorized				30,212,074.04
Total Long-Term Investments				\$ 33,115,714.27

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Non-Pooled Investments

	Fair Value			
	Risk Category			Total
	1	2	3	
Categorized Investments:				
International Stocks	\$ 0.00	\$ 0.00	\$ 36,217.36	\$ 36,217.36
Total Categorized Investments	\$ 0.00	\$ 0.00	\$ 36,217.36	36,217.36
Investments Not Categorized:				
Real Estate				765.63
Life Insurance				17,901.03
Total Investments Not Categorized				18,666.66
Total Non-Pooled Investments				\$ 54,884.02

Total Investments

	Fair Value			
	Risk Category			Total
	1	2	3	
Total Categorized Investments	\$ 372,852.09	\$ 0.00	\$ 2,567,005.50	\$ 2,939,857.59
Total Investments Not Categorized				30,230,740.70
Total Investments				\$ 33,170,598.29

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University limits the amount of funds managed by any single asset manager and also limits the amount of funds to be invested in particular security classes. The investment funds that utilized derivative securities for the fiscal year ending June 30, 2004 are summarized in the chart below. The amounts shown in the chart represent the market value of the University's (including affiliated external foundations) investment in the various investment funds and the market value and percent of holdings held in derivatives by those funds. The University's reporting entity comprises .70% of these totals.

The market risk associated with these indirect derivative holdings by fund type follow:

	<u>Total Market Value</u>	<u>% Invested in Derivatives</u>	<u>Value</u>
Domestic Equity	\$ 182,569,063	12.93%	\$ 23,604,412
International Equity	200,589,899	14.44%	28,971,520
Global Equity	116,448,467	16.68%	19,419,511
Absolute Return	88,103,420	9.93%	8,749,994
Fixed Income:			
Domestic Fixed Income	48,623,176	4.80%	2,333,912
Enhanced Fixed Income	109,659,247	0.22%	241,633
Private Equity	42,156,989	1.96%	826,298
Real Estate	31,407,074	2.94%	924,632
Energy	46,907,040	2.22%	1,041,478
Total	<u>\$ 866,464,375</u>		<u>\$ 86,113,390</u>
Total Investment Fund Market Value			<u><u>\$ 1,155,708,318</u></u>
Total % of Market Value for Indirect Derivative Exposure			7.45%

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 3.5 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, 2004 net appreciation of \$6,797,469.18 was available to be spent of which \$4,509,517.00 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 475,703.49	\$ 49,267.63	\$ 426,435.86
Accounts	1,614,364.83		1,614,364.83
Intergovernmental	1,250,218.07		1,250,218.07
Pledges	175,190.70	8,759.54	166,431.16
Interest on Loans	259,426.26		259,426.26
Other	34,207.70		34,207.70
Total Current Receivables	<u>\$ 3,809,111.05</u>	<u>\$ 58,027.17</u>	<u>\$ 3,751,083.88</u>
Noncurrent Receivables:			
Pledges	<u>\$ 95,947.96</u>	<u>\$ 4,797.40</u>	<u>\$ 91,150.56</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 894,420.04	\$ 89,366.42	\$ 805,053.62
Institutional Student Loan Programs	84,063.00		84,063.00
Other	3,810.00		3,810.00
Total Notes Receivable - Current	<u>\$ 982,293.04</u>	<u>\$ 89,366.42</u>	<u>\$ 892,926.62</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 4,366,479.69	\$ 436,647.97	\$ 3,929,831.72
Institutional Student Loan Programs	36,020.54		36,020.54
Other	3,809.80		3,809.80
Total Notes Receivable - Noncurrent	<u>\$ 4,406,310.03</u>	<u>\$ 436,647.97</u>	<u>\$ 3,969,662.06</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, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 3,118,678.30	\$ 0.00	\$ 1,456,231.93	\$ 0.00	\$ 4,574,910.23
Art, Literature, and Artifacts	814,733.31		195,398.49		1,010,131.80
Construction in Progress	28,052,609.48		19,860,204.93	18,642,657.80	29,270,156.61
Total Capital Assets, Nondepreciable	31,986,021.09		21,511,835.35	18,642,657.80	34,855,198.64
Capital Assets, Depreciable:					
Buildings	144,104,213.71		15,877,764.39	35,234.00	159,946,744.10
Machinery and Equipment	20,552,738.91		2,163,737.89	600,624.99	22,115,851.81
General Infrastructure	16,945,121.68		1,308,661.48		18,253,783.16
Total Capital Assets, Depreciable	181,602,074.30		19,350,163.76	635,858.99	200,316,379.07
Less Accumulated Depreciation/Amortization for:					
Buildings	45,645,508.26		3,054,254.39	29,244.22	48,670,518.43
Machinery and Equipment	13,088,915.49	5,960.52	1,920,724.15	468,273.88	14,547,326.28
General Infrastructure	6,825,141.26		334,825.06		7,159,966.32
Total Accumulated Depreciation	65,559,565.01	5,960.52	5,309,803.60	497,518.10	70,377,811.03
Total Capital Assets, Depreciable, Net	116,042,509.29	(5,960.52)	14,040,360.16	138,340.89	129,938,568.04
Capital Assets, Net	\$ 148,028,530.38	\$ (5,960.52)	\$ 35,552,195.51	\$ 18,780,998.69	\$ 164,793,766.68

