

# STATE OF NORTH CAROLINA

**UNIVERSITY OF NORTH CAROLINA WILMINGTON**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**UNIVERSITY OF NORTH CAROLINA WILMINGTON**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

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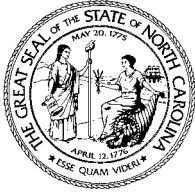
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Beth A. Wood, CPA  
State Auditor

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

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**AUDITOR'S TRANSMITTAL**

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The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
Board of Trustees, University of North Carolina Wilmington

We have completed a financial statement audit of the University of North Carolina Wilmington for the year ended June 30, 2013, 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".

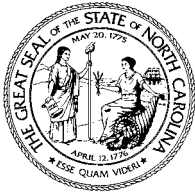
Beth A. Wood, CPA  
State Auditor

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# Office of the State Auditor



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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the University of North Carolina Wilmington, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the UNCW Corporation, Inc., which represent 18 percent and 2 percent, respectively, of the assets and revenues of the University. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity, is based solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina Wilmington, as of June 30, 2013, and the changes in financial position and cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

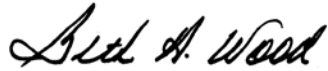
### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

December 6, 2013

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

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### **Financial Analysis**

The University of North Carolina Wilmington (University) provides the following Management's Discussion and Analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2013. 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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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 be 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 Position includes all University assets and liabilities. The University's net position (the monetary difference between total assets and total liabilities) is one indicator of the University's financial viability. Over time, changes in net position 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 Position 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.

The University reevaluated the presentation of its component unit, the UNCW Corporation, Inc. (Corporation) and determined the blending method is the preferred presentation. The University reported the Corporation as a discretely presented component unit in the prior year. As a result of this reevaluation, the financial statements of the Corporation have been blended with those of the University as of July 1, 2012, the effect being no impact to the University's overall net position.

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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Financial Highlights

For the fiscal year ended June 30, 2013, the North Carolina General Assembly (General Assembly) imposed a permanent budget reduction (\$141,000), however, the University did receive state appropriations funding for enrollment growth (\$1.4 million), operations funding for new buildings (\$434,000), and need-based student financial aid (\$1.6 million) as part of the campus-initiated tuition increases. Fiscal year 2013 state appropriations for repair and renovations for university buildings were temporarily held by the Governor to meet the State's obligations to Medicaid. Eventually, the University did receive state appropriated funds for repair and renovations of \$1.8 million during the year that were previously appropriated in fiscal years 2011 and 2012.

During the fiscal year ended June 30, 2013, University employees received a 1.2% "across-the-board" salary increase and five days of bonus leave that had to be taken by June 30, 2013.

The new Teaching Laboratory building and the Wagoner Dining Hall renovation projects received certificates of occupancy in August 2012 and were put into service beginning with the fall semester of 2012. The Student Recreation Center expansion received a certificate of occupancy in April 2013 and was immediately occupied. The University's only significant capital construction project in progress at June 30, 2013 was the CMS MARBIONC facility at the Center for Marine Science campus.

On June 30, 2013, the University's endowment total net position was valued at \$73.8 million, reflecting an increase of \$7.9 million from 2012 and a rate of return of 12.9%. The portfolio's increase was comprised primarily of additions to the endowment of \$1.7 million, net investment earnings of \$8 million, and distributions of \$2.2 million.

During fiscal year ended June 30, 2013, the Endowment Board invested \$2 million in building improvements which will house the UNCW Center for Innovation & Entrepreneurship (CIE). Designed to foster growth and serve as a catalyst for economic development, the CIE will identify and nurture the growth and development of businesses to accelerate the entrepreneurial ecosystem in Wilmington and the southeastern region of North Carolina. The Endowment Board will have no day-to-day operating responsibilities or liability associated with the CIE, as a contractual operating agreement will be put in place with the UNCW Research Foundation or its designee, the UNCW Entrepreneurship Center LLC, for management and operation of the CIE.

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).

### Statement of Net Position

The Statement of Net Position presents the assets (current and noncurrent), liabilities (current and noncurrent), and net position (total assets minus total liabilities) of the University. This statement provides a fiscal snapshot of the University's financial position as of June 30, 2013. The data provides readers of this statement information on assets available to continue

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

operations; amounts due to vendors, investors, and lending institutions; and the assets available for expenditure by the University.

