



# **STATE OF NORTH CAROLINA**

**UNIVERSITY OF NORTH CAROLINA AT WILMINGTON**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2008**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**UNIVERSITY OF NORTH CAROLINA AT WILMINGTON**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2008**

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**THE UNIVERSITY OF NORTH CAROLINA**

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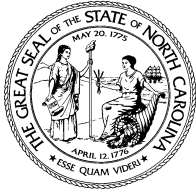
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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. Perdue, Governor  
The General Assembly of North Carolina  
Board of Trustees, University of North Carolina at Wilmington

We have completed a financial statement audit of the University of North Carolina at Wilmington for the year ended June 30, 2008, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

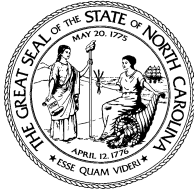
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**Beth A. Wood, CPA**  
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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the University of North Carolina at Wilmington, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University of North Carolina at Wilmington's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the UNCW Corporation, Inc., the University's discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that entity, are based on the report of the other auditor.

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. The financial statements of the UNCW Corporation, Inc., were not audited in accordance with *Government Auditing Standards*. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of North Carolina at Wilmington and its discretely presented component unit as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2009 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.

The Management's Discussion and Analysis, 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.



Beth A. Wood, CPA  
State Auditor

April 1, 2009

## **UNIVERSITY OF NORTH CAROLINA AT WILMINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **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, 2008. The following financial statements and notes to the financial statements comprise our complete set of financial information. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the previous year is presented to help 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. 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.

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**

Although the State imposed a budget reduction on the universities, the University's general fund budget grew by 9.7 percent from June 30, 2007 to June 30, 2008. A portion of the increase was associated with enrollment growth, which totaled \$2.1 million and 12 new faculty positions. In addition the State provided salary increases of 4 percent for our staff and administrators and nearly 4.8 percent for our faculty. Additional funds were provided by the

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

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State to support our new and renovated buildings in the amount of \$1.1 million. These increases totaled nearly \$8.9 million in additional State appropriations.

Capital projects continued to move ahead on campus. The largest construction projects completed during the year were the Union project, which included the construction of a new Fisher Student Center and the renovation of the old Fisher Student Union, and the renovation of the Burney Center, at a cost of \$45.5 million. Other projects included the major renovations of Friday Hall and Kenan Hall, and the completion of the CMS Operations Building. We are also in the early phases of constructing a new nursing school on campus.

The UNCW Corporation is also constructing a third student apartment complex. This newest complex will be called Seahawk Crossing and will be the same type of student housing that was constructed in Seahawk Square and Seahawk Village. This apartment complex will hold over 662 students when completed in the fall of 2009. With the completion of this project the total on campus housing will be 4,143 beds. Along with this project, the UNCW Corporation is also constructing the first parking deck on campus. The parking deck is also slated for completion in the fall of 2009. The new deck will hold over 700 cars.

In 2008, the combined University and Foundation endowment was \$53.3 million. Gifts were \$3.7 million. Appreciation and investment income amounted to \$932,000 with other withdrawals, including spendable income, in the amount of \$2.0 million.

### **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, 2008. 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

	2008	2007	Change	% Change
<b>Assets</b>				
Current Assets	\$ 63,477,584	\$ 67,026,548	\$ (3,548,964)	-5.3%
Noncurrent Assets	105,816,461	120,450,306	(14,633,845)	-12.1%
Capital Assets, Net of Related Debt	352,054,606	334,399,344	17,655,262	5.3%
<b>Total Assets</b>	<u>521,348,651</u>	<u>521,876,198</u>	<u>(527,547)</u>	-0.1%
<b>Liabilities</b>				
Current Liabilities	18,045,580	26,939,077	(8,893,497)	-33.0%
Noncurrent Liabilities	146,603,322	151,576,498	(4,973,176)	-3.3%
<b>Total Liabilities</b>	<u>164,648,902</u>	<u>178,515,575</u>	<u>(13,866,673)</u>	-7.8%
<b>Net Assets</b>				
Invested in Capital Assets, Net	211,331,375	189,381,760	21,949,615	11.6%
Restricted Nonexpendable	47,580,653	42,874,293	4,706,360	11.0%
Restricted Expendable	55,686,977	71,930,720	(16,243,743)	-22.6%
Unrestricted	42,100,744	39,173,850	2,926,894	7.5%
<b>Total Net Assets</b>	<u>\$ 356,699,749</u>	<u>\$ 343,360,623</u>	<u>\$ 13,339,126</u>	3.9%

On June 30, 2008, total University assets were \$521.3 million. The largest asset categories include the University's investment in capital assets (\$352.1 million), cash and cash equivalents (\$96.7 million) and endowments (\$53.3 million). The \$53.3 million in endowment investments was made up entirely of the University endowment.

The decrease in current assets of \$3.5 million is due mainly to a \$2.3 million decrease in intergovernmental receivables. This number is derived from the funds due the University on federal contracts and grants, and in this fiscal year we began operating a grants billing office which has kept the billing more current so that the number is now lower. The decrease in current liabilities of \$8.9 million was due to a \$4.1 million decrease in the current lease payable moving the current balance to noncurrent and a \$4.5 million decrease in accounts payable was due mainly to a \$3.4 million decrease in plant fund accounts payables. The decrease in plant fund accruals is due to the decrease in construction activity on campus. Last year, we were in the middle of several projects including the Union, Friday, Kenan, and Center for Marine Science, whereas this year the only major construction project for the University is the new nursing building.

### 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, i.e., expenses not involved in the normal operations of the University.