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004 were as follows:

	Amount
Accounts Payable	\$ 3,494,968.18
Accrued Payroll	449,870.05
Contract Retainage	993,840.58
Other	10,829.89
Total Accounts Payable and Accrued Liabilities	\$ 4,949,508.70

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, 2004 is presented as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Bonds Payable	\$ 73,145,000.00	\$ 5,100,000.00	\$ 8,180,000.00	\$ 70,065,000.00	\$ 3,645,000.00
Add/Deduct Premium/Discount	808,018.73	117,134.30	57,047.85	868,105.18	
Total Bonds Payable	73,953,018.73	5,217,134.30	8,237,047.85	70,933,105.18	3,645,000.00
Notes Payable	181,020.10		56,546.43	124,473.67	45,263.16
Arbitrage Rebate Payable	47,478.65		47,478.65	0.00	
Capital Leases Payable	277,471.02		96,597.51	180,873.51	105,366.91
Compensated Absences	4,798,433.00	1,424,001.00	223,496.00	5,998,938.00	181,175.00
Other Payables		106,933.37		106,933.37	
Total Long-Term Liabilities	\$ 79,257,421.50	\$ 6,748,068.67	\$ 8,661,166.44	\$ 77,344,323.73	\$ 3,976,805.07

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

B. 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 6/30/2004	Principal Outstanding 6/30/2004
Dormitories and Dining Hall						
Construct Dorm	B	7.5-8.0	1/31/2009	\$ 1,400,000.00	\$ 895,000.00	\$ 505,000.00
Construct Dorm	D	5.5-6.0	1/31/2004	1,600,000.00	1,600,000.00	
Construct Dorm	H	5.9-6.75	1/31/2004	3,285,000.00	3,285,000.00	
Construct Dorm	I	4.5-5.0	1/31/2009	10,735,000.00	10,735,000.00	
Construct Honors Dorm	J	4.7-5.4	1/31/2018	6,440,000.00	1,305,000.00	5,135,000.00
Total Dormitories and Dining Hall				23,460,000.00	17,820,000.00	5,640,000.00
Physical Education System						
Construct Trask Coliseum	B	5.1-5.5	1/31/2010	1,140,000.00	605,000.00	535,000.00
Union Revenue System						
Refund 1990	1997	4.8-5.0	1/31/2011	4,300,000.00	1,435,000.00	2,865,000.00
Recreation Revenue						
Construct Recreation Facility	1998	4.5-4.75	1/31/2019	10,300,000.00	1,825,000.00	8,475,000.00
General Revenue						
Construct Dorm	2002A	3.0-5.0	1/31/2023	11,500,000.00	390,000.00	11,110,000.00
Westside, Parking, Apartments	2002B	4.0-5.0	4/30/2022	6,735,000.00	355,000.00	6,380,000.00
Union Construction	2003A	2.5-5.25	1/31/2028	30,000,000.00		30,000,000.00
Refund Dorm and Dining Hall Series I	2003B	2.0-5.0	4/30/2009	5,100,000.00	40,000.00	5,060,000.00
Total General Revenue				53,335,000.00	785,000.00	52,550,000.00
Total Bonds Payable (principal only)				92,535,000.00	22,470,000.00	70,065,000.00
Plus: Unamortized Premium						868,105.18
Total Bonds Payable				\$ 92,535,000.00	\$ 22,470,000.00	\$ 70,933,105.18

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2004 are as follows:

