



# STATE OF NORTH CAROLINA

UNIVERSITY OF NORTH CAROLINA AT WILMINGTON

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

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, 2009**

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**THE UNIVERSITY OF NORTH CAROLINA**

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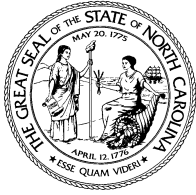
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**Beth A. Wood, CPA**  
State Auditor

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, 2009, 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.

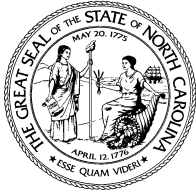
A handwritten signature in cursive script that reads "Beth A. Wood".

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, 2009, 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'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, 2009, 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 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2010 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, 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

January 28, 2010

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

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### **Financial Analysis**

The University of North Carolina at Wilmington (the University) provides the following Management's Discussion and Analysis (MD&A) as an overview of the financial activities for the fiscal year ending June 30, 2009. 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 provide a better understanding of 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) is 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**

During fiscal year 2009, the State reduced the University's general fund appropriated State budget by 12% due to the economic downturn and insufficient cash flow from revenues. The University's decision to freeze staff positions and to reassign employees avoided significant layoffs. The State mandated a temporary furlough of all University positions during May 2009 and June of 2009 amounting to a decrease in the salary and benefit costs of \$612,650, along with a freeze on spending for general funds for the last quarter of the fiscal

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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year. Due to these cost containment measures, strategic planning, and other budget preparations, the University remained in a better fiscal position than many other public universities. Although the reduction of over \$8 million to the combined state appropriations and the state aid from federal recovery funds contributed to a reduction in net assets of \$11 million, the University was able to meet its necessary obligations, continue with services, and refrain from a reduction in staffing through the fiscal year-end.

Also during the fiscal year, the University did not receive State funds for repair and renovations, which are traditionally used to keep State-funded facilities properly maintained. Generally, the University expects to receive approximately \$1.8 million in State repair and renovation funds.

New construction has remained constant over the past few years. The third phase of the privatized student housing complex (Seahawk Crossing) has been completed, accomplishing the goal of having nearly 40% of students residing on campus. Included in this latest phase of housing, is the first University parking deck with a capacity for over 900 vehicles. This facility should ease some of the parking challenges as the University continues to implement its master plan of overlaying academic buildings on open parking surfaces. Construction is now underway for the new nursing building. This is the first of four new academic buildings planned for the entire parking area adjacent to the Watson School of Education and Dobo Hall. The new nursing facility is expected to be completed in time to open in the fall 2010.

On June 30, 2009, the University endowment was \$47.9 million including gifts of \$1.9 million. The endowment's investments market value decreased \$9 million due to the continued downturn in the economy. In addition, there were withdrawals for scholarships and distinguished professorships in the amount of \$2.0 million. The University continues to manage its endowment investments through the UNC Investment Fund, The Investment Fund for Foundations, Grantham, Mayo, Van Otterloo US Quality Equity Fund, and Grantham, Mayo, Van Otterloo US Equity Allocation Fund. The decrease in the endowment's market value was 14.48%. Despite the loss, this performance compared well when measured against the returns of Standards and Poor's. The University continued to meet its spending policy of 4.5% for its scholarships, distinguished professorships, and departmental support.

### **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, 2009. 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

	2009	2008 (Restated)	Change	% Change
<b>Assets</b>				
Current Assets	\$ 86,444,477	\$ 72,695,128	\$ 13,749,349	18.9%
Noncurrent Assets	74,241,751	95,361,264	(21,119,512)	-22.1%
Capital Assets, Net	412,768,145	352,054,606	60,713,539	17.2%
<b>Total Assets</b>	<b>573,454,373</b>	<b>520,110,998</b>	<b>53,343,375</b>	<b>10.3%</b>
<b>Liabilities</b>				
Current Liabilities	25,928,561	18,045,580	7,882,981	43.7%
Noncurrent Liabilities	203,613,824	146,603,322	57,010,502	38.9%
<b>Total Liabilities</b>	<b>229,542,385</b>	<b>164,648,902</b>	<b>64,893,483</b>	<b>39.4%</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net	215,150,619	211,331,374	3,819,245	1.8%
Restricted Nonexpendable	41,310,714	47,580,653	(6,269,939)	-13.2%
Restricted Expendable	41,714,354	55,686,977	(13,972,623)	-25.1%
Unrestricted	45,736,301	40,863,091	4,873,210	11.9%
<b>Total Net Assets</b>	<b>\$ 343,911,988</b>	<b>\$ 355,462,095</b>	<b>\$ (11,550,107)</b>	<b>-3.2%</b>

On June 30, 2009, total University assets were \$573.5 million. The largest asset categories included the University's investment in capital assets (\$412.8 million), cash and cash equivalents (\$102.7 million) and the endowment's (\$43.3 million). The 2008 current assets and noncurrent assets were restated due to a reclassification of cash. The increase of \$13.7 million in current assets was primarily due to the increase in cash and cash equivalents. The \$13.4 million in losses on the endowment investments account for the majority of the \$21.1 million decrease in noncurrent assets. The increase in current and noncurrent liabilities of \$7.9 million and \$57.0 million, respectively, was due in part, to the increase in capital leases. The decrease in restricted nonexpendable net assets of \$6.3 million and the decrease in restricted expendable net assets of \$14.0 million was mainly due to the \$13.4 million decrease in the market value of endowment investments. In 2009, the increase in capital assets was due to the construction of the new parking structure and a new capital lease for the Housing III project.

