



STATE OF NORTH CAROLINA

UNIVERSITY OF NORTH CAROLINA AT WILMINGTON

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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, 2010, 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*.

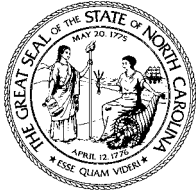
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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, 2010, 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.

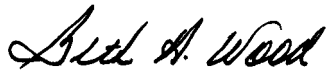
In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of North Carolina at Wilmington and its discretely presented component unit as of June 30, 2010, 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)

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2011 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

March 9, 2011

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

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, 2010. 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) are one indicator of the University's financial viability. Over time, changes in net assets provide information on the improvement or erosion of the University's financial condition when considered with non-financial facts such as enrollment levels and the condition of facilities.

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

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

Financial Highlights

For fiscal year ended June 30, 2010, the legislature imposed a budget reduction of 3.2% on the University of North Carolina System. In addition, as a precaution against the potential for declining revenues, the State imposed a 5% reversion in fiscal year ending June 30, 2010, which the University covered by holding vacant faculty and staff positions, reserving funds for benefits for those positions, and cutting expenses in other areas. Due to cash flow issues when anticipated revenues were not realized by the State, the University received a State

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

allotment for June 2010 for 3 of the 4 week's expenditures (\$1.3 million). As a result, the State did allow the University to carry forward \$2.1 million to fiscal year 2011 to meet outstanding obligations.

The University has been allocated appropriated funds (\$783,226) for repair and renovation to State funded facilities. This amount is considerably less than what was required to maintain the University facilities, however it provided some relief since the University was not allocated any appropriated repair and renovation funds for the previous fiscal year.

The State did not impose a temporary furlough for University positions during fiscal year 2010; however, State employees did not receive raises again this fiscal year. The University initiated a small reduction in force, eliminated selected vacant positions and reassigned several employees to fill vacancies in other critical positions.

On June 30, 2010, the University endowment total net assets were \$52.0 million, including current year gifts of \$2.1 million. These gifts, and the increase in the market value of endowment investments from fiscal year 2009 amounted to \$4.1 million, and this includes spendable income distributions in the amount of \$1.7 million. The University continues to manage its endowment investments through the UNC Management Corporation, The Investment Fund for Foundations (TIFF), GMO US Quality Equity Fund, GMO US Equity Allocation Fund, and the North Carolina Short-Term Investment Fund (STIF). During fiscal year 2010, the rate of return for the endowments was 6.53%. While this is considerably less than the 14.4% one-year rate of return produced by the Standard & Poor's (S&P), the UNCW endowment 3, 5, and 10 year rates of return have been consistently higher than the S&P. The University continued to meet its spending policy of 4.5% for its scholarships, distinguished professorships, and departmental support. The spending policy is evaluated annually to determine if any changes to the spending policy are required.

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, 2010. 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

	2010	2009	Change	% Change
Assets				
Current Assets	\$ 89,987,511	\$ 86,444,477	\$ 3,543,034	4.1%
Noncurrent Assets	98,170,667	74,241,751	23,928,916	32.2%
Capital Assets, Net	425,635,893	412,768,145	12,867,748	3.1%
Total Assets	613,794,071	573,454,373	40,339,698	7.0%
Liabilities				
Current Liabilities	21,099,092	25,928,561	(4,829,469)	-18.6%
Noncurrent Liabilities	241,655,576	203,613,824	38,041,752	18.7%
Total Liabilities	262,754,668	229,542,385	33,212,283	14.5%
Net Assets				
Invested in Capital Assets, Net	229,927,613	215,150,619	14,776,994	6.9%
Restricted Nonexpendable	45,056,161	41,310,714	3,745,447	9.1%
Restricted Expendable	22,801,543	41,714,354	(18,912,811)	-45.3%
Unrestricted	53,254,086	45,736,301	7,517,785	16.4%
Total Net Assets	\$ 351,039,403	\$ 343,911,988	\$ 7,127,415	2.1%

On June 30, 2010, total University assets were \$613.8 million. The largest asset categories included the University's investment in capital assets (\$425.6 million), cash and cash equivalents (\$129.7 million) and the endowments (\$44.6 million). The increase in capital assets was for construction in progress (\$21.9 million) for the new school of nursing building which will be ready for occupancy in August 2010. The increase in cash and cash equivalents was a result of the proceeds from the new bond issue and other funds received from the second year of American Recovery and Reinvestment Act (ARRA). The decrease in the current liabilities came about from the retirement of the short-term anticipation note payable (\$3.2 million) and the subsequent increase in noncurrent liabilities (\$4.5 million) for the note payable for Guaranteed Energy Savings Contract and the new bond payable (\$32.2 million) for the construction of the Student Recreation Center expansion. The major portion of the increase in investments in capital assets net of related debt of \$14.8 million and the associated decrease in restricted expendable assets of \$18.9 million was primarily due to the reclassification of the nursing building from capital projects cost (restricted expendable) to construction in progress costs (invested in capital assets).