### Condensed Statement of Revenues, Expenditures, and Changes in Net Assets For Year Ended June 30, as Indicated

	2008	2007	Change	% Change
<b>Operating Revenues</b>				
Tuition and Fees (Net)	\$ 68,166,720	\$ 62,750,863	\$ 5,415,857	8.6%
Sales and Service (Net)	39,248,427	34,592,654	4,655,773	13.5%
Grant and Contracts	20,471,368	21,816,999	(1,345,631)	-6.2%
Other	2,856,434	2,175,138	681,296	31.3%
<b>Total Operating Revenues</b>	<u>130,742,949</u>	<u>121,335,654</u>	<u>9,407,295</u>	7.8%
<b>Operating Expenses</b>				
Salaries and Benefits	138,161,744	124,872,738	13,289,006	10.6%
Supplies and Materials	24,803,005	21,630,086	3,172,919	14.7%
Services	44,852,249	40,307,238	4,545,011	11.3%
Scholarships	7,786,349	7,141,196	645,153	9.0%
Utilities	7,892,654	6,923,661	968,993	14.0%
Depreciation	11,777,253	9,655,486	2,121,767	22.0%
<b>Total Operating Expenses</b>	<u>235,273,254</u>	<u>210,530,405</u>	<u>24,742,849</u>	11.8%
<b>Operating Loss</b>	<u>(104,530,305)</u>	<u>(89,194,751)</u>	<u>(15,335,554)</u>	17.2%
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriation	100,716,089	91,843,298	8,872,791	9.7%
Noncapital Gifts and Grants	3,241,709	3,184,752	56,957	1.8%
Investment Income	6,150,741	10,961,665	(4,810,924)	-43.9%
Other Fees and Investment Expenses	(6,045,325)	(876,684)	(5,168,641)	589.6%
<b>Other Revenues</b>				
Capital Appropriations, Grants and Gifts	10,119,008	54,405,615	(44,286,607)	-81.4%
Additions to Endowments	3,687,208	3,413,816	273,392	8.0%
<b>Total Nonoperating and Other Revenues</b>	<u>117,869,430</u>	<u>162,932,462</u>	<u>(45,063,032)</u>	-27.7%
<b>Increase in Net Assets</b>	<u>13,339,125</u>	<u>73,737,711</u>	<u>(60,398,586)</u>	-81.9%
<b>Net Assets - Beginning of Year</b>	<u>343,360,623</u>	<u>269,622,912</u>	<u>73,737,711</u>	27.3%
<b>Net Assets - End of Year</b>	<u>\$ 356,699,748</u>	<u>\$ 343,360,623</u>	<u>\$ 13,339,125</u>	3.9%

Student tuition and fees (\$68.2 million) and sales and services from auxiliary enterprises (\$39.2 million) account for 82.2% of the University's operating revenue. Most of the increase in sales and services of \$4.6 million is from the revenue in Seahawk Landing of \$3.4 million. Seahawk Landing just opened in fall 2007.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Depreciation increased by \$2.1 million due to the 2007 building addition increasing by \$560,000, the 2008 building addition first depreciation expense of \$690,000 and the Housing II second year increase in depreciation of \$638,000. The major operating expense categories include salary and benefit payments to faculty and staff (\$138.2 million) and payments to vendors and suppliers for services and goods (\$44.9 million).

The \$44.3 million decrease in capital gifts and grants is due to the slowing of capital projects on campus. Per GASB Statement No. 35, State appropriations must be reported as nonoperating revenue even though this revenue source covers operating expenses.

Nonoperating revenues – other decreased by \$5.2 million due to the University's return on their endowment investments declining from approximately 11% in 2007 to 6% in 2008. The University also had a \$3 million gain from the sale of property located at the Center for Marine Science in 2007 whereas they only sold surplus equipment in 2008.

### Component Unit Reported Using Discrete Presentation

The University evaluates all of the affiliated organizations to determine which groups should be presented as a component unit. Currently the University has one component unit that must be reported discretely in the financial statements. The component unit of the University continued to grow with the UNCW Corporation leasing student apartments to the housing system on campus. In the summer of 2007 the second apartment complex was completed and turned over to the University. Other projects of the Corporation are purchasing parking areas and other property which may be used in the University. The UNCW Corporation issued notes and bonds to finance these projects.

#### UNCW Corporation, Inc. Total Net Deficit

	2008	2007	Change
<b>Asset and Liabilities:</b>			
Total Assets	\$ 130,123,632	\$ 77,475,903	\$ 52,647,729
Total Liabilities	130,243,835	77,638,558	52,605,277
<b>Total Net Deficit</b>	<u>\$ (120,203)</u>	<u>\$ (162,655)</u>	<u>\$ 42,452</u>
<b>Net Deficit:</b>			
Temporarily Restricted	<u>\$ (120,203)</u>	<u>\$ (162,655)</u>	<u>\$ 42,452</u>
<b>Total Net Deficit</b>	<u>\$ (120,203)</u>	<u>\$ (162,655)</u>	<u>\$ 42,452</u>

Unrestricted net assets have no external restrictions and are expendable. Temporarily restricted assets are also expendable but have a restriction on how they may be spent. The \$52.6 million increase in asset and liabilities is the result of the Corporation issuing \$61 million in bonds during last fiscal year. These bonds will be used to construct the Seahawk Crossing apartment complex and parking deck on campus. During the current fiscal year the UNCW Corporation was split into three separate entities. UNCW Corporation has all of the new apartments on campus. UNCW Corporation II manages various real estate

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

properties close to campus. The final new entity is the UNCW Corporation Research which will handle various research projects on campus. Only the UNCW Corporation was large enough to be reported as a component unit.