<u>Fiscal Year</u>	<u>Bonds Payable</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 3,645,000.00	\$ 3,201,335.01	\$ 45,263.16	\$ 5,622.25
2006	3,770,000.00	3,077,242.51	45,263.16	3,254.99
2007	3,895,000.00	2,947,815.01	33,947.35	887.22
2008	3,885,000.00	2,805,875.01		
2009	4,045,000.00	2,658,212.51		
2010-2014	14,815,000.00	11,035,131.29		
2015-2019	16,515,000.00	7,287,868.75		
2020-2024	11,955,000.00	3,397,712.51		
2025-2029	7,540,000.00	893,500.02		
Total Requirements	\$ 70,065,000.00	\$ 37,304,692.62	\$ 124,473.67	\$ 9,764.46

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

Dormitories and Dining Hall: On October 29, 2003 the University defeased \$4,960,000 of outstanding (Dorm and Dining Hall) Revenue Bonds, Series I (original issue amount \$10,735,000). As a result, the University reduced its debt service requirements by \$162,994 over the next 5 years and obtained an economic gain of \$198,163.

E. Notes Payable - The University was indebted for notes payable for the purpose shown in the following table:

<u>Purpose</u>	<u>Financial Institution</u>	<u>Interest Rate/ Ranges</u>	<u>Final Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Principal Paid Through 6/30/2004</u>	<u>Principal Outstanding 6/30/2004</u>
Parking Lot Construction	BB&T	5.23%	2/1/2007	\$ 430,000.00	\$ 305,526.33	\$ 124,473.67
Total Notes Payable				\$ 430,000.00	\$ 305,526.33	\$ 124,473.67

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to the 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, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 116,995.44
2006	77,996.95
Total Minimum Lease Payments	194,992.39
Amount Representing Interest (8.72% Rate of Interest)	<u>14,118.88</u>
Present Value of Future Lease Payments	<u>\$ 180,873.51</u>

Machinery and equipment acquired under capital lease amounted to \$161,241.75 at June 30, 2004.

- B. Operating Lease Obligations** – The University entered into operating leases for office space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 545,728.44
2006	234,781.53
2007	104,197.57
Total Minimum Lease Payments	<u>\$ 884,707.54</u>

Rental expense for all operating leases during the year was \$549,777.00.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	Revenues Pledged as Security for Debt
Operating Revenues:						
Student Tuition and Fees	\$ 50,139,670.27	\$ 0.00	\$ 3,539,351.01	\$ (65,804.47)	\$ 46,666,123.73	\$ 0.00
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 8,964,672.65	\$ 0.00	\$ 0.00	\$ 10,765.82	\$ 8,953,906.83	\$ 8,953,906.83 (A)
Dining	6,456,263.57			7,252.05	6,449,011.52	6,449,011.52 (A)
Student Union Services	106,944.54			748.36	106,196.18	106,196.18 (B)
Parking	1,600,878.14			8,182.42	1,592,695.72	
Athletic	1,670,363.26			5,809.81	1,664,553.45	1,664,553.45 (C)
Other	7,015,824.47	6,716,008.21		11,251.43	288,564.83	
Sales and Services of Educational and Related Activities	2,036,833.88				2,036,833.88	
Total Sales and Services	\$ 27,851,780.51	\$ 6,716,008.21	\$	\$ 44,009.89	\$ 21,091,762.41	\$ 17,173,667.98
Nonoperating - Noncapital Gifts	\$ 3,346,338.91	\$ 0.00	\$ 0.00	\$ 13,556.94	\$ 3,332,781.97	\$ 0.00

Revenue Bonds Secured by Pledged Revenues:

(A) Dorm and Dining System

(B) University Union

(C) Recreation Facility

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	\$ 48,255,602.10	\$ 981,340.01	\$ 4,806,468.60	\$ 204,699.06	\$ 0.00	\$ 0.00	\$ 54,248,109.77
Public Service	1,384,520.52	86,498.14	786,524.68	36,849.00	1,222.12		2,295,614.46
Organized Research	7,443,691.99	931,777.29	4,446,927.87	54,092.01	15,925.35		12,892,414.51
Libraries	2,009,360.41	62,060.16	2,279,385.39				4,350,805.96
Academic Support	4,446,816.03	195,311.50	1,225,910.64				5,868,038.17
Student Services	3,750,219.34	252,670.68	1,654,824.68				5,657,714.70
Institutional Support	11,071,399.09	315,514.03	3,432,067.54	100.00			14,819,080.66
Physical Plant	8,453,751.83	382,839.58	7,552,551.29		3,850,373.38		20,239,516.08
Auxiliary Enterprises	8,142,546.89	168,674.86	11,281,010.96		1,290,334.90		20,882,567.61
Financial Aid		36.86		5,302,917.38			5,302,954.24
Depreciation						5,315,764.12	5,315,764.12
Total Operating Expenses	\$ 94,957,908.20	\$ 3,376,723.11	\$ 37,465,671.65	\$ 5,598,657.45	\$ 5,157,855.75	\$ 5,315,764.12	\$ 151,872,580.28

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the University had a total payroll of \$80,474,609.97, of which \$39,182,802.16 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$2,350,968.00 and \$87,111.88, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$87,111.88, \$0.00, and \$682,208.50, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, 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, 2004, the University had a total payroll of \$80,474,609.97, of which \$30,119,073.99 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$1,807,144.44 and \$2,060,144.66, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$248,554.33 for the year ended June 30, 2004.