Statement of Revenues, Expenses, and Changes in Net Assets

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided; i.e., State appropriations and investment income. Nonoperating expenses include interest and fees on debt, loss on sale of assets, and other miscellaneous expenses; 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

	2010	2009	Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 71,613,363	\$ 66,548,472	\$ 5,064,891	7.6%
Sales and Service, Net	37,764,423	33,930,416	3,834,007	11.3%
Grants and Contracts	18,559,457	16,140,530	2,418,927	15.0%
Other Operating Revenues	1,771,634	2,967,696	(1,196,062)	-40.3%
Total Operating Revenues	129,708,877	119,587,114	10,121,763	8.5%
Operating Expenses				
Salaries and Benefits	145,706,677	145,201,002	505,675	0.3%
Supplies and Materials	18,883,395	15,372,430	3,510,965	22.8%
Services	44,058,570	40,764,117	3,294,453	8.1%
Scholarships and Fellowships	15,695,692	12,276,198	3,419,494	27.9%
Utilities	8,667,368	7,904,618	762,750	9.6%
Depreciation	13,612,147	12,940,709	671,438	5.2%
Total Operating Expenses	246,623,849	234,459,074	12,164,775	5.2%
Operating Loss	(116,914,972)	(114,871,960)	(2,043,012)	1.8%
Nonoperating Revenues (Expenses)				
State Appropriation	90,220,051	86,971,604	3,248,447	3.7%
State Aid - Federal Recovery Funds	7,228,518	5,222,136	2,006,382	38.4%
Noncapital Gifts and Grants	24,551,773	18,844,257	5,707,516	30.3%
Investment Income (Loss) Net	4,378,042	(5,576,370)	9,954,412	178.5%
Other Fees and Investment Expenses	(7,226,998)	(7,324,718)	97,720	-1.3%
Other Revenues				
Capital Gifts and Grants	2,805,894	3,311,689	(505,795)	-15.3%
Additions to Endowments	2,085,107	1,873,255	211,852	11.3%
Total Nonoperating and Other Revenues	124,042,387	103,321,853	20,720,534	20.1%
Increase (Decrease) in Net Assets	7,127,415	(11,550,107)	18,677,522	161.7%
Net Assets - Beginning of Year	343,911,988	355,462,095	(11,550,107)	-3.2%
Net Assets - End of Year	\$ 351,039,403	\$ 343,911,988	\$ 7,127,415	2.1%

Student tuition and fees (\$71.6 million) and sales and services from auxiliary enterprises (\$37.8 million) accounted for 84.4% of the University's operating revenue. Revenue from residence life and dining contributed to the \$3.8 million increase in sales revenues, due to additional student housing facilities available on campus this year. Grants and contracts increased \$2.4 million in part by ARRA funding, as well as an increase in federal awards.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Other revenue declined as we reclassified orientation fees from miscellaneous to correctly report under student tuition and fees. Supplies expenditures increased by \$3.5 million from spending related to the new nursing school facility. The \$3.4 million increase in scholarship spending was funded largely by increased State appropriations specifically for that purpose in 2010. Aid from the State included an additional \$2 million in ARRA funds this year. The \$11 million unrealized loss on investments in 2009 is only \$3 million in 2010, allowing us to report revenue and skewing the percentage. Total capital gifts in 2009 included the significant gift of \$200,000 for renovation of the baseball field house, and no similar capital gift amount was received in 2010 resulting in a decline in capital gift and grant revenue. The University received additional Pell awards this year including ARRA funding which contributed to the \$5.7 million dollar increase in noncapital gift and grant revenue. University endowments received a significant gift in May 2010, increasing additions for 2010 to over 11% from 2009.

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, which must be reported discretely in the financial statements.

UNCW Corporation, Inc.			
Total Net Assets			
	<u>2010</u>	<u>2009</u>	<u>Change</u>
Asset and Liabilities:			
Total Assets	\$ 128,560,646	\$ 133,785,324	\$ (5,224,678)
Total Liabilities	128,560,646	133,785,324	(5,224,678)
Total Net Assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The decrease in asset and liabilities is a result of construction expenditures on remaining bond funds and payments applied toward the principal of the bond debt.

UNCW Corporation, Inc.			
Changes in Net Assets			
	<u>2010</u>	<u>2009</u>	<u>Change</u>
Total Revenues	\$ 5,265,640	\$ 3,477,945	\$ 1,787,695
Total Expenses	<u>5,265,640</u>	<u>3,357,742</u>	<u>1,907,898</u>
Net Increase (Decrease)		120,203	(120,203)
Net Assets - Beginning of Year		<u>(120,203)</u>	<u>120,203</u>
Net Assets - End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The increase in revenues and expenses is primarily a result of the first full year of interest being paid on the final phase of the housing projects, whereas last year reflects 6 months of interest payments for the final phase.