### UNCW Corporation, Inc. Changes in Net Deficit

	2008	2007	Change
Total Revenues	\$ 3,342,627	\$ 1,286,492	\$ 2,056,135
Total Expenses	3,470,211	1,446,642	2,023,569
Net Increase (Decrease)	(127,584)	(160,150)	32,566
Net Deficit - Beginning of Year	(162,655)	(2,505)	(160,150)
Restatement	170,036		
<b>Net Deficit - End of Year</b>	<b>\$ (120,203)</b>	<b>\$ (162,655)</b>	<b>\$ 42,452</b>

Investment income on bond proceeds contributed to the large increase in revenues; while the large increase in expenses is related to accrued construction expense.

### 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;
- Need for external financing.

### Condensed Statement of Cash Flows For Year Ended June 30, as Indicated

	2008	2007	Change	% Change
<b>Cash Provided by:</b>				
Operating Activities	\$ (92,544,447)	\$ (77,931,704)	\$ (14,612,743)	19%
Noncapital Financing Activities	102,024,646	100,753,297	1,271,349	1%
Capital Financing Activities	(29,775,367)	22,146,662	(51,922,029)	-234%
Investing Activities	9,723,746	(3,926,500)	13,650,246	-348%
<b>Net Change in Cash</b>	<b>(10,571,422)</b>	<b>41,041,755</b>	<b>(51,613,177)</b>	<b>-126%</b>
<b>Cash Beginning of Year</b>	<b>107,279,799</b>	<b>66,238,043</b>	<b>41,041,756</b>	<b>62%</b>
<b>Cash Ending of Year</b>	<b>\$ 96,708,377</b>	<b>\$ 107,279,798</b>	<b>\$ (10,571,421)</b>	<b>-10%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Major sources of funds included in operating activities are student tuition and fees (\$67.5 million), auxiliary enterprises (\$35.6 million), and contracts and grants (\$22.5 million).

Major uses of funds in operating activities are compensation to employees (\$138.9 million) and payments to suppliers for goods and services (\$74.5 million). Salaries were up almost \$15.7 million which contributed to the \$14.6 million increase in operating activities.

The largest inflow of cash in the noncapital financing activities is the State of North Carolina appropriation of \$100.7 million. The accounting standards require the University to reflect this source of revenue as nonoperating even though the University's budget depends on these funds to continue the current level of operations. Other noncapital financing activity includes gifts received (\$3.7 million).

Cash provided by capital financing activities during fiscal year 2008 includes capital grants from the State of North Carolina of \$11.1 million and capital appropriation of \$2.3 million. Cash used in capital financing activities during fiscal year 2008 was primarily for the acquisition of capital assets (\$33.4 million) and the repayment of debt (\$9.8 million). This large decrease in capital financing of \$51.9 million is the result of decreased capital funding from the State and we issued no debt accompanied with continued capital expenditures.

The large decrease in the investing activity is a function of the decrease in the total return from 16% in 2007 down to 4% in 2008. This result is reflective of the overall activity in the stock and bond markets in which the University is invested.

### Capital Asset and Debt Administration

#### Capital Assets

The University had \$352.0 million invested in capital assets at year-end. This represents an increase of \$18.3 million from 2007. This increase is the result of capital expenditures in the Union and CMS construction projects and the renovations in Kenan and Friday Hall.

#### Capital Assets Net of Depreciation June 30, as Indicated

	2008	2007	Change
Land	\$ 6,258,371	\$ 5,225,871	\$ 1,032,500
Art, Literature and Artifacts	1,579,090	1,278,971	300,119
Construction in Progress	5,364,983	46,956,800	(41,591,817)
Building, Net	309,271,707	254,131,557	55,140,150
Machinery and Equipment, Net	11,931,691	10,713,356	1,218,335
Infrastructure, Net	17,648,764	15,482,710	2,166,054
<b>Total Capital Assets</b>	<b>\$ 352,054,606</b>	<b>\$ 333,789,265</b>	<b>\$ 18,265,341</b>

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

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The large increase in buildings is the result of the following buildings being completed: the Union project, Friday renovation, Kenan renovation, and the new CMS Support building. This large increase in buildings also resulted in the decrease in construction in progress.

The University's only ongoing large capital project is the School of Nursing building which is in the early stages of the project. This building is not scheduled for completion until the 2010 fiscal year. The UNCW Corporation is currently constructing on campus a Phase III housing project. This new complex is scheduled to be completed in the fall of 2009 with over 660 new beds for University students, as well as a 700 space parking deck.

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

### **Debt**

As of June 30, 2008, the University has \$140.7 million in outstanding bonds and capital leases, of which \$69.4 million is for outstanding bonds. This balance went down by \$4.4 million due to the principal paid off on the outstanding debt. The University issued no new debt during the fiscal year. There have been no significant changes in credit ratings or debt limitations that would affect future financing for the University.

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

### **Economic Forecast**

Despite the projections of reductions to State appropriations, management believes that the University is well positioned to continue its sound financial condition and level of excellence in service to students, the community, and other constituencies. The University's sound 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. In fiscal year 2007-08, tuition rates increased by 1.9% for resident undergraduate students and 2.0% for graduate students and nonresident undergraduate students. Student application levels and increasing enrollment levels of students illustrate the appeal of the University to prospective students.

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.

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

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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.