### Condensed Statement of Net Position June 30, as Indicated

	2013	2012 (Restated)	Change	% Change
<b>Assets</b>				
Current Assets	\$ 103,164,866	\$ 101,201,390	\$ 1,963,476	1.9%
Noncurrent Assets	95,369,843	101,654,677	(6,284,834)	-6.2%
Capital Assets, Net	496,576,908	484,700,164	11,876,744	2.5%
<b>Total Assets</b>	<b>695,111,617</b>	<b>687,556,231</b>	<b>7,555,386</b>	<b>1.1%</b>
<b>Liabilities</b>				
Current Liabilities	17,787,096	24,850,227	(7,063,131)	-28.4%
Noncurrent Liabilities	250,097,384	263,009,708	(12,912,324)	-4.9%
<b>Total Liabilities</b>	<b>267,884,480</b>	<b>287,859,935</b>	<b>(19,975,455)</b>	<b>-6.9%</b>
<b>Net Position</b>				
Net Investment in Capital Assets	272,634,426	267,350,758	5,283,668	2.0%
Restricted Nonexpendable	65,774,320	58,539,760	7,234,560	12.4%
Restricted Expendable	17,908,070	13,841,797	4,066,273	29.4%
Unrestricted	70,910,321	59,963,981	10,946,340	18.3%
<b>Total Net Position</b>	<b>\$ 427,227,137</b>	<b>\$ 399,696,296</b>	<b>\$ 27,530,841</b>	<b>6.9%</b>

On June 30, 2013, total University assets were \$695.1 million. The largest asset categories included the University's investment in capital assets (\$496.6 million), cash and cash equivalents (\$114.5 million), and endowment investments (\$70.4 million).

The increase in capital assets was a result of the completion of large capital projects that had been ongoing in recent years including the Teaching Lab building and the Student Recreation Center expansion. The remaining capital project, CMS MARBIONC, received beneficial occupancy in early fiscal year 2014.

The 28.4% drop in current liabilities was due to a reduction in accounts payable accruals relating to the completed capital projects.

Along with the annual payment of principal on long-term debt, the decrease in noncurrent liabilities was a result of the termination of the capital lease for the Pepys Lane property sold by the University's related party, the UNCW Corporation II.

Restricted nonexpendable net position increased \$7.2 million due to a 12.9% increase in true endowment returns.

The increase in unrestricted net position was due to an increase in unrestricted trust funds and various auxiliary funds. In addition, the General Assembly allowed the reclassification of education and technology fees from general funds to trust funds which permits the University to carry forward remaining fees into the future periods.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position section are based on the activity reported in the Statement of Revenues, Expenses, and Changes in Net Position. 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 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, noncapital gifts and grants, 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 Position For Year Ended June 30, as Indicated

	2013	2012 (Restated)	Change	% Change
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 93,042,367	\$ 86,526,202	\$ 6,516,165	7.5%
Sales and Service, Net	44,189,380	41,194,644	2,994,736	7.3%
Grants and Contracts	10,503,238	13,971,365	(3,468,127)	-24.8%
Other Operating Revenues	6,377,290	3,960,466	2,416,824	61.0%
<b>Total Operating Revenues</b>	<b>154,112,275</b>	<b>145,652,677</b>	<b>8,459,598</b>	<b>5.8%</b>
<b>Operating Expenses</b>				
Salaries and Benefits	156,785,894	150,205,408	6,580,486	4.4%
Supplies and Materials	21,261,301	18,267,194	2,994,107	16.4%
Services	50,057,896	46,134,350	3,923,546	8.5%
Scholarships and Fellowships	17,661,241	16,526,443	1,134,798	6.9%
Utilities	7,297,733	6,770,663	527,070	7.8%
Depreciation	14,585,939	14,120,071	465,868	3.3%
<b>Total Operating Expenses</b>	<b>267,650,004</b>	<b>252,024,129</b>	<b>15,625,875</b>	<b>6.2%</b>
<b>Operating Loss</b>	<b>(113,537,729)</b>	<b>(106,371,452)</b>	<b>(7,166,277)</b>	<b>6.7%</b>
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriation	96,878,528	91,313,397	5,565,131	6.1%
Noncapital Gifts and Grants	27,296,211	27,622,449	(326,238)	-1.2%
Investment Income, Net	8,560,744	2,862,924	5,697,820	199.0%
Interest and Fees on Debt	(10,761,013)	(11,917,022)	1,156,009	-9.7%
Federal Interest Subsidy on Debt	621,946	760,163	(138,217)	-18.2%
Other Nonoperating Expenses	(734,400)	(3,443)	(730,957)	21230.2%
<b>Other Revenues</b>				
Capital Grants	17,457,010	21,726,855	(4,269,845)	-19.7%
Additions to Endowments	1,749,544	2,718,447	(968,903)	-35.6%
<b>Total Nonoperating and Other Revenues</b>	<b>141,068,570</b>	<b>135,083,770</b>	<b>5,984,800</b>	<b>4.4%</b>
<b>Increase in Net Position</b>	<b>27,530,841</b>	<b>28,712,318</b>	<b>(1,181,477)</b>	<b>-4.1%</b>
<b>Net Position - Beginning of Year</b>	<b>399,696,296</b>	<b>370,983,978</b>	<b>28,712,318</b>	<b>7.7%</b>
<b>Net Position - End of Year</b>	<b>\$ 427,227,137</b>	<b>\$ 399,696,296</b>	<b>\$ 27,530,841</b>	<b>6.9%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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Student tuition and fees (\$93.0 million) and sales and services from auxiliary enterprises (\$44.2 million) accounted for 89% of the University's operating revenues. Tuition revenue increased as a result of a 6.5% increase in student tuition rates.