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

	2010	2009	Change	% Change
Cash Provided (Used) by:				
Operating Activities	\$ (105,346,975)	\$ (98,679,628)	\$ (6,667,347)	6.8%
Noncapital Financing Activities	125,363,397	109,961,594	15,401,803	14.0%
Capital Financing Activities	3,185,821	(12,934,282)	16,120,103	124.6%
Investing Activities	3,761,529	7,643,940	(3,882,411)	-50.8%
Net Change In Cash	<u>26,963,772</u>	<u>5,991,624</u>	<u>20,972,148</u>	350.0%
Cash Beginning of Year	<u>102,700,000</u>	<u>96,708,376</u>	<u>5,991,624</u>	6.2%
Cash Ending of Year	<u><u>\$ 129,663,772</u></u>	<u><u>\$ 102,700,000</u></u>	<u><u>\$ 26,963,772</u></u>	26.3%

Major sources of funds included in operating activities are student tuition and fees (\$71.6 million), auxiliary enterprises (\$37.8 million), and contracts and grants (\$18.6 million).

Major uses of funds in operating activities were compensation to employees (\$146.2 million) and payments made to suppliers for goods and services (\$72.3 million).

The largest inflow of cash in the noncapital financing activities was the State of North Carolina appropriation of \$90.2 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 and grants received (\$24.8 million).

Cash provided by capital financing activities during fiscal year 2010 included capital grants from the State of North Carolina of \$4.2 million. Cash used in capital financing activities during fiscal year 2010 was primarily for the acquisition of capital assets of \$26.4 million and the repayment of principal and interest on capital debt of \$29.9 million. The increase in capital financing of \$16.1 million was (in part) the result of proceeds from the issuance of debt over the amounts expended for capital assets or debt payments.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets and Debt Administration

Capital Assets

The University had \$425.6 million invested in capital assets at June 30, 2010, as reported in the table below. This represents an increase of \$12.9 million from 2009.

June 30, as Indicated	2010	2009	Change
Land	\$ 6,258,371	\$ 6,258,371	\$ 0
Art, Literature and Artifacts	1,796,372	1,615,232	181,140
Construction In Progress	33,949,649	12,018,260	21,931,388
Building, Net	340,360,201	349,971,059	(9,610,858)
Machinery and Equipment, Net	12,588,729	11,212,811	1,375,918
Infrastructure, Net	30,682,571	31,692,412	(1,009,841)
Total Capital Assets	\$ 425,635,893	\$ 412,768,145	\$ 12,867,748

The large increase in the construction in progress category was the result of the Nursing building construction project. Occupancy is slated for August 2010 for this state-of-the-art three story building which will contain classrooms, lecture halls, nursing teaching labs, and offices. This facility will be fully equipped with the technology and resources required for the 21st century nursing education.

The construction of the Oyster Hatchery facility at the Center for Marine Science is also reflected in the construction in progress in 2010. This facility is scheduled for completion in August 2010.

Debt

As of June 30, 2010, the University had \$233.4 million in long-term debt which includes outstanding bonds payable (\$97.0 million), notes payable (\$4.5 million), and capital leases (\$131.7 million). A new bond issue of \$52.9 million increased bonds payable for the Student Recreation Center expansion (\$34.4 million) along with a partial refunding of prior issued bonds (\$18.5 million). The University financed a Guaranteed Energy Savings Contract with the issuance of a note payable in the amount of \$4.5 million for the purpose of upgrading the University's infrastructure for energy efficiencies. In March 2010, Moody's recalibrated its U.S. Municipal Rating to its Global Rating Scale. As a result, the University credit rating was changed from A-2 to A-1. This recalibration does not reflect an improvement in credit quality or a change in the credit opinion for rated municipal debt issuers. There have been no other significant changes in credit ratings or debt limitations that will affect future financing for the University.

More detailed information on the University's long-term obligations and credit rating is presented in Note 8 and 18 to the financial statements, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Economic Forecast

The 2010-11 State appropriations for University operations were reduced by \$4.2 million, however, the University received State funding (\$3.6 million) for enrollment growth, operations of new buildings (\$1.6 million), need-based financial aid and repair and renovations for building maintenance.

The legislature repealed previous legislation that allowed athletes who received full scholarships to be classified as in-state residents for tuition purposes. This will increase the annual cost to the University by approximately \$414,000. Finally, because of the continued weakened economy, the Governor as in previous fiscal years imposed a reversion of State funds totaling approximately 1% of the annual appropriated budget.

To help the University protect the quality of a UNC education, the 2010 NC General Assembly authorized each UNC campus to implement a supplemental tuition increase of up to \$750 to help offset the impact of state budget cuts to be used to protect academic quality and provide need-based financial aid. The University implemented an annual tuition increase of approximately \$412 to offset the impact of budget cuts. These increases are critical to preserve the academic environment by maintaining faculty positions, providing ample sections of high demand courses, supporting retention and graduation goals by providing resources for academic support units, primarily the university libraries, and replacing outdated equipment and computers for labs and classrooms.

Given weakened national economic conditions, the State projects it will continue to experience substantial budget shortfalls and the tax revenues will be less than expected. It should be noted that if the reductions are less than anticipated, the University has a plan to reinstate budgets maximizing the use of existing resources through a prioritized reallocation of funds. No assurance can be given that the State's General Assembly will continue to appropriate funds to the University of North Carolina System and, consequently, to the University in future fiscal years at the levels previously experienced.