### **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 the Division of Business Affairs at (910) 962-3067.

**University of North Carolina at Wilmington**  
**Statement of Net Assets**  
**June 30, 2008**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 50,906,299.84
Restricted Cash and Cash Equivalents	6,248,559.83
Receivables, Net (Note 4)	4,697,847.96
Due from State of North Carolina Component Units	70,000.00
Inventories	358,180.54
Notes Receivable, Net (Note 4)	1,196,695.49
Total Current Assets	<u>63,477,583.66</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	39,553,516.72
Receivables, Net (Note 4)	541,751.54
Restricted Due from Primary Government	3,377,244.10
Endowment Investments	53,251,549.33
Other Investments	4,714,124.38
Notes Receivable, Net (Note 4)	3,940,686.26
Bond Issuance Cost	437,588.73
Capital Assets - Nondepreciable (Note 5)	13,202,442.94
Capital Assets - Depreciable, Net (Note 5)	338,852,162.71
Total Noncurrent Assets	<u>457,871,066.71</u>

Total Assets	<u>521,348,650.37</u>
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	4,377,446.01
Deposits Payable	423.45
Unearned Revenue	3,147,030.18
Interest Payable	1,575,753.13
Long-Term Liabilities - Current Portion (Note 7)	8,944,926.92
Total Current Liabilities	<u>18,045,579.69</u>

Noncurrent Liabilities:

Funds Held for Others	2,013,487.55
U. S. Government Grants Refundable	4,497,863.71
Long-Term Liabilities (Note 7)	140,091,970.61
Total Noncurrent Liabilities	<u>146,603,321.87</u>
Total Liabilities	<u>164,648,901.56</u>



***University of North Carolina at Wilmington***  
***Statement of Net Assets***  
***June 30, 2008***

***Exhibit A-1***

***Page 2***

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	211,331,374.64
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	25,160,397.28
Research	1,359,015.78
Endowed Professorships	9,169,437.47
Departmental Uses	10,754,084.86
Loans	1,137,717.72
Expendable:	
Scholarships and Fellowships	3,689,152.91
Research	101,728.26
Endowed Professorships	562,638.92
Departmental Uses	8,643,286.79
Loans	376,474.95
Capital Projects	37,713,378.71
Debt Service	4,600,316.84
Unrestricted	42,100,743.68
Total Net Assets	<u><u>\$ 356,699,748.81</u></u>

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, 2008***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 68,166,720.13
Federal Grants and Contracts	17,364,393.00
State and Local Grants and Contracts	2,433,672.93
Nongovernmental Grants and Contracts	673,302.31
Sales and Services, Net (Note 9)	39,248,427.00
Interest Earnings on Loans	16,190.35
Other Operating Revenues	2,840,243.48

Total Operating Revenues	130,742,949.20
--------------------------	----------------

**EXPENSES**

Operating Expenses:

Salaries and Benefits	138,161,743.96
Supplies and Materials	24,803,005.14
Services	44,852,248.74
Scholarships and Fellowships	7,786,348.67
Utilities	7,892,654.18
Depreciation	11,777,253.04

Total Operating Expenses	235,273,253.73
--------------------------	----------------

Operating Loss	(104,530,304.53)
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	100,716,088.95
Noncapital Grants	4,460.09
Noncapital Gifts, Net (Note 9)	3,237,248.71
Investment Income (Net of Investment Expense of \$132,421.46)	6,150,741.47
Interest and Fees on Debt	(5,448,931.50)
Other Nonoperating Expenses	(596,393.89)

Net Nonoperating Revenues	104,063,213.83
---------------------------	----------------

Loss Before Other Revenues	(467,090.70)
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Capital Appropriations	2,309,700.00
Capital Grants	7,789,208.00
Capital Gifts	20,100.00
Additions to Endowments	3,687,208.11

Increase in Net Assets	13,339,125.41
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**NET ASSETS**

Net Assets - July 1, 2007	343,360,623.40
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Net Assets - June 30, 2008	\$ 356,699,748.81
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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, 2008***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 125,619,355.41
Payments to Employees and Fringe Benefits	(138,854,512.19)
Payments to Vendors and Suppliers	(74,518,089.20)
Payments for Scholarships and Fellowships	(7,786,348.67)
Loans Issued	(1,156,971.00)
Collection of Loans	737,008.00
Interest Earned on Loans	54,088.01
Other Receipts	3,361,022.57
	<hr/>
Net Cash Used by Operating Activities	(92,544,447.07)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	100,716,088.95
Noncapital Grants	4,460.09
Noncapital Gifts	2,934,045.40
Additions to Endowments	3,687,208.11
Related Activity Agency Disbursements	(5,317,156.45)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	102,024,646.10

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

State Capital Appropriations	2,309,700.00
Capital Grants	11,143,958.54
Capital Gifts	20,100.00
Acquisition and Construction of Capital Assets	(33,448,572.10)
Principal Paid on Capital Debt and Leases	(4,294,353.97)
Interest and Fees Paid on Capital Debt and Leases	(5,499,467.94)
Other Payments	(6,731.40)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(29,775,366.87)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	18,563,223.74
Investment Income	6,490,628.55
Purchase of Investments and Related Fees	(15,330,106.19)
	<hr/>
Net Cash Provided by Investing Activities	9,723,746.10
Net Decrease in Cash and Cash Equivalents	(10,571,421.74)
Cash and Cash Equivalents - July 1, 2007	107,279,798.13
	<hr/>
Cash and Cash Equivalents - June 30, 2008	\$ 96,708,376.39

**University of North Carolina at Wilmington**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2008**

**Exhibit A-3**

**Page 2**

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)**

**TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Loss	\$ (104,530,304.53)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	11,777,253.04
Allowances, Write-Offs, and Amortizations	37,600.00
Nonoperating Other Expenses	597,493.16
Changes in Assets and Liabilities:	
Receivables (Net)	1,393,866.34
Due from Primary Government	(70,000.00)
Inventories	(28,144.43)
Accounts Payable and Accrued Liabilities	(1,560,939.36)
Unearned Revenue	185,214.17
Deposits Payable	73,477.54
Note Principal Repayments	737,008.00
Notes Issued	(1,156,971.00)
Net Cash Used by Operating Activities	<u>\$ (92,544,447.07)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 50,906,299.84
Restricted Cash and Cash Equivalents	6,248,559.83
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>39,553,516.72</u>
Total Cash and Cash Equivalents - June 30, 2008	<u>\$ 96,708,376.39</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Change in Fair Value of Investments	\$ 641,014.04
Loss on Disposal of Capital Assets	386,871.40