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, 2004 were \$52,326.05. The voluntary contributions by employees amounted to \$510,329.86 for the year ended June 30, 2004.

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 \$1,304,042.45 for the year ended June 30, 2004.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State-administered programs that 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 3.2% 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, 2004, the University's total contribution to the Plan was

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$2,217,660. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The University was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

theft losses that 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 North Carolina Department of Insurance for the coverage.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence with a \$50,000 deductible and a 10% participation in each loss above the deductible.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance.

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 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. There were no employer contributions required for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$16,054,574.72 and on other purchases were \$5,707,719.50 at June 30, 2004.
- B. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. The University's remaining authorization of \$75,856,105.00 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.
- C. 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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:

Purpose	Amount
Permanent Endowment	\$ 111,744.00

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 supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. This support approximated \$2,863,633.00 for the year ended June 30, 2004.

University of North Carolina at Wilmington
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<i>Projects Started</i>									
School of Education	Dec 1998	Dec 1998	\$ 15,816,338.00	\$ 922,900.00	\$ 16,739,238.00	\$ 14,497,733.89	86.61%	Mar 2004	Sep 2004
Academic Classroom Facility	Jan 2001	Jan 2001	32,095,245.00		32,095,245.00	2,194,210.46	6.84%	Aug 2006	Sep 2004
General Classroom Building	Jan 2001	Jan 2001	12,014,650.00		12,014,650.00	805,447.06	6.70%	Apr 2005	Sep 2005
King Hall Building Renovation	Apr 2001	Jan 2003	2,439,930.00		2,439,930.00	76,392.55	3.13%	Apr 2005	Apr 2005
Hoggard Hall Renovation / Academic Computer Center Addition	Apr 2001	Apr 2001	6,214,770.00		6,214,770.00	448,723.47	7.22%	May 2005	May 2005
Alderman Hall Renovation	Mar 2002	Oct 2001	2,422,760.00		2,422,760.00	210,348.95	8.68%	Jun 2007	Jun 2007
Westside Hall Renovation and Addition	Jun 2002	Mar 2001	2,242,976.00	3,038,540.00	5,281,516.00	2,967,571.56	56.19%	Aug 2004	Dec 2004
Kenan Auditorium Renovation	Mar 2003	Oct 2001	2,506,988.00		2,506,988.00	454,600.21	18.13%	Oct 2006	Oct 2006
Hinton James Hall	Dec 2002	Jan 2003	1,183,600.00		1,183,600.00	11,841.00	1.00%	May 2006	May 2006
Marine Science Operations Facility	Aug 2002	Oct 2002	3,083,120.00	300,000.00	3,383,120.00	174,027.51	5.14%	Jul 2005	Jul 2005
Academic Support Facilities - Print Shop/Warehouse Expansion	Dec 2000	Jan 2001	1,140,000.00	257,595.00	1,397,595.00	1,348,829.57	96.51%	Mar 2003	Aug 2004
Infrastructure Expansion	Jul 2002	Jul 2002	4,933,199.00	105,250.00	5,038,449.00	1,707,274.98	33.88%	Jun 2003	May 2005
Land Acquisition	Jun 2000	Jun 2000	2,100,000.00		2,100,000.00	2,100,000.00	100.00%	Jun 2003	Nov 2004
Primary Electrical Distribution System Improvements	Jul 2002	Nov 2001	2,206,040.00	85,800.00	2,291,840.00	2,144,625.20	93.58%	Aug 2003	Sep 2004
Technology Infrastructure Improvements	Jul 2000	Jul 2000	2,801,550.00		2,801,550.00	2,332,661.25	83.26%	Mar 2004	Sep 2004
Effective Project Manager Reserve	Jul 2000	Jul 2000	5,323,090.00		5,323,090.00	2,371,015.29	44.54%	Jun 2007	Jun 2007
Inflationary Cost Reserve	Jul 2000	Jul 2000	788,044.00		788,044.00		0.00%	Jun 2007	Jun 2007
Kenan Hall Renovation	Apr 2003	Jul 2003	2,580,770.00		2,580,770.00	43,912.30	1.70%	Oct 2006	Oct 2006
Friday Hall Laboratory Building Renovation	Oct 2004	Jul 2003	7,308,730.00		7,308,730.00	108,000.00	1.48%	Jul 2008	Dec 2006
Total All Projects			\$ 109,201,800.00	\$ 4,710,085.00	\$ 113,911,885.00	\$ 33,997,215.25			

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. 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.