### 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 University, both operating and nonoperating, and the expenses paid by the University, both operating and nonoperating, as well as any other revenues, expenses, gains and losses received or expended by the University.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 and fees on debt and decline in market value of investments, i.e., expenses not involved in the normal operations of the University.

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

	2009	2008 (Restated)	Change	% Change
<b>Operating Revenues</b>				
Tuition and Fees (Net)	\$ 68,897,732	\$ 66,929,067	\$ 1,968,665	2.9%
Sales and Service (Net)	35,679,713	39,248,427	(3,568,714)	-9.1%
Grant and Contracts	16,140,530	13,810,864	2,329,666	16.9%
Other	2,967,696	2,856,434	111,262	3.9%
<b>Total Operating Revenues</b>	<u>123,685,671</u>	<u>122,844,792</u>	<u>840,879</u>	0.7%
<b>Operating Expenses</b>				
Salaries and Benefits	145,201,002	138,161,744	7,039,258	5.1%
Supplies and Materials	15,372,430	24,803,005	(9,430,575)	-38.0%
Services	40,764,117	44,852,249	(4,088,132)	-9.1%
Scholarships	7,886,225	7,786,349	99,876	1.3%
Utilities	7,904,618	7,892,654	11,964	0.2%
Depreciation	12,940,709	11,777,253	1,163,456	9.9%
<b>Total Operating Expenses</b>	<u>230,069,101</u>	<u>235,273,254</u>	<u>(5,204,153)</u>	-2.2%
<b>Operating Loss</b>	<u>(106,383,430)</u>	<u>(112,428,462)</u>	<u>6,045,032</u>	-5.4%
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriation	86,971,604	100,716,089	(13,744,485)	-13.6%
State Aid - Federal Recovery Funds	5,222,136		5,222,136	
Noncapital Gifts and Grants	10,355,727	9,902,213	453,514	4.6%
Investment Loss (Income) (Net)	(5,576,370)	6,150,741	(11,727,111)	-190.7%
Other Fees and Investment Expenses	(7,324,718)	(6,045,325)	(1,279,393)	21.2%
<b>Other Revenues</b>				
Capital Appropriations, Grants and Gifts	3,311,689	10,119,008	(6,807,319)	-67.3%
Additions to Endowments	1,873,255	3,687,208	(1,813,953)	-49.2%
<b>Total Nonoperating and Other Revenues</b>	<u>94,833,323</u>	<u>124,529,934</u>	<u>(29,696,611)</u>	-23.8%
<b>Increase (Decrease) in Net Assets</b>	<u>(11,550,107)</u>	<u>12,101,472</u>	<u>(23,651,579)</u>	-195.4%
<b>Net Assets - Beginning of Year (Restated)</b>	<u>355,462,095</u>	<u>343,360,623</u>	<u>12,101,472</u>	3.5%
<b>Net Assets - End of Year</b>	<u>\$ 343,911,988</u>	<u>\$ 355,462,095</u>	<u>\$ (11,550,107)</u>	-3.2%

Student tuition and fees (\$68.9 million) and sales and services from auxiliary enterprises (\$35.7 million) accounted for 84.6% of the University's operating revenue. The supplies expense decreased by \$9.4 million due to the budget freeze in State appropriated expenditures implemented from April 2009 through June 2009 as mandated by the Office of State Budget and Management. The State appropriation was reduced by \$13.7 million as a result of the decrease in State revenues causing a budget shortfall. Capital gifts and grants decreased \$6.8 million due to the completion of the bond projects activity.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Component Unit Reported Using Discrete Presentation

The University evaluated all of the affiliated organizations to determine which groups should be presented as a component unit. Currently, the University has one component unit, the UNCW Corporation that must be reported discretely in the financial statements. The UNCW Corporation continued to grow with the completion of the Housing III project (Seahawk Crossing). In the summer of 2009 the facilities were leased to the University. This housing project added 662 new beds for university students, a 900 space parking deck and a retail shop. The UNCW Corporation issued bonds to finance these projects.

#### UNCW Corporation, Inc.

##### Total Net Deficit

	<u>2009</u>	<u>2008</u>	<u>Change</u>
<b>Asset and Liabilities:</b>			
Total Assets	\$ 133,785,324	\$ 130,123,632	\$ 3,661,692
Total Liabilities	133,785,324	130,243,835	3,541,489
<b>Total Net Deficit</b>	<u>\$ 0</u>	<u>\$ (120,203)</u>	<u>\$ 120,203</u>
<b>Net Deficit:</b>			
Temporarily Restricted	\$ 0	\$ (120,203)	\$ 120,203
<b>Total Net Deficit</b>	<u>\$ 0</u>	<u>\$ (120,203)</u>	<u>\$ 120,203</u>

Unrestricted net assets have no external restrictions and are expendable. Temporarily restricted assets are expendable but have a restriction on how they may be spent. The increase in asset and liabilities is a reflection of the capitalization of the housing project along with ongoing construction commitments, accounts payable and deferred revenues. When the final construction payments are made, the change will be eliminated by the reduction in investments.