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

***UNCW Corporation, Inc.***  
***Statement of Net Assets (Deficit)***  
***June 30, 2008***

***Exhibit B-1***

**ASSETS**

Investments, Restricted	\$ 53,659,279.00
Sales Tax Receivable	1,078,210.00
Net Investment in Direct Financing Leases, Current	100,000.00
Net Investment in Direct Financing Leases, Noncurrent	65,666,889.00
Debt Issuance Cost	2,789,493.00
Construction in Progress	6,829,761.00
	<hr/>
Total Assets	130,123,632.00

**LIABILITIES**

Accounts Payable, Construction	261,757.00
Accrued Interest	651,610.00
Due to Related Organization	1,080.00
Certificates of Participation Payable, Current	100,000.00
Certificates of Participation Payable	129,229,388.00
	<hr/>
Total Liabilities	130,243,835.00

**NET DEFICIT**

Restricted Net Deficit - Expendable	(120,203.00)
	<hr/>
Total Net Deficit	\$ (120,203.00)

See Note 1 in the Notes to the Financial Statements

***UNCW Corporation, Inc.***  
***Statement of Revenues, Expenses, and***  
***Changes in Net Assets (Deficit)***  
***June 30, 2008***

***Exhibit B-2***

**REVENUES**

Income on Cash and Investments	\$ 81,190.00
Direct Financing Lease Income	3,048,386.00
Other Revenues	<u>213,051.00</u>
Total Unrestricted Revenues and Gains	<u>3,342,627.00</u>

**EXPENSES**

Contracted Services	144,122.00
Interest Expense	3,265,662.00
Other Expenses	<u>60,427.00</u>
Total Expenses	<u>3,470,211.00</u>
Change in Net Deficit	(127,584.00)

**NET ASSETS (DEFICIT)**

Beginning	<u>(162,655.00)</u>
Restatement	<u>170,036.00</u>
Ending	<u><u>\$ (120,203.00)</u></u>

See Note 1 in the Notes to the Financial Statements

**UNIVERSITY OF NORTH CAROLINA AT WILMINGTON**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Blended Component Unit** - Although legally separate, The Donald R. Watson Foundation, Inc. is a component unit of the University and is reported as if it were part of the University.

The Watson Foundation is governed by a five-member board consisting of two ex officio directors and three elected directors. The Foundation's purpose is to aid, support and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of the University of North Carolina at Wilmington Board of Trustees and the Foundation's sole purpose is to benefit selected organizations including the University, its financial statements have been blended with those of the University.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Separate financial statements for the Watson Foundation may be obtained from the University Controller's Office, 601 S. College Rd., Wilmington, NC 28403, or by calling (910) 962-3144. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

**Discretely Presented Component Unit** – The UNCW Corporation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University. The Corporation was organized to enhance the University of North Carolina at Wilmington's educational mission, including overseeing and assisting in the acquisition and financing of capital assets for the University. The Corporation board consists of five members. Although the University does not control the timing or amount of receipts from the Corporation, the majority of resources, or income thereon, that the Corporation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Corporation can only be used by, or for the benefit of the University, the Corporation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The UNCW Corporation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

Complete financial statements for the Foundation can be obtained from the University Controller's Office, 601 S. College Rd., Wilmington, NC 28403, or by calling (910) 962-3144.

- 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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activities is considered to be a single business-type activity 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 January 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, regardless of the timing of the cash flows.

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

- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Investment agreements, bank investment contracts, real estate not held by a governmental external investment pool, and other asset holdings are

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

- F. Receivables** – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, 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, are valued at cost using first-in, first-out, last invoice cost, or average cost 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 estimated 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 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

The Randall Library Special Collection is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

- I. Restricted Assets** – Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

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

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refunds. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refunds are amortized over the life of the new debt using the straight-line method. Issuance costs are amortized 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 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

- 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

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

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

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

- M. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- N. Revenue and Expense Recognition** – The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 copy centers, motor pools, postal services and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** – Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to G.S. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$95,817,257.78 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 2.9 years as of June 30, 2008. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2008 was \$29,150. The carrying amount of the University's deposits not with the State Treasurer was \$861,968.61 and the bank balance was \$903,016.01. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2008, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 803,016.01</u>
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- B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina, to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Investments of the University's component unit and the Foundation are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

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

Investments are subject to the following risks.

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

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

*Custodial Credit Risk:* Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

possession of an outside party. The University does not have a formal policy for custodial credit risk.

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have a formal policy for foreign currency risk.

**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 current market value per unit multiplied by the number of units purchased. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the Long-Term Investment Pool.

### *Long-Term Investment Pool*

	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 to 5
<b>Investment Type</b>			
Debt Securities			
Mutual Bond Funds	\$ 5,114,250.24	\$ 2,572,467.87	\$ 2,541,782.37
Money Market Mutual Funds	8,978,004.86	8,978,004.86	
		<u>\$ 11,550,472.73</u>	<u>\$ 2,541,782.37</u>
Other Securities			
UNC Investment Fund	30,876,156.78		
Other Mutual Funds	6,653,895.61		
Investments in Real Estate	<u>290,765.63</u>		
Total Long-Term Investment Pool	<u>\$ 51,913,073.12</u>		



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2008, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa
Mutual Bond Funds	\$ 5,114,250.24	\$ 5,114,250.24
Money Market Mutual Funds	8,978,004.86	8,978,004.86

Rating Agency: Standard & Poors

**Non-Pooled Investments** - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the University's non-pooled investments.