The cumulative impact of the national economic downturn, the expiration of federal recovery dollars and sun setting of recent revenue changes leaves the State with a projected budget shortfall of approximately \$3.3 billion. Each State agency has been directed to develop 5%, 10% and 15% reduction options on the base budget for FY 2011-12, focusing on supporting mission-critical services and eliminating programs and services that have out-lived their usefulness. Currently, universities are required to develop 5% and 10% budget reduction scenarios.

The University is dedicated to provide the most powerful academic experience possible and the highest quality of education possible for our students. The University will continue with ongoing efforts of prudent fund allocations, cost containment measures, implementation of efficiencies and continual reassessment of the resources available to successfully meet our core mission and goals.

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, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 65,015,830
Restricted Cash and Cash Equivalents	19,004,819
Receivables, Net (Note 4)	4,115,903
Due from State of North Carolina Component Units	389,000
Inventories	340,847
Notes Receivable, Net (Note 4)	1,121,112
	<hr/>
Total Current Assets	89,987,511
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	45,643,123
Receivables, Net (Note 4)	381,680
Restricted Due from Primary Government	370,904
Endowment Investments	44,645,280
Other Investments	682,445
Deferred Charges	986,786
Notes Receivable, Net (Note 4)	5,460,449
Capital Assets - Nondepreciable (Note 5)	42,004,392
Capital Assets - Depreciable, Net (Note 5)	383,631,501
	<hr/>
Total Noncurrent Assets	523,806,560
	<hr/>

Total Assets	613,794,071
	<hr/>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	5,113,186
Due to Primary Government	1,230,190
Unearned Revenue	4,288,645
Interest Payable	1,924,295
Long-Term Liabilities - Current Portion (Note 8)	8,542,776
	<hr/>
Total Current Liabilities	21,099,092
	<hr/>

Noncurrent Liabilities:

Funds Held for Others	3,743,831
U. S. Government Grants Refundable	4,480,073
Long-Term Liabilities (Note 8)	233,431,672
	<hr/>
Total Noncurrent Liabilities	241,655,576
	<hr/>
Total Liabilities	262,754,668
	<hr/>

University of North Carolina at Wilmington
Statement of Net Assets
June 30, 2010

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	229,927,613
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	20,262,289
Research	1,845,793
Endowed Professorships	11,084,884
Departmental Uses	10,903,233
Loans	959,962
Expendable:	
Scholarships and Fellowships	4,993,039
Research	6,545
Endowed Professorships	790,347
Departmental Uses	7,447,548
Loans	299,499
Capital Projects	8,344,538
Debt Service	920,027
Unrestricted	53,254,086
Total Net Assets	<u>\$ 351,039,403</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, 2010

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	\$ 71,613,363
Federal Grants and Contracts	15,641,403
State and Local Grants and Contracts	1,377,277
Nongovernmental Grants and Contracts	1,540,777
Sales and Services, Net (Note 10)	37,764,423
Interest Earnings on Loans	91,788
Other Operating Revenues	1,679,846
	<hr/>
Total Operating Revenues	129,708,877
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	145,706,677
Supplies and Materials	18,883,395
Services	44,058,570
Scholarships and Fellowships	15,695,692
Utilities	8,667,368
Depreciation	13,612,147
	<hr/>
Total Operating Expenses	246,623,849
	<hr/>
Operating Loss	(116,914,972)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	90,220,051
State Aid - Federal Recovery Funds	7,228,518
Noncapital Grants - Student Financial Aid	21,800,790
Noncapital Gifts, Net (Note 10)	2,750,983
Investment Income (Net of Investment Expense of \$179,749)	4,378,042
Interest and Fees on Debt	(6,491,363)
Other Nonoperating Expenses	(735,635)
	<hr/>
Net Nonoperating Revenues	119,151,386
	<hr/>
Income Before Other Revenues	2,236,414
Capital Grants	2,778,761
Capital Gifts	27,133
Additions to Endowments	2,085,107
	<hr/>
Increase in Net Assets	7,127,415

NET ASSETS

Net Assets - July 1, 2009	343,911,988
	<hr/>
Net Assets - June 30, 2010	\$ 351,039,403
	<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, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 126,924,822
Payments to Employees and Fringe Benefits	(146,152,053)
Payments to Vendors and Suppliers	(72,278,259)
Payments for Scholarships and Fellowships	(15,695,692)
Loans Issued	(657,656)
Collection of Loans	679,841
Interest Earned on Loans	152,176
Other Receipts	1,679,846
	<hr/>
Net Cash Used by Operating Activities	(105,346,975)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	90,220,051
State Aid - Federal Recovery Funds	7,228,518
Noncapital Grants - Federal Student Financial Aid	21,800,790
Noncapital Gifts	2,953,232
Additions to Endowments	2,085,107
William D. Ford Direct Lending Receipts	48,198,864
William D. Ford Direct Lending Disbursements	(48,198,864)
Related Activity Agency Receipts	1,811,334
Other Payments	(735,635)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	125,363,397