#### UNCW Corporation, Inc.

##### Changes in Net Deficit

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Total Revenues	\$ 3,477,945	\$ 3,342,627	\$ 135,318
Total Expenses	<u>3,357,742</u>	<u>3,470,211</u>	<u>(112,469)</u>
Net Increase (Decrease)	120,203	(127,584)	247,787
Net Deficit - Beginning of Year	(120,203)	(162,655)	42,452
Restatement		170,036	
<b>Net Deficit - End of Year</b>	<u>\$ 0</u>	<u>\$ (120,203)</u>	<u>\$ 120,203</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### 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

	2009	2008	Change	% Change
<b>Cash Provided (Used) by:</b>				
Operating Activities	\$ (90,191,098)	\$ (99,204,951)	\$ 9,013,853	-9%
Noncapital Financing Activities	101,473,064	108,685,150	(7,212,086)	-7%
Capital Financing Activities	(12,934,282)	(29,775,367)	16,841,085	-57%
Investing Activities	7,643,940	9,723,746	(2,079,806)	-21%
<b>Net Change in Cash</b>	<u>5,991,624</u>	<u>(10,571,422)</u>	<u>16,563,046</u>	-157%
<b>Cash Beginning of Year</b>	<u>96,708,376</u>	<u>107,279,798</u>	<u>(10,571,422)</u>	-10%
<b>Cash Ending of Year</b>	<u><u>\$ 102,700,000</u></u>	<u><u>\$ 96,708,376</u></u>	<u><u>\$ 5,991,624</u></u>	6%

Major sources of funds included in operating activities are student tuition and fees (\$70.1 million), auxiliary enterprises (\$32.6 million), and contracts and grants (\$17.0 million).

Major uses of funds in operating activities were compensation to employees (\$144.5 million) and payments made to suppliers for goods and services (\$59.6 million).

The largest inflow of cash in the noncapital financing activities was the State of North Carolina appropriation of \$86.9 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 included gifts received (\$3.2 million).

Cash provided by capital financing activities during fiscal year 2009 included capital grants from the State of North Carolina of \$3.7 million. Cash used in capital financing activities during fiscal year 2009 was primarily for the acquisition of capital assets of \$9.4 million and the repayment of principal and interest on capital debt \$11.6 million. The large decrease in capital financing of \$16.8 million was the result of decrease in capital funding from the State.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Capital Assets and Debt Administration

#### Capital Assets

The University had \$412.8 million invested in capital assets at June 30, 2009. This represents an increase of \$60.7 million from 2008.

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

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Land	\$ 6,258,371	\$ 6,258,371	\$ 0
Art, Literature and Artifacts	1,615,232	1,579,090	36,142
Construction in Progress	12,018,260	5,364,983	6,653,277
Building, Net	349,971,059	309,271,707	40,699,352
Machinery and Equipment, Net	11,212,811	11,931,691	(718,880)
Infrastructure, Net	31,692,412	17,648,764	14,043,648
<b>Total Capital Assets</b>	<b><u>\$ 412,768,145</u></b>	<b><u>\$ 352,054,606</u></b>	<b><u>\$ 60,713,539</u></b>

The large increases in building and general infrastructure categories were the result of the renovations to the Warwick Center and Friday Hall, the completion of Seahawk Crossing student housing complex and the University's first parking deck.

During the fiscal year, the University signed a capital lease with UNCW Corporation, Inc. for the 662 bed Seahawk Crossing housing project and the adjacent 900 space parking deck.

The University's largest ongoing capital project is the School of Nursing building. Official ground breaking occurred in October 2008 for the \$30.1 million 75,000 square foot project. Actual construction got underway in December 2008 with a scheduled completion date of the summer 2010. This state-of-the-art three story building will contain classrooms, lecture halls, nursing teaching labs and offices. This facility will be fully equipped with all the technology and resources required for the 21<sup>st</sup> century nursing education.

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

#### Debt

As of June 30, 2009, the University had \$197.6 million in outstanding bonds and capital leases, of which \$64.9 million was for outstanding bonds. This balance decreased by \$4.5 million due to the principal paid off on the outstanding debt. The University issued no new debt during the fiscal year but did borrow \$3.2 million in short-term debt in anticipation of the issuance of the Recreation Center Bonds. The University did enter into a capital lease for Seahawk Crossing housing complex and the new parking deck. The amount of the capital lease was \$62.5 million. There have been no significant changes in credit ratings or debt limitations that will affect future financing for the University.

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

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

### **Economic Forecast**

Despite the \$4.7 million permanent reduction and \$5.1 million one-time reversion for FY 2010 in State appropriations, management believes the University will be able to maintain its level of service to students. In these difficult economic times, the University has re-evaluated internal services within the University community and other constituencies and has implemented appropriate modifications to be able to maintain operations and staffing. The University's ongoing efforts toward revenue diversification, cost containment, and efficiency strategies will enable the University to provide the necessary resources to support a continued level of excellence for the future.