### *Non-Pooled Investments*

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
<b>Debt Securities</b>				
U.S. Treasuries	\$ 1,097,567.82	\$ 1,097,567.82	\$ 0.00	\$ 0.00
Repurchase Agreements	671,930.00	671,930.00		
Mutual Bond Funds	512,272.09	403,843.09	16,578.00	91,851.00
Money Market Mutual Funds	2,636,709.96	2,636,709.96		
		<u>\$ 4,810,050.87</u>	<u>\$ 16,578.00</u>	<u>\$ 91,851.00</u>
<b>Other Securities</b>				
International Mutual Funds	254,925.51			
Other Mutual Funds	820,194.40			
Domestic Stocks	41,849.84			
Other	17,150.97			
<b>Total Non-Pooled Investments</b>	<u>\$ 6,052,600.59</u>			

At June 30, 2008, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below
Mutual Bond Funds	\$ 512,272.09	\$ 137,069.00	\$ 16,597.00	\$ 18,510.00	\$ 27,361.00	\$ 312,735.09
Money Market Mutual Funds	2,636,709.96	2,636,709.96				

Rating Agency: Standard and Poors

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2008, the University's non-pooled investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty
Domestic Stocks	\$ 41,849.84

**Total Investments** – The following table presents the fair value of the total investments at June 30, 2008:

Investment Type	Fair Value
Debt Securities	
U.S. Treasuries	\$ 1,097,567.82
Repurchase Agreements	671,930.00
Mutual Bond Funds	5,626,522.33
Money Market Funds	11,614,714.82
Other Securities	
UNC Investment Fund	30,876,156.78
International Mutual Funds	254,925.51
Other Mutual Funds	7,474,090.01
Investments in Real Estate	290,765.63
Domestic Stocks	41,849.84
Other	17,150.97
Total Investments	\$ 57,965,673.71

**Component Unit** - Investments of the University's discretely presented component unit, the UNCW Corporation, are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. Because the Corporation reports under the FASB reporting model, disclosures of the various investment risks are not required. The UNCW Corporation has invested proceeds from a bond issuance in the amount of \$53,659,279. At June 30, 2008, the Corporation's investments were maintained in a money market account. These investments are professionally managed by a fiscal agent.

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). When administering its power to spend net appreciation, the Board of Trustees is required to consider the University's long and short term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established. The Board of Trustees chooses to spend only a portion of the investment income each year. Under the policy established by the Board, 4.5% of the average market value 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 investment income. At June 30, 2008, net appreciation of \$21,758,346 was available to be spent, of which \$17,315,159 was restricted to specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 1,393,179.44	\$ 139,322.94	\$ 1,253,856.50
Accounts	1,873,335.51		1,873,335.51
Intergovernmental	997,046.99		997,046.99
Pledges	214,017.62	9,724.00	204,293.62
Investment Earnings	249,068.06		249,068.06
Interest on Loans	120,247.28		120,247.28
<b>Total Current Receivables</b>	<u>\$ 4,846,894.90</u>	<u>\$ 149,046.94</u>	<u>\$ 4,697,847.96</u>
<b>Noncurrent Receivables:</b>			
Pledges	<u>\$ 570,264.78</u>	<u>\$ 28,513.24</u>	<u>\$ 541,751.54</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 1,124,732.31	\$ 109,303.90	\$ 1,015,428.41
Institutional Student Loan Programs	181,267.08		181,267.08
<b>Total Notes Receivable - Current</b>	<u>\$ 1,305,999.39</u>	<u>\$ 109,303.90</u>	<u>\$ 1,196,695.49</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 4,338,517.47	\$ 433,851.75	\$ 3,904,665.72
Institutional Student Loan Programs	36,020.54		36,020.54
<b>Total Notes Receivable - Noncurrent</b>	<u>\$ 4,374,538.01</u>	<u>\$ 433,851.75</u>	<u>\$ 3,940,686.26</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, 2008, is presented as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	\$ 5,225,870.85	\$ 1,032,499.95	\$ 0.00	\$ 6,258,370.80
Art, Literature, and Artifacts	1,278,971.23	300,118.38		1,579,089.61
Construction in Progress	46,956,800.37	23,966,233.85	65,558,051.69	5,364,982.53
<b>Total Capital Assets, Nondepreciable</b>	<b>53,461,642.45</b>	<b>25,298,852.18</b>	<b>65,558,051.69</b>	<b>13,202,442.94</b>
Capital Assets, Depreciable:				
Buildings	317,120,389.70	62,892,104.53	560,263.79	379,452,230.44
Machinery and Equipment	29,879,841.00	4,520,533.76	1,501,951.89	32,898,422.87
General Infrastructure	23,820,791.72	2,665,947.16		26,486,738.88
<b>Total Capital Assets, Depreciable</b>	<b>370,821,022.42</b>	<b>70,078,585.45</b>	<b>2,062,215.68</b>	<b>438,837,392.19</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	62,378,754.02	8,002,579.56	200,810.73	70,180,522.85
Machinery and Equipment	19,166,484.81	3,274,780.77	1,474,533.55	20,966,732.03
General Infrastructure	8,338,081.89	499,892.71		8,837,974.60
<b>Total Accumulated Depreciation</b>	<b>89,883,320.72</b>	<b>11,777,253.04</b>	<b>1,675,344.28</b>	<b>99,985,229.48</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>280,937,701.70</b>	<b>58,301,332.41</b>	<b>386,871.40</b>	<b>338,852,162.71</b>
<b>Capital Assets, Net</b>	<b>\$ 334,399,344.15</b>	<b>\$ 83,600,184.59</b>	<b>\$ 65,944,923.09</b>	<b>\$ 352,054,605.65</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	\$ 3,017,527.80
Accrued Payroll	563,153.60
Contract Retainage	796,764.61
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 4,377,446.01</b>