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	55,322,523
Capital Grants	4,227,476
Capital Gifts	27,133
Acquisition and Construction of Capital Assets	(26,447,965)
Principal Paid on Capital Debt and Leases	(23,037,345)
Interest and Fees Paid on Capital Debt and Leases	(6,906,001)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	3,185,821

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	7,166,222
Investment Income	2,870,649
Purchase of Investments and Related Fees	(6,275,342)
	<hr/>
Net Cash Provided by Investing Activities	3,761,529
	<hr/>
Net Increase in Cash and Cash Equivalents	26,963,772
Cash and Cash Equivalents - July 1, 2009	102,700,000
	<hr/>
Cash and Cash Equivalents - June 30, 2010	\$ 129,663,772

University of North Carolina at Wilmington
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3

Page 2

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

Operating Loss	\$ (116,914,972)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	13,612,147
Nonoperating Other Income	152,130
Changes in Assets and Liabilities:	
Receivables (Net)	(686,649)
Due from Primary Government	(375,000)
Inventories	6,522
Accounts Payable and Accrued Liabilities	(1,380,940)
Unearned Revenue	185,920
Note Principal Repayments	688,032
Note Issued	(657,656)
Deposits Payable	23,491
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (105,346,975)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 65,015,830
Restricted Cash and Cash Equivalents	19,004,819
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	45,643,123
	<hr/>
Total Cash and Cash Equivalents - June 30, 2010	<u><u>\$ 129,663,772</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 158,561
Change in Fair Value of Investments	1,386,271

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

UNCW Corporation, Inc.
Statement of Net Assets
June 30, 2010

Exhibit B-1

ASSETS

Assets Limited as to Use, Restricted	\$	1,473,101
Sales Tax Receivable		69,561
Net Investment in Direct Financing Leases, Current		947,786
Net Investment in Direct Financing Leases, Noncurrent		123,388,515
Debt Issuance Cost, Net		2,681,683
		<hr/>
Total Assets		128,560,646
		<hr/>

LIABILITIES

Accounts Payable and Accrued Expenses		515,531
Certificates of Participation Payable, Current		440,000
Certificates of Participation Payable, Noncurrent		127,605,115
		<hr/>
Total Liabilities		128,560,646
		<hr/>

NET ASSETS

Total Net Assets	\$	<u><u>0</u></u>
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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
June 30, 2010

Exhibit B-2

REVENUES

Direct Financing Lease Income	\$	5,141,210
Other Revenues		124,430
		<hr/>
Total Unrestricted Revenues and Gains		5,265,640
		<hr/>

EXPENSES

Contracted Services		108,525
Interest Expense		5,141,210
Other Expenses		15,905
		<hr/>
Total Expenses		5,265,640
		<hr/>

Change in Net Assets		0
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NET ASSETS

Beginning		<hr/>	0
Ending	\$	<hr/> <hr/>	0

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

UNIVERSITY OF NORTH CAROLINA AT WILMINGTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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 was 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 the University of North Carolina at Wilmington, its financial statements have been blended with those of the University.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Separate financial statements for the Foundation may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC 28403-5952, 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 its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Corporation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2010, 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 28403-5952, 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)

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, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for intangible assets which are capitalized when the value or cost is \$100,000 or greater and internally generated software which is capitalized when the value or cost is \$1,000,000 or greater. 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.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable, arbitrage

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the straight-line method.

- K. Compensated Absences** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and 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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$129,084,140 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2010. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> 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, 2010 was \$29,797. The carrying amount of the University's deposits not with the State Treasurer, was \$549,835 and the bank balance was \$589,916. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2010, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Bank	\$ <u>339,916</u>
---------------------------------------	-------------------

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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, 2010, for the Long-Term Investment Pool.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Long-Term Investment Pool

	Fair Value	Investment Maturities Less Than One Year
Investment Type		
Debt Securities		
Money Market Mutual Funds	\$ 2,455,993	\$ 2,455,993
Other Securities		
UNC Investment Fund	28,306,214	
Other Mutual Funds	12,619,770	
Investments in Real Estate	334,765	
Total Long-Term Investment Pool	\$ 43,716,742	

At June 30, 2010, 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	\$ 2,455,993	\$ 2,455,993

Rating Agency: Standard & Poors

UNC Investment Fund, LLC - At June 30, 2010, the University's investments include \$28,306,214 which represents the University's equity position in the UNC Investment Fund, LLC (System Fund). The System Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the System Fund are determined on a market unit valuation basis each month. Investment risks associated with the System Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from the UNC CH Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2010, for the University's non-pooled investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 to 5
Debt Securities			
Mutual Bond Funds	\$ 396,355	\$ 0	\$ 396,355
Money Market Mutual Funds	331,873	331,873	
		\$ 331,873	\$ 396,355
Other Securities			
Other Mutual Funds	854,648		
Domestic Stocks	12,301		
Other - Life Insurance	15,806		
Total Non-Pooled Investments	\$ 1,610,983		

At June 30, 2010, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Mutual Bond Funds	\$ 396,355	\$ 240,988	\$ 29,992	\$ 46,078	\$ 37,356	\$ 27,761	\$ 14,180
Money Market Mutual Funds	331,873	331,873					