A crucial element to the University's future will continue to be the relationship with the State of North Carolina and its ability to fund higher education. There is a direct correlation between the growth of state support and the University's ability to control increases in tuition rates. In fiscal year 2009, tuition rates increased by 2.0% for resident, nonresident undergraduate and graduates students and 4.2% increase in mandatory fees. Modest increases are projected for tuition and fees. Despite these increases in tuition and fees, student application levels and increasing enrollment levels of students illustrate the strong on-going appeal of the University to prospective students.

Federal contract and grants are an important addition to the financial support of the University. Over the next two years, the American Recovery and Reinvestment Act (ARRA) will provide federal grant funds to supplement the reduction and reversion in State appropriations. The University has been awarded a \$15 million ARRA funded grant to match funds raised for the construction of a new marine biotechnology building. Private gifts continue to assist with the fundamental support from the State and student tuition. Gifts are a significant factor in the growth and quality of academic units. Economic pressures affecting donors may also affect the future level of support the University receives from corporate and individual giving.

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

### **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. Additional financial information may be obtained by contacting the Controller's Office at (910) 962-7086.

**University of North Carolina at Wilmington**  
**Statement of Net Assets**  
**June 30, 2009**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 58,452,245
Restricted Cash and Cash Equivalents	23,163,244
Receivables, Net (Note 4)	3,351,864
Due from State of North Carolina Component Units	14,000
Inventories	347,370
Notes Receivable, Net (Note 4)	1,115,754
	<hr/>
Total Current Assets	86,444,477
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	21,084,511
Receivables, Net (Note 4)	571,879
Restricted Due from Primary Government	1,819,620
Endowment Investments	43,317,971
Other Investments	1,514,362
Notes Receivable, Net (Note 4)	5,524,888
Bond Issuance Cost	408,520
Capital Assets - Nondepreciable (Note 5)	19,891,863
Capital Assets - Depreciable, Net (Note 5)	392,876,282
	<hr/>
Total Noncurrent Assets	487,009,896
	<hr/>

Total Assets	573,454,373
	<hr/>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	6,027,934
Due to Primary Government	1,823,013
Unearned Revenue	4,102,725
Interest Payable	1,760,667
Short-Term Debt (Note 7)	3,200,000
Long-Term Liabilities - Current Portion (Note 8)	9,014,222
	<hr/>
Total Current Liabilities	25,928,561
	<hr/>

Noncurrent Liabilities:

Funds Held for Others	1,932,498
U. S. Government Grants Refundable	4,523,370
Long-Term Liabilities (Note 8)	197,157,956
	<hr/>
Total Noncurrent Liabilities	203,613,824
	<hr/>

Total Liabilities	229,542,385
	<hr/>

**University of North Carolina at Wilmington**  
**Statement of Net Assets**  
**June 30, 2009**

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

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	215,150,619
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	20,521,131
Research	1,837,739
Endowed Professorships	10,275,879
Departmental Uses	7,688,650
Loans	987,315
Expendable:	
Scholarships and Fellowships	4,798,562
Research	29,812
Endowed Professorships	702,327
Departmental Uses	6,946,601
Loans	282,074
Capital Projects	27,569,408
Debt Service	1,385,570
Unrestricted	45,736,301
Total Net Assets	<u>\$ 343,911,988</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, 2009**

**Exhibit A-2**

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	\$ 68,897,732
Federal Grants and Contracts	12,665,257
State and Local Grants and Contracts	1,948,636
Nongovernmental Grants and Contracts	1,526,637
Sales and Services, Net (Note 10)	35,679,713
Interest Earnings on Loans	16,447
Other Operating Revenues	2,951,249
	<hr/>
Total Operating Revenues	123,685,671
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	145,201,002
Supplies and Materials	15,372,430
Services	40,764,117
Scholarships and Fellowships	7,886,225
Utilities	7,904,618
Depreciation	12,940,709
	<hr/>
Total Operating Expenses	230,069,101
	<hr/>
Operating Loss	(106,383,430)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	86,971,604
State Aid - Federal Recovery Funds	5,222,136
Noncapital Grants - Federal Student Financial Aid	7,067,305
Noncapital Gifts, Net (Note 10)	3,288,422
Investment Loss (Net of Investment Expense of \$270,864)	(5,576,370)
Interest and Fees on Debt	(6,222,953)
Other Nonoperating Expenses	(1,101,765)
	<hr/>
Net Nonoperating Revenues	89,648,379
	<hr/>
Loss Before Other Revenues	(16,735,051)
	<hr/>
Capital Grants	2,190,631
Capital Gifts	1,121,058
Additions to Endowments	1,873,255
	<hr/>
Decrease in Net Assets	(11,550,107)
	<hr/>

**NET ASSETS**

Net Assets - July 1, 2008, as Restated (Note 18)	355,462,095
	<hr/>
Net Assets - June 30, 2009	\$ 343,911,988
	<hr/> <hr/>