**University of North Carolina at Wilmington
Intercollegiate Athletics Program
Statement of Revenues and Expenses
Year Ended June 30, 2004**

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	\$ 3,730,927.43	\$ 3,730,927.43
Ticket Sales	379,371.63	5,096.92	11,573.81	10,634.50	406,676.86
Program Sales			21,045.00		21,045.00
Contest Guarantees	45,000.00	11,000.00	8,000.00		64,000.00
Advertising Income				76,400.00	76,400.00
Institutional Sports Camps and Clinics	205,585.95	136,854.34	325,521.43		667,961.72
NCAA/Conference USA				383,836.60	383,836.60
Other Sources		1,199.55	5,061.10	211,021.16	217,281.81
Total Operating Revenues	629,957.58	154,150.81	371,201.34	4,412,819.69	5,568,129.42
EXPENSES					
Operating Expenses:					
Coaches' Salaries	348,554.84	225,497.97	907,392.92		1,481,445.73
Other Salaries	11,332.19	6,823.89	47,022.41	760,841.10	826,019.59
Fringe Benefits	81,955.76	45,719.19	223,998.96	207,949.08	559,622.99
Travel:					
Team	102,974.60	88,832.17	394,376.26	22,717.24	608,900.27
Recruiting	43,650.32	26,171.60	48,121.35	768.61	118,711.88
Financial Aid, Net	259,026.97	251,425.45	568,691.66	110,974.50	1,190,118.58
Supplies and Uniforms	26,760.81	21,523.80	110,414.92	199,980.08	358,679.61
Telephone	6,367.18	6,441.80	13,608.50	28,783.83	55,201.31
Entertainment	3,295.63	1,352.50	591.45	1,533.20	6,772.78
Contest Guarantees	31,500.00	1,500.00			33,000.00
Radio and TV				20,526.67	20,526.67
Printing and Binding	10,690.89	1,840.90	7,384.61	53,823.99	73,740.39
Repairs and Maintenance		4,000.00		5,065.17	9,065.17
Advertising				11,799.64	11,799.64
Equipment Rentals				231,586.98	231,586.98
Other Fixed Charges	22,661.68	5,591.92	21,400.98	65,947.50	115,602.08
Other Contractual Services	100,066.25	54,148.25	86,479.43	70,494.37	311,188.30
Depreciation Expense				280,603.45	280,603.45
Miscellaneous	164,621.63	68,514.34	130,770.17	275,211.78	639,117.92
Total Operating Expenses	1,213,458.75	809,383.78	2,560,253.62	2,348,607.19	6,931,703.34
Operating Income (Loss)	(583,501.17)	(655,232.97)	(2,189,052.28)	2,064,212.50	(1,363,573.92)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations			180,682.90		180,682.90
Gifts:					
Noncapital	34,820.00	14,500.00	153,284.00	841,212.25	1,043,816.25
Investment Income				8,882.66	8,882.66
Endowment Match				(225,000.00)	(225,000.00)
Net Nonoperating Revenues	34,820.00	14,500.00	333,966.90	625,094.91	1,008,381.81
Excess (Deficiency) of Revenues over Expenses	\$ (548,681.17)	\$ (640,732.97)	\$ (1,855,085.38)	\$ 2,689,307.41	\$ (355,192.11)

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 fair value at the date of receipt.

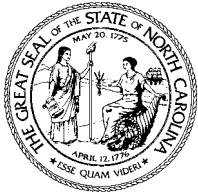
During the year, leased vehicles were provided at no charge to the University. The values of these donations have been recorded as gifts and expenses in the preceding Statement of Revenues and Expenses.

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 \$404,744.08.

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 \$1,043,816.25 in direct support from the Association, as well as \$40,749.36 in indirect support through payments made on behalf of the University by the Association. These amounts are reported as contributions and expenses in the preceding Statement of Revenues and Expenses.



Ralph Campbell, Jr.
State Auditor

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

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, 2004, and have issued our report thereon dated November 2, 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.

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 an opinion 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



Ralph Campbell, Jr.
State Auditor

November 2, 2004

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

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January 14, 2005

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