Rating Agency: Standard & Poors

Total Investments - The following table presents the fair value of the total investments at June 30, 2010:

Investment Type	Fair Value
Debt Securities	
Mutual Bond Funds	\$ 396,355
Money Market Mutual Funds	2,787,866
Other Securities	
UNC Investment Fund	28,306,214
Other Mutual Funds	13,474,418
Investments in Real Estate	334,765
Domestic Stocks	12,301
Other - Life Insurance	15,806
Total Investments	\$ 45,327,725

Component Unit - Investments of the University's discretely presented component unit, the UNCW Corporation, Inc. is 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 has invested proceeds from a bond

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

issuance in the amount of \$1,473,101. At June 30, 2010, the Corporation's investments were maintained in a money market account. 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 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, 2010, endowment net assets of \$10,265,674 were available to be spent, of which \$7,505,773 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,130,256	\$ 113,031	\$ 1,017,225
Accounts	1,439,223		1,439,223
Intergovernmental	1,071,007		1,071,007
Pledges	198,584	9,929	188,655
Investment Earnings	283,218		283,218
Interest on Loans	97,141		97,141
Other	19,434		19,434
Total Current Receivables	\$ 4,238,863	\$ 122,960	\$ 4,115,903
Noncurrent Receivables:			
Pledges	\$ 401,768	\$ 20,088	\$ 381,680
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 1,100,334	\$ 102,859	\$ 997,475
Institutional Student Loan Programs	123,637		123,637
Total Notes Receivable - Current	\$ 1,223,971	\$ 102,859	\$ 1,121,112
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 4,082,698	\$ 408,270	\$ 3,674,428
Due From Foundation	1,750,000		1,750,000
Institutional Student Loan Programs	36,021		36,021
Total Notes Receivable - Noncurrent	\$ 5,868,719	\$ 408,270	\$ 5,460,449

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 6,258,371	\$ 0	\$ 0	\$ 6,258,371
Art, Literature, and Artifacts	1,615,232	181,140		1,796,372
Construction in Progress	12,018,260	22,482,767	551,378	33,949,649
Total Capital Assets, Nondepreciable	19,891,863	22,663,907	551,378	42,004,392
Capital Assets, Depreciable:				
Buildings	429,498,729	762,439	211,061	430,050,107
Machinery and Equipment	34,385,407	3,627,955	854,766	37,158,596
General Infrastructure	41,261,739		23,028	41,238,711
Total Capital Assets, Depreciable	505,145,875	4,390,394	1,088,855	508,447,414
Less Accumulated Depreciation/Amortization for:				
Buildings	79,527,670	10,373,297	211,061	89,689,906
Machinery and Equipment	23,172,596	2,252,037	854,766	24,569,867
General Infrastructure	9,569,327	986,813		10,556,140
Total Accumulated Depreciation	112,269,593	13,612,147	1,065,827	124,815,913
Total Capital Assets, Depreciable, Net	392,876,282	(9,221,753)	23,028	383,631,501
Capital Assets, Net	\$ 412,768,145	\$ 13,442,154	\$ 574,406	\$ 425,635,893

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 4,039,133
Accrued Payroll	543,364
Contract Retainage	513,071
Intergovernmental Payables	17,618
Total Accounts Payable and Accrued Liabilities	\$ 5,113,186

NOTE 7 - SHORT-TERM DEBT - BOND ANTICIPATION NOTES

On June 18, 2009 the University borrowed funds in anticipation of the issuance of the General Revenue Bonds to finance the initial design fees for the recreation center expansion. The University repaid the note with the proceeds from the 2010C and 2010D University of North Carolina System Pool General Revenue Bonds on March 31, 2010.

Short-term debt activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Draws	Repayments	Balance June 30, 2010
Bond Anticipation Notes	\$ 3,200,000	\$ 0	\$ 3,200,000	\$ 0

NOTE 8 - LONG-TERM LIABILITIES

UNIVERSITY

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Revenue Bonds Payable	\$ 63,980,000	\$ 52,830,000	\$ 21,755,000	\$ 95,055,000	\$ 3,470,000
Add/Deduct Premium/Discount	1,697,683	3,171,973	332,279	4,537,377	
Deduct Deferred Charge on Refunding	(756,299)	(2,012,355)	(175,227)	(2,593,427)	
Total Revenue Bonds Payable	64,921,384	53,989,618	21,912,052	96,998,950	3,470,000
Arbitrage Rebate Payable	137,469		9,482	127,987	
Note Payable		4,542,387		4,542,387	
Capital Leases Payable	132,696,141	158,561	1,125,292	131,729,410	4,934,410
Compensated Absences	8,417,183	560,121	401,590	8,575,714	138,366
Total Long-Term Liabilities	\$ 206,172,177	\$ 59,250,687	\$ 23,448,416	\$ 241,974,448	\$ 8,542,776