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, 2009**

**Exhibit A-3**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 118,458,695
Payments to Employees for Services	(144,513,367)
Payments to Vendors and Suppliers	(59,601,720)
Payments for Scholarships and Fellowships	(7,886,225)
Loans Issued to Students	(506,928)
Collection of Loans to Students	753,667
Interest Earned on Loans	16,062
Other Receipts	3,088,718
	<hr/>
Net Cash Used by Operating Activities	(90,191,098)
	<hr/>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	86,971,604
State Aid - Federal Recovery Funds	5,222,136
Noncapital Grants - Federal Student Financial Aid	7,067,305
Noncapital Gifts	3,242,451
Additions to Endowments	1,873,255
Related Activity Agency Disbursements	(80,991)
Other Payments	(2,822,696)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	101,473,064
	<hr/>

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

Proceeds from Capital Debt	3,200,000
Capital Grants	3,748,255
Capital Gifts	1,121,058
Acquisition and Construction of Capital Assets	(9,374,851)
Principal Paid on Capital Debt and Leases	(5,590,705)
Interest and Fees Paid on Capital Debt and Leases	(6,038,039)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(12,934,282)
	<hr/>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	12,222,775
Purchase of Investments and Related Fees	(6,278,594)
Investment Income	1,699,759
	<hr/>
Net Cash Provided by Investing Activities	7,643,940
	<hr/>
Net Increase in Cash and Cash Equivalents	5,991,624
Cash and Cash Equivalents - July 1, 2008	96,708,376
	<hr/>
Cash and Cash Equivalents - June 30, 2009	\$ 102,700,000
	<hr/> <hr/>

**University of North Carolina at Wilmington**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2009**

**Exhibit A-3**

**Page 2**

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

Operating Loss	\$ (106,383,430)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	12,940,709
Nonoperating Other Income	129,023
Changes in Assets and Liabilities:	
Receivables (Net)	1,250,949
Due from State of North Carolina Component Units	56,000
Inventories	10,811
Accounts Payable and Accrued Liabilities	1,679,103
Arbitrage Rebate Payable	137,469
Unearned Revenue	(282,381)
Deposits Payable	(385)
Note Principal Repayments	777,962
Notes Issued	(506,928)
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (90,191,098)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 58,452,245
Restricted Cash and Cash Equivalents	23,163,244
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	21,084,511
	<hr/>
Total Cash and Cash Equivalents - June 30, 2009	<u>\$ 102,700,000</u>

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

Change in Fair Value of Investments	\$ (7,189,160)
Assets Acquired through the Assumption of a Liability	61,460,000

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

**UNCW Corporation, Inc.**  
**Statement of Net Assets**  
**June 30, 2009**

**Exhibit B-1**

**ASSETS**

Assets Limited as to Use, Restricted	\$	6,711,536
Sales Tax Receivable		931,634
Net Investment in Direct Financing Leases, Current		1,125,000
Net Investment in Direct Financing Leases, Noncurrent		122,239,065
Debt Issuance Cost		2,778,089
		<hr/>
Total Assets		133,785,324

**LIABILITIES**

Accounts Payable, Construction		4,585,572
Certificates of Participation Payable, Current		1,125,000
Certificates of Participation Payable		128,074,752
		<hr/>
Total Liabilities		133,785,324

**NET ASSETS**

Total Net Assets	\$	0.00
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The accompanying notes to the financial statements are an integral part of this statement.

**UNCW Corporation, Inc.**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Assets (Deficit)**  
**June 30, 2009**

**Exhibit B-2**

**REVENUES**

Direct Financing Lease Income	\$	3,271,448
Other Revenues		206,497
		<hr/>
Total Unrestricted Revenues and Gains		3,477,945

**EXPENSES**

Contracted Services		56,740
Interest Expense		3,271,963
Other Expenses		29,039
		<hr/>
Total Expenses		3,357,742
		<hr/>
Change in Net Deficit		120,203

**NET ASSETS (DEFICIT)**

Beginning		<hr/>	(120,203)
Ending	\$	<hr/> <hr/>	0.00

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

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**UNIVERSITY OF NORTH CAROLINA AT WILMINGTON**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at 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. (Foundation) is a component unit of the University and is reported as if it were part of the University.

The Foundation is governed by a five-member board 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 of North Carolina at Wilmington, 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 Foundation may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC 28403-5918, or by calling (910) 962-3139. 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. (Corporation) 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 is a private not-for-profit organization that reports results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB). No modifications have been made to the Corporation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2009, the Corporation did not distribute funds to the University. Complete financial statements for the Corporation may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington NC 28403-5918, or by calling (910) 962-3139.

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, 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, 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 reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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investments by endowments are reported at fair value, consistent with how investments are generally reported.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, related nonprofit foundations associated with the university, component units, 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 30 to 50 years for general infrastructure, 15 to 50 years for buildings, and 4 to 50 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 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of bonds payable, arbitrage rebate 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 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 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 pool, postal services and telecommunications. In addition, the University has other miscellaneous sales and service units that operate either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations 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 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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$102,536,616 which represents the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 1.8 years as of June 30, 2009. 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2009 was \$28,823. The carrying amount of the University's deposits not with the State Treasurer was \$134,561 and the bank balance was \$160,552. 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.

- 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. 47-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; time deposits of specified institutions; prime quality commercial paper; and asset-backed securities with specified ratings. Also, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, the Watson Foundation, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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.