## 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, 2008, is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Revenue Bonds Payable	\$ 72,629,999.98	\$ 0.00	\$ 4,239,999.98	\$ 68,390,000.00	\$ 4,410,000.00
Add/Deduct Premium/Discount	1,932,510.53		117,413.71	1,815,096.82	
Deduct Deferred Charge on Refunding	(894,925.55)		(69,313.49)	(825,612.06)	
<b>Total Bonds Payable</b>	<b>73,667,584.96</b>		<b>4,288,100.20</b>	<b>69,379,484.76</b>	<b>4,410,000.00</b>
Capital Leases Payable	71,350,000.00		6,253.75	71,343,746.25	4,443,746.25
Compensated Absences	7,725,067.52	707,849.00	119,250.00	8,313,666.52	91,180.67
<b>Total Long-Term Liabilities</b>	<b>\$ 152,742,652.48</b>	<b>\$ 707,849.00</b>	<b>\$ 4,413,603.95</b>	<b>\$ 149,036,897.53</b>	<b>\$ 8,944,926.92</b>

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

#### B. Revenue Bonds - The University was indebted for revenue 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 June 30, 2008	Principal Outstanding June 30, 2008	See Table Below
<b>Revenue Bonds Payable</b>							
<b>Dorm and Dining Hall</b>							
Construction - New Dorm	B	7.5-8.0	01/31/2009	\$ 1,400,000.00	\$ 1,290,000.00	\$ 110,000.00	(1)
<b>Physical Education System</b>							
Construction - Trask Coliseum	B	5.1-5.5	01/01/2010	1,140,000.00	935,000.00	205,000.00	(2)
<b>General Revenue</b>							
Construction - Dorm	2002A	3.0-5.0	01/01/2023	11,500,000.00	2,065,000.00	9,435,000.00	
Construction - New Union	2003A	2.5-5.25	01/01/2028	30,000,000.00	3,225,000.00	26,775,000.00	
<b>Total General Revenue</b>				<b>41,500,000.00</b>	<b>5,290,000.00</b>	<b>36,210,000.00</b>	
<b>The University of North Carolina System Pool Revenue Bonds</b>							
Westside Building, Parking and Apartments	2002B	4.0-5.0	04/30/2022	6,735,000.00	5,360,000.00	1,375,000.00	
Refund Series I	2003B	2.0-5.0	04/30/2009	5,100,000.00	4,130,000.00	970,000.00	
Refund Series J and Recreation	2005A	4.0-5.2	04/30/2019	12,630,000.00	1,795,000.00	10,835,000.00	
Union Addition & Parking	2006A	2.5-5.25	10/01/2033	19,400,000.00	715,000.00	18,685,000.00	
<b>Total The University of North Carolina System Pool Revenue Bonds</b>				<b>43,865,000.00</b>	<b>12,000,000.00</b>	<b>31,865,000.00</b>	
<b>Total Bonds Payable (principal only)</b>				<b>\$ 87,905,000.00</b>	<b>\$ 19,515,000.00</b>	<b>68,390,000.00</b>	
Less: Unamortized Loss on Refunding						(825,612.06)	
Plus: Unamortized Premium						1,815,096.82	
<b>Total Bonds Payable</b>						<b>\$ 69,379,484.76</b>	

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal & Interest	Estimate of % of Revenues Pledged
(1)	Dorm & Dining	\$ 20,000,000.00	\$ 4,599,096.52	\$ 118,000.00	8.3%
(2)	Physical Education System	420,000.00	210,397.73	103,750.00	0.1%

**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2008, are as follows:

	Annual Requirements	
	Revenue Bonds Payable	
Fiscal Year	Principal	Interest
2009	\$ 4,410,000.00	\$ 3,194,095.02
2010	3,445,000.00	3,006,370.01
2011	3,470,000.00	2,869,232.52
2012	3,110,000.00	2,733,757.51
2013	3,250,000.00	2,595,988.76
2014-2018	18,455,000.00	10,583,890.00
2019-2023	15,950,000.00	6,102,337.50
2024-2028	12,345,000.00	2,695,456.28
2029-2033	3,210,000.00	603,250.00
2034-2038	745,000.00	18,625.00
Total Requirements	<u>\$ 68,390,000.00</u>	<u>\$ 34,403,002.60</u>

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

**Prior Year Defeasances** – During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2008, the outstanding balance of prior year defeased bonds was \$11,065,000.

**E. Component Unit** - The UNCW Corporation, Inc., had long term liabilities of certificates of participation payable of \$129,329,388 at June 30, 2008.

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 8 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to land and buildings 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, 2008:

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 7,715,709.00
2010	3,493,963.00
2011	3,599,963.00
2012	3,697,363.00
2013	3,803,113.00
2014-2018	20,731,265.00
2019-2023	24,114,377.50
2024-2028	25,755,727.68
2029-2033	25,741,615.38
2034-2038	18,390,091.47
Total Minimum Lease Payments	<u>137,043,188.03</u>
Amount Representing Interest (5.25% Rate of Interest)	<u>65,699,441.78</u>
Present Value of Future Lease Payments	<u><u>\$ 71,343,746.25</u></u>

Buildings acquired under capital lease amounted to \$71,350,000.00 at June 30, 2008.