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010
<u>Physical Education System</u>						
Construct Trask Coliseum	B	5.1 - 5.5	01/01/2010	\$ 1,140,000	\$ 1,140,000	\$ 0
<u>General Revenue</u>						
Construct Dorm	2002A	3.0 - 5.0	01/01/2023	11,500,000	10,495,000	1,005,000
Construct New Union	2003A	2.5 - 5.25	01/01/2028	30,000,000	15,780,000	14,220,000
Total General Revenue				<u>41,500,000</u>	<u>26,275,000</u>	<u>15,225,000</u>
<u>The University of North Carolina System Pool Revenue Bonds</u>						
Westside, Parking, Apartments	2002B	4.0 - 5.0	04/30/2022	6,735,000	6,020,000	715,000
Refund Series J and Recreation	2005A	4.0 - 5.2	04/30/2019	12,630,000	3,490,000	9,140,000
Union Addition & Parking	2006A	4.0 - 5.0	10/01/2033	19,400,000	2,255,000	17,145,000
Refund Series 2002A & 2003A: Rec Ctr Exp	2010C	2.5-5.0	10/01/2026	32,170,000		32,170,000
Recreation Center Expansion	2010D	6.627-6.727 *	10/01/2039	20,660,000		20,660,000
Total The University of North Carolina System Pool Revenue Bonds				<u>91,595,000</u>	<u>11,765,000</u>	<u>79,830,000</u>
Total Revenue Bonds Payable (principal only)				<u>\$ 134,235,000</u>	<u>\$ 39,180,000</u>	95,055,000
Less: Unamortized Loss on Refunding						(2,593,427)
Plus: Unamortized Premium						4,537,377
Total Revenue Bonds Payable						<u>\$ 96,998,950</u>

* The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 35% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2010, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2011	\$ 3,470,000	\$ 4,758,610	\$ 37,136	\$ 112,877
2012	3,740,000	4,607,446	79,049	222,988
2013	3,905,000	4,443,952	91,788	218,941
2014	4,080,000	4,279,171	105,351	214,181
2015	4,240,000	4,103,871	119,900	208,806
2016-2020	22,085,000	17,213,641	853,673	935,283
2021-2025	18,945,000	12,451,685	1,390,599	666,680
2026-2030	14,955,000	8,258,698	1,864,891	244,133
2031 - 2035	10,285,000	4,738,721		
2036 - 2040	9,350,000	1,627,934		
Total Requirements	<u>\$ 95,055,000</u>	<u>\$ 66,483,729</u>	<u>\$ 4,542,387</u>	<u>\$ 2,823,889</u>

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

Current Year Advance Refunding - On March 31, 2010 the University issued \$7.48 million in 2010C refunding bonds with an average interest

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

rate of 4.65%. The bonds were issued to advance refund \$7.5 million of outstanding GR2002A bonds with an average interest rate of 4.94%. The net proceeds of the refunding bonds along with other resources were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$388,113 over the next 13 years and resulted in an economic gain of \$288,843. At June 30, 2010, the outstanding balance was \$7.5 million for the defeased GR2002A bonds.

On March 31, 2010 the University issued \$11.01 million in 2010C refunding bonds with an average interest rate of 4.59%. The bonds were issued to advance refund \$10.81 million of outstanding GR2003A bonds with an average interest rate of 5.25%. The net proceeds of the refunding bonds along with other resources were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$585,297 over the next 12 years and resulted in an economic gain of \$453,611. At June 30, 2010, the outstanding balance was \$10.81 million for the defeased GR2003A bonds.

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, 2010, the outstanding balance of prior year defeased bonds was \$3,870,000.

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010
Guaranteed Energy Savings Contract	BB&T	4.97%	03/01/2030	\$ 4,542,387	\$ 0	\$ 4,542,387

COMPONENT UNIT

The UNCW Corporation, Inc. had liabilities of certificates of participation of \$128,045,115.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to buildings and a 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, 2010:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 11,027,848
2012	6,922,338
2013	7,124,263
2014	7,268,588
2015	7,350,901
2016-2020	41,666,503
2021-2025	47,170,709
2026-2030	47,745,808
2031-2035	47,736,588
2036-2040	21,281,307
Total Minimum Lease Payments	<u>245,294,853</u>
Amount Representing Interest (0.25% - 5.25% Rate of Interest)	<u>113,565,443</u>
Present Value of Future Lease Payments	<u><u>\$ 131,729,410</u></u>

Buildings and a parking deck acquired under capital leases amounted to \$132,968,561 at June 30, 2010.

- B. Operating Lease Obligations** - The University entered into operating leases for office space, an aquaculture facility and boat slips. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 648,314
2012	549,619
2013	293,810
2014	42,500
Total Minimum Lease Payments	<u><u>\$ 1,534,243</u></u>

Rental expense for all operating leases during the year was \$898,731.