**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, 2009, for the Long-Term Investment Pool.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

***Long-Term Investment Pool***

<b>Investment Type</b>	Fair Value	Investment Maturities (in Years)
		Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 3,909,919	<u>\$ 3,909,919</u>
Other Securities		
UNC Investment Fund	26,596,994	
Other Mutual Funds	11,638,171	
Investments in Real Estate	<u>494,766</u>	
Total Long-Term Investment Pool	<u>\$ 42,639,850</u>	

At June 30, 2009, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa
Money Market Mutual Funds	<u>\$ 3,909,919</u>	<u>\$ 3,909,919</u>

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, 2009, for the University's non-pooled investments.

***Non-Pooled Investments***

<b>Investment Type</b>	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Mutual Bond Funds	\$ 392,948	\$ 0	\$ 134,086	\$ 258,862
Money Market Mutual Funds	1,003,025	<u>1,003,025</u>		
		<u>\$ 1,003,025</u>	<u>\$ 134,086</u>	<u>\$ 258,862</u>
Other Securities				
Other Mutual Funds	768,640			
Domestic Stocks	11,299			
Other - Life Insurance	<u>16,571</u>			
Total Non-Pooled Investments	<u>\$ 2,192,483</u>			



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2009, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Value	Aaa	Aa	A	Baa	below	Unrated
Mutual Bond Funds	\$ 392,948	\$ 291,992	\$ 11,654	\$ 12,708	\$ 17,577	\$ 5,567	\$ 53,450
Money Market Mutual Funds	1,003,025	1,003,025					

**Total Investments** - The following table presents the fair value of the total investments at June 30, 2009:

Investment Type	Fair Value
<b>Debt Securities</b>	
Mutual Bond Funds	\$ 392,948
Money Market Mutual Funds	4,912,945
<b>Other Securities</b>	
UNC Investment Fund	26,596,994
Other Mutual Funds	12,406,811
Investments in Real Estate	494,766
Domestic Stocks	11,299
Other - Life Insurance	16,571
<b>Total Investments</b>	<u><u>\$ 44,832,334</u></u>

**Component Unit** - Investments of the University's discretely presented component unit, the UNCW Corporation, Inc are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the UNCW Corporation reports under the FASB reporting model, disclosures of the various investment risks are not required. The UNCW Corporation had invested proceeds from bond issuance in the amount of \$6,711,536. This investment is 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 expenditure the net appreciation, realized and unrealized, of the investments of

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the endowment funds. Under the “Uniform Prudent Management of Institutional Funds Act” (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University’s endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University’s endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University’s endowment funds are based on an adopted spending policy which limits spending to 4.5% of the average market value of the endowment at the end of the previous three years. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2009, net assets of \$9,255,306 was available to be spent, of which \$6,477,332 was restricted to specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 1,087,694	\$ 108,774	\$ 978,920
Accounts	1,178,523		1,178,523
Intergovernmental	691,554		691,554
Pledges	214,729	10,737	203,992
Investment Earnings	162,097		162,097
Interest on Loans	120,633		120,633
Other	16,145		16,145
<b>Total Current Receivables</b>	<b>\$ 3,471,375</b>	<b>\$ 119,511</b>	<b>\$ 3,351,864</b>
<b>Noncurrent Receivables:</b>			
Pledges	\$ 601,978	\$ 30,099	\$ 571,879
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 1,094,658	\$ 104,663	\$ 989,995
Institutional Student Loan Programs	125,759		125,759
<b>Total Notes Receivable - Current</b>	<b>\$ 1,220,417</b>	<b>\$ 104,663</b>	<b>\$ 1,115,754</b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 4,154,297	\$ 415,430	\$ 3,738,867
Due from Foundation	1,750,000		1,750,000
Institutional Student Loan Programs	36,021		36,021
<b>Total Notes Receivable - Noncurrent</b>	<b>\$ 5,940,318</b>	<b>\$ 415,430</b>	<b>\$ 5,524,888</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 6,258,371	\$ 0	\$ 0	\$ 6,258,371
Art, Literature, and Artifacts	1,579,090	36,142		1,615,232
Construction in Progress	5,364,983	8,276,287	1,623,010	12,018,260
<b>Total Capital Assets, Nondepreciable</b>	<b>13,202,444</b>	<b>8,312,429</b>	<b>1,623,010</b>	<b>19,891,863</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	379,452,230	50,364,627	318,128	429,498,729
Machinery and Equipment	32,898,423	1,825,202	338,218	34,385,407
General Infrastructure	26,486,739	14,775,000		41,261,739
<b>Total Capital Assets, Depreciable</b>	<b>438,837,392</b>	<b>66,964,829</b>	<b>656,346</b>	<b>505,145,875</b>
<b>Less Accumulated Depreciation/Amortization for:</b>				
Buildings	70,180,523	9,665,275	318,128	79,527,670
Machinery and Equipment	20,966,732	2,544,082	338,218	23,172,596
General Infrastructure	8,837,975	731,352		9,569,327
<b>Total Accumulated Depreciation</b>	<b>99,985,230</b>	<b>12,940,709</b>	<b>656,346</b>	<b>112,269,593</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>338,852,162</b>	<b>54,024,120</b>		<b>392,876,282</b>
<b>Capital Assets, Net</b>	<b>\$ 352,054,606</b>	<b>\$ 62,336,549</b>	<b>\$ 1,623,010</b>	<b>\$ 412,768,145</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	\$ 4,641,825
Accrued Payroll	1,147,271
Contract Retainage	238,838
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 6,027,934</b>

### NOTE 7 - SHORT-TERM DEBT

The University borrowed funds in anticipation of the issuance of the Recreation Center Bonds to cover the construction of a student recreation center.