- B. Operating Lease Obligations** – The University entered into operating leases for rental of office space and property, rental of dockage, and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 1,046,579.45
2010	155,942.49
2011	2,731.20
Total Minimum Lease Payments	<u><u>\$ 1,205,253.14</u></u>

Rental expense for all operating leases during the year was \$818,601.60.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
Student Tuition and Fees	\$ 72,549,384.91	\$ 0.00	\$ 4,288,042.56	\$ 94,622.22	\$ 68,166,720.13
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 17,461,433.83	\$ 0.00	\$ 1,226,317.27	\$ 11,015.46	\$ 16,224,101.10
Dining	10,282,154.75		669,520.76	5,972.00	9,606,661.99
Athletics	990,843.19		412,328.40	4,498.78	574,016.01
Parking	2,342,542.22		52,808.98	751.69	2,288,981.55
Other	8,858,958.81	982,609.64	509,027.75	17,443.88	7,349,877.54
Sales and Services of Education and Related Activities	3,205,137.54			348.73	3,204,788.81
<b>Total Sales and Services</b>	<b>\$ 43,141,070.34</b>	<b>\$ 982,609.64</b>	<b>\$ 2,870,003.16</b>	<b>\$ 40,030.54</b>	<b>\$ 39,248,427.00</b>
<b>Nonoperating - Noncapital Gifts</b>	<b>\$ 3,275,485.83</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 38,237.12</b>	<b>\$ 3,237,248.71</b>

### 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	\$ 70,538,979.00	\$ 3,317,719.31	\$ 5,846,869.42	\$ 197,256.87	\$ 0.00	\$ 0.00	\$ 79,900,824.60
Research	9,205,914.91	1,790,060.08	4,640,874.99	45,125.67	22,536.00		15,704,511.65
Public Service	1,738,257.04	294,772.24	1,207,543.20	400.00			3,240,972.48
Academic Support	9,084,983.37	4,086,151.01	2,486,981.40	9,221.00			15,667,336.78
Student Services	6,070,661.22	734,426.94	2,631,530.57	15,377.03			9,451,995.76
Institutional Support	17,779,168.75	1,364,052.52	4,171,450.12		1,468.36		23,316,139.75
Operations and Maintenance of Plant	12,101,631.67	8,949,785.93	4,795,287.54		5,868,175.55		31,714,880.69
Student Financial Aid	539.85	8,612.76	109,994.88	7,021,227.69			7,140,375.18
Auxiliary Enterprises	11,641,608.15	4,257,424.35	18,961,716.62	497,740.41	2,000,474.27		37,358,963.80
Depreciation						11,777,253.04	11,777,253.04
<b>Total Operating Expenses</b>	<b>\$ 138,161,743.96</b>	<b>\$ 24,803,005.14</b>	<b>\$ 44,852,248.74</b>	<b>\$ 7,786,348.67</b>	<b>\$ 7,892,654.18</b>	<b>\$ 11,777,253.04</b>	<b>\$ 235,273,253.73</b>

### 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$113,062,166.52, of which \$54,688,144.57 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$1,667,988.41 and \$3,281,288.67, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$1,667,988.41, \$1,307,243.84, and \$1,015,928.25, 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.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2008, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$113,062,166.52, of which \$44,724,630.06 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$3,059,164.70 and \$2,683,877.80, 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 the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$304,373.11 for the year ended June 30, 2008.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2008, were \$69,953.98. The voluntary contributions by employees amounted to \$605,687.65 for the year ended June 30, 2008.

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 \$1,755,086.81 for the year ended June 30, 2008.

### NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provided for automatic post-retirement benefit increases.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the University contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$4,075,923.76, \$3,399,457.94, and \$3,012,361.82, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$516,946.43, \$465,188.98, and \$412,217.93, respectively. The

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

### NOTE 13 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 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 the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible, except theft losses are subject to a \$1,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$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 \$75,000 deductible and a 10% participation in each loss above the deductible.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance to insure select students, staff, faculty, and assets of the University.

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. The employer contribution rate was .16% for the current fiscal year.

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

### NOTE 14 - COMMITMENTS

The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts and other purchases were \$17,159,958.84 at June 30, 2008.

### NOTE 15 - RELATED PARTIES

**Foundations** - There are five separately incorporated nonprofit foundations associated with the University. These foundations are the University of North Carolina at Wilmington Foundation, the University of North Carolina at Wilmington Alumni Association, the University of North Carolina at Wilmington Student Aid Association, the UNCW Research Foundation, and the UNCW Corporation II.

These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$943,078.29 for the year ended June 30, 2008.

### **NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2008, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

*GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

*GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*

*GASB Statement No. 50, Pension Disclosures.*

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB.*

GASB Statement No. 48, requires disclosures pertaining to future revenues that have been pledged in order to disclose information about which revenues will be unavailable for other purposes and how long they will continue to do so.

GASB Statement No. 50, aligns the financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

### **NOTE 17 FAIR VALUE OF ENDOWMENT INVESTMENTS**

The fair market value of the University's professionally managed endowment decreased 15.8% for the period June 30, 2008 through December 31, 2008.

## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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The change is primarily due to the unrealized loss on these investments as a result of the volatile and unstable world-wide financial market. It is expected that this downward trend will continue into the foreseeable future. University and Foundation management, along with their investment management advisors, plan to continue their efforts of monitoring these investments to minimize any significant losses.





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

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**Office of the State Auditor**

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

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

We have audited the financial statements of University of North Carolina at Wilmington, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements and have issued our report thereon dated April 1, 2009. Our report was modified to include a reference to the other auditor.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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. 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 management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA  
State Auditor

April 1, 2009

## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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