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 Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 80,605,018	\$ 0	\$ 8,987,398	\$ 4,257	\$ 71,613,363
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 21,192,624	\$ 0	\$ 3,138,589	\$ 5,633	\$ 18,048,402
Dining	11,749,552		1,691,799	3,829	10,053,924
Communications	2,885,516	2,885,516			
Parking	2,973,050		126,591	569	2,845,890
Physical Plant	1,715,333			(75)	1,715,408
Printing and Duplicating	1,236,036	1,236,036			
Athletic	1,259,650		887,368	8,172	364,110
Other	4,376,443	1,348,803	1,829,544	10,803	1,187,293
Sales and Services of Education	3,549,396				3,549,396
Total Sales and Services	\$ 50,937,600	\$ 5,470,355	\$ 7,673,891	\$ 28,931	\$ 37,764,423
Nonoperating - Noncapital Gifts	\$ 2,740,165	\$ 0	\$ 0	\$ (10,818)	\$ 2,750,983

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	\$ 76,864,722	\$ 2,778,492	\$ 4,582,633	\$ 295,628	\$ 2,135	\$ 0	\$ 84,523,610
Research	9,173,225	1,478,176	5,573,673	72,445	24,499		16,322,018
Public Service	1,326,822	192,446	733,705	4,100			2,257,073
Academic Support	9,366,996	4,096,713	1,712,185	8,618	6,222		15,190,734
Student Services	6,975,302	784,581	1,990,541	6,193	95		9,756,712
Institutional Support	18,314,142	874,767	3,595,189		17,750		22,801,848
Facilities	11,836,935	5,852,116	3,846,474		5,537,102		27,072,627
Student Financial Aid	43,524	7,530	99,565	14,685,851			14,836,470
Auxiliary Enterprises	11,805,009	2,818,574	21,924,605	622,857	3,079,565		40,250,610
Depreciation						13,612,147	13,612,147
Total Expenses	\$ 145,706,677	\$ 18,883,395	\$ 44,058,570	\$ 15,695,692	\$ 8,667,368	\$ 13,612,147	\$ 246,623,849

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)

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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$120,103,974 of which \$58,092,990 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$2,073,920 and \$3,485,579, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$2,073,920, \$1,970,758, and \$1,667,988, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> 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 companies authorized to offer investment products or the trustee

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2010, 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 \$120,103,974, of which \$49,040,067 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$3,354,341 and \$2,942,404, 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 \$312,837 for the year ended June 30, 2010.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2010, were \$74,548. The voluntary contributions by employees amounted to \$590,017 for the year ended June 30, 2010.

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 \$1,624,635 for the year ended June 30, 2010.

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the University contributed 4.5% 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, 2009, and 2008, were 4.1% and 4.1%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$4,820,988, \$4,403,466, and \$4,075,924, 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.osc.nc.gov/> 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 by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$557,092, \$558,488, and \$516,946, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 four 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$9,829,871 and on other purchases \$19,549,773 at June 30, 2010.

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	\$ 1,359,242

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 Foundation of the University of North Carolina at Wilmington, the University of North Carolina at Wilmington Student Aid Association, the UNCW Research Foundation, and the UNCW Corporation II.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. This support approximated \$1,172,915 for the year ended June 30, 2010.

On December 12, 2008, the Board of Trustees for the University's Endowment Fund approved a loan to the University of North Carolina at Wilmington Foundation, Inc. in the amount of \$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 this 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, 2010, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets.

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

GASB Statement No. 53, requires reporting certain derivative instruments at fair value.

NOTE 18 - SUBSEQUENT EVENTS

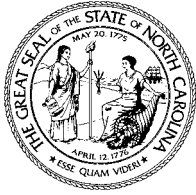
UNIVERSITY - On September 10, 2010, the University of North Carolina Board of Governors approved the issuance of bonds for the construction and equipping of the marine biotechnology facility at the Center of Marine Science campus. The University intends to borrow \$15,750,000 through taxable general revenue bonds (Series 2010 Build America Bonds). The proceeds will fund a portion of the cost of construction of an academic building at the University's Center for Marine Science. The remaining portion of the project will be funded by a \$15,000,000 National Institute of Standards and Technology matching grant.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

On September 23, 2010, Moody's Investors Service (Moody's) has assigned an A-1 rating to the University Series 2010A and 2010B General Revenue Bonds and has affirmed the A-1 ratings on the University general revenue bonds. Moody's also revised the rating outlook to stable from positive on the general revenue bonds given the increase in debt for the University with pro forma debt equating to 1.08 times FY2009 operating revenue as well as the reduced state funding environment.

On September 28, 2010, the University amended the installment financing for the Guaranteed Energy Saving Note Payable of \$4,542,387 for a reduced annual interest rate from 4.97% to 3.97% for a total debt service savings of \$582,492 over 20 years.

RELATED PARTIES - On August 19, 2010, the Board of Trustees for the University's Endowment Fund (Endowment) approved a loan modification of the December 12, 2008 note in the amount of \$1,750,000 to the University of North Carolina at Wilmington Foundation (Foundation). The loan modification included the payment of accrued interest by the Foundation to the Endowment. This loan is evidenced by a new promissory note, dated September 17, 2010 at a fixed interest rate of 2.5% annum for three years and includes two one year optional renewal periods. The purpose of the loan was to provide financing for the acquisition of property by the foundation for investment purposes.



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
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, 2010, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 9, 2011. Our report includes a reference to other auditors.

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

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)**

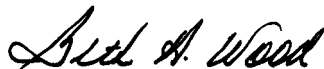
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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

March 9, 2011

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at 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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