Short-term debt activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Draws	Repayments	Balance June 30, 2009
Bond Anticipation Notes	\$ 0	\$ 3,200,000	\$ 0	\$ 3,200,000

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - LONG-TERM LIABILITIES

#### A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Bonds Payable	\$ 68,390,000	\$ 0	\$ 4,410,000	\$ 63,980,000	\$ 3,445,000
Add/Deduct Premium/Discount	1,815,097		117,414	1,697,683	
Deduct Deferred Charge on Refunding	(825,612)		(69,313)	(756,299)	
<b>Total Bonds Payable</b>	<b>69,379,485</b>		<b>4,458,100</b>	<b>64,921,385</b>	<b>3,445,000</b>
Arbitrage Rebate Payable		137,469		137,469	
Capital Leases Payable	71,343,746	61,460,000	107,605	132,696,141	5,461,141
Compensated Absences	8,313,667	459,111	355,594	8,417,183	108,081
<b>Total Long-Term Liabilities</b>	<b>\$ 149,036,898</b>	<b>\$ 62,056,580</b>	<b>\$ 4,921,300</b>	<b>\$ 206,172,178</b>	<b>\$ 9,014,222</b>

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009	See Table Below
<b>Revenue Bonds Payable</b>							
<b>Dorm and Dining Hall</b>							
Construct Dorm	B	7.5 - 8.0	01/31/2009	\$ 1,400,000	\$ 1,400,000	\$ 0	
<b>Physical Education System</b>							
Construct Trask Coliseum	B	5.1 - 5.5	01/01/2010	1,140,000	1,035,000	100,000	(1)
<b>General Revenue</b>							
Construct Dorm	2002A	3.0 - 5.0	01/01/2023	11,500,000	2,520,000	8,980,000	
Construct New Union	2003A	2.5 - 5.25	01/01/2028	30,000,000	4,085,000	25,915,000	
<b>Total General Revenue</b>				<b>41,500,000</b>	<b>6,605,000</b>	<b>34,895,000</b>	
<b>The University of North Carolina System Pool Revenue Bonds</b>							
Westside Building, Parking, Apartments	2002A	4.0 - 5.0	04/30/2022	6,735,000	5,680,000	1,055,000	
Refund Series I	2003A	2.0 - 5.0	04/30/2009	5,100,000	5,100,000		
Refund Series J and Recreation	2005A	4.0 - 5.2	04/30/2019	12,630,000	2,630,000	10,000,000	
Union Addition & Parking	2006A	4.0 - 5.0	10/01/2033	19,400,000	1,470,000	17,930,000	
<b>Total The University of North Carolina System Pool Revenue Bonds</b>				<b>43,865,000</b>	<b>14,880,000</b>	<b>28,985,000</b>	
<b>Total Bonds Payable (principal only)</b>				<b>\$ 87,905,000</b>	<b>\$ 23,920,000</b>	<b>63,980,000</b>	
Less: Unamortized Loss on Refunding						(756,299)	
Plus: Unamortized Premium						1,697,683	
<b>Total Bonds Payable</b>						<b>\$ 64,921,385</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)	Physical Education System	\$ 100,000	\$ 214,272	\$ 105,500	0.1%

**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2009, are as follows:

Fiscal Year	Annual Requirements	
	Revenue Bonds Payable	
	Principal	Interest
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	3,395,000.00	2,460,027.50
2015-2019	18,635,000.00	9,675,012.50
2020-2024	14,655,000.00	5,314,518.76
2025-2029	11,255,000.00	2,115,375.02
2030-2034	2,765,000.00	438,625.00
Total Requirements	\$ 63,980,000.00	\$ 31,208,907.58

**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, 2009, the outstanding balance of prior year defeased bonds was \$2,135,000.

**E. Component Unit** - The UNCW Corporation, Inc. had liabilities of certificates of participation of \$129,199,752.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 9 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to buildings and parking deck 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, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 11,599,579
2011	6,533,438
2012	6,922,338
2013	7,124,263
2014	7,268,588
2015-2019	39,906,878
2020-2024	46,731,103
2025-2029	47,743,640
2030-2034	47,738,700
2035-2039	30,831,494
Total Minimum Lease Payments	<u>252,400,021</u>
Amount Representing Interest (3.50% - 5.25% Rate of Interest)	<u>119,703,880</u>
Present Value of Future Lease Payments	<u>\$ 132,696,141</u>

Buildings acquired under capital leases amounted to \$132,810,000 at June 30, 2009.

- B. Operating Lease Obligations** - The University entered into operating leases for office space and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	<u>\$ 361,533</u>

Rental expense for all operating leases during the year was \$787,471.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 73,687,218	\$ 0	\$ 4,758,937	\$ 30,549	\$ 68,897,732
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential life	\$ 17,279,746	\$ 0	\$ 1,327,509	\$ 4,220	\$ 15,948,017
Dining	10,660,398		791,679	4,210	9,864,510
Communications	2,783,425	2,781,546			1,879
Parking	2,535,303		57,253	531	2,477,519
Physical Plant	1,803,525				1,803,525
Printing and Duplicating	1,372,412	1,372,412			
Athletics	945,213		441,800	7,281	496,132
Other	4,051,924	1,321,710	925,340	25,503	1,779,370
Sales and Services of Education	3,308,761				3,308,761
<b>Total Sales and Services</b>	<u>\$ 44,740,707</u>	<u>\$ 5,475,668</u>	<u>\$ 3,543,581</u>	<u>\$ 41,744</u>	<u>\$ 35,679,713</u>
<b>Nonoperating - Noncapital Gifts</b>	<u>\$ 3,329,257</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 40,835</u>	<u>\$ 3,288,422</u>

### NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 76,578,516	\$ 1,416,934	\$ 4,783,643	\$ 415,075	\$ 2,285	\$ 0	\$ 83,196,453
Research	9,179,153	1,542,441	5,037,614	85,324	25,069		15,869,601
Public Service	1,489,316	139,009	897,905		190		2,526,420
Academic Support	9,503,063	3,232,756	1,621,469	8,958	539		14,366,785
Student Services	6,812,301	528,084	2,565,635	11,722	15,578		9,933,320
Institutional Support	18,787,028	717,616	2,949,180		10,642		22,464,466
Operations and Maintenance of Plant	12,382,452	3,202,981	3,350,607		5,191,669		24,127,709
Student Financial Aid		4,033	40,580	6,848,979			6,893,592
Auxiliary Enterprises	10,469,173	4,588,576	19,517,484	516,167	2,658,646		37,750,046
Depreciation						12,940,709	12,940,709
<b>Total Expenses</b>	<u>\$ 145,201,002</u>	<u>\$ 15,372,430</u>	<u>\$ 40,764,117</u>	<u>\$ 7,886,225</u>	<u>\$ 7,904,618</u>	<u>\$ 12,940,709</u>	<u>\$ 230,069,101</u>

### NOTE 12 - PENSION PLANS

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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the time of employment, otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$120,625,459 of which \$58,653,497 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$1,970,758 and \$3,519,210, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$1,970,758, \$1,667,988, and \$1,307,244, 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 "Proceed directly to OSC's index page," then "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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2009, 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 \$120,625,459 of which \$48,748,125 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$3,334,372 and \$2,924,888, 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 \$279,504 for the year ended June 30, 2009.

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 are mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2009, were \$69,055. The voluntary contributions by employees amounted to \$574,064 for the year ended June 30, 2009.

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 \$1,648,496 for the year ended June 30, 2009.

### NOTE 13 - 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 *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

## 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, 2008, and 2007, were 4.1% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$4,403,466, \$4,075,924, and \$3,399,458, 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 "Proceed directly to OSC's index page," then "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, 2009, 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, 2008, and 2007, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$558,488, \$516,946, and \$465,189, respectively. The University assumes

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

### NOTE 14 - RISK MANAGEMENT

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

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

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible.

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

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

## 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 retains the risk 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 15 - COMMITMENTS AND CONTINGENCIES

**A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$22,603,884 and on other purchases \$11,536,524 at June 30, 2009.

**B. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

Purpose	Amount
Endowment Pledges	\$ 1,636,582.00

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 16 - RELATED PARTIES

**Foundations** - There are five separately incorporated nonprofit foundations associated with the University. These foundations are the University of North Carolina at Wilmington Alumni Association, the University of North Carolina at Wilmington Foundation, 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 University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. This support approximated \$2,311,709 for the year ended June 30, 2009.

On December 12, 2008, the Board of Trustees for the University's Endowment Fund approved a loan to the University of North Carolina Wilmington Foundation, Inc. in the amount \$1,750,000. This loan is evidenced by a promissory note at an interest rate of 5.2% per annum for the first year and at a rate of 5.5% for the second year of indebtedness and matures December 13, 2010. The purpose of the loan was to provide financing for the acquisition of property by the foundation for investment purposes.

### NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

*GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations.*

*GASB Statement No. 52, Land and Other Real Estate Held as Investments by Endowments.*

GASB Statement No. 49 requires reporting pollution remediation obligations, which are obligations to address current or potential detrimental effects of existing pollution, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52 amends GASB Statement No. 31, which required endowments to report land and other real estate investments at historical cost

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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by requiring the reporting of land and other real estate held as investments at fair value.

In addition, beginning with the year ended June 30, 2009, the University reports federal student aid revenue as nonoperating revenue instead of operating. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

### NOTE 18 - NET ASSETS RESTATEMENT

As of July 1, 2008, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2008 Net Assets as Previously Reported	\$ 356,699,748
Restatements: Correct tuition accruals	<u>(1,237,653)</u>
July 1, 2008 Net Assets as Restated	<u><u>\$ 355,462,095</u></u>

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**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 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, 2009, which collectively comprise the University's basic financial statements and have issued our report thereon dated January 28, 2010. Our report was modified to include a reference to other auditors.

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

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 was 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  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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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

January 28, 2010

## **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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