Other operating revenues increased 61% due to the dissolution of the Public Service Division and the subsequent creation of multiple self-supporting operation centers in various university divisions.

Grants and contracts revenue decreased 24.8% due to the federal government's delay in funding new federal awards due to Sequestration in conjunction with the expiration of several large federal awards.

Capital grant revenue decreased 19.7% as a direct result of the completion of a Certificate of Participation state funded capital project, the Teaching Lab building, early in the fiscal year.

The increase (\$3 million) in supplies and materials expenditures were partially attributable to the one-time up fitting of the Teaching Lab building and the Student Recreation Center expansion as the buildings came online, as well as the availability of funds for special project expenditures.

Investment income increased (\$5.7 million) primarily due to the increase in market values of the endowment investments. The decrease of additions to endowments (\$968,903) was the result of the culmination of the *Soaring to Greatness Campaign* in January 2012.

The \$730,957 increase in Other Nonoperating Expenses was largely twofold. Losses were recorded for the termination of the capital lease for the Pepys Lane property (\$195,624) and the federally mandated transfer of capitalized equipment used in the grant funded Aquarius project to Florida International University (\$419,837).

### **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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2013	2012 (Restated)	Change	% Change
<b>Cash Provided (Used) by:</b>				
Operating Activities	\$ (99,109,446)	\$ (92,535,920)	\$ (6,573,526)	7.1%
Noncapital Financing Activities	122,182,866	122,674,145	(491,279)	-0.4%
Capital Financing Activities	(35,334,765)	(42,927,055)	7,592,290	-17.7%
Investing Activities	(1,099,597)	437,592	(1,537,189)	-351.3%
<b>Net Change In Cash</b>	(13,360,942)	(12,351,238)	(1,009,704)	8.2%
<b>Cash Beginning of Year</b>	127,860,237	140,211,475	(12,351,238)	-8.8%
<b>Cash Ending of Year</b>	<u>\$ 114,499,295</u>	<u>\$ 127,860,237</u>	<u>\$ (13,360,942)</u>	-10.4%

#### Operating Activities

Major cash sources were student tuition and fees (\$92.8 million), sales and services (\$44.1 million), and contracts and grants (\$11 million). Major cash uses were compensation to employees (\$156.2 million), payments to vendors and suppliers for goods and services (\$79.6 million), and disbursements to students for scholarships and awards (\$17.7 million).

#### Noncapital Financial Activities

The major cash inflow was state appropriations (\$96.9 million). While GASB standards require this revenue to be classified as nonoperating, these funds are essentially used to maintain operations. Other noncapital inflows included gifts and grants received (\$28.9 million).

#### Capital Financing Activities

Cash provided included capital grants (\$17.6 million). Cash used was primarily for the acquisition of capital assets (\$36.9 million) and the repayment of principal and interest on capital debt (\$16 million).

#### Investing Activities

Cash provided included sales and maturities of investments (\$79,678) and investment income (\$4.6 million). Cash used reflects the purchase of investments and related fees (\$5.8 million).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Capital Assets and Debt Administration

#### Capital Assets

The University had \$496.6 million invested in capital assets at June 30, 2013, as reported in the table below. This represents an increase of \$11.9 million from 2012.

Capital Assets Net of Depreciation June 30, as Indicated	2013	2012	Change
		(Restated)	
Land	\$ 6,258,371	\$ 6,258,371	\$ 0
Art, Literature and Artifacts	1,673,320	1,673,320	
Construction In Progress	30,512,848	58,570,158	(28,057,310)
Buildings, Net	413,804,348	374,601,121	39,203,227
Machinery and Equipment, Net	15,956,896	14,376,133	1,580,763
Infrastructure, Net	28,371,125	29,221,060	(849,935)
<b>Total Capital Assets</b>	<b>\$ 496,576,908</b>	<b>\$ 484,700,163</b>	<b>\$ 11,876,745</b>

The net increase in buildings represents the completion and subsequent occupancy of various construction projects including the Teaching Lab building and the Student Recreation Center expansion. Construction in Progress decreased as a result of the addition of the aforementioned buildings.

#### Debt

As of June 30, 2013, the University's \$239.6 million in long-term debt included outstanding revenue bonds payable (\$108.8 million), certificates of participation payable (\$125.6 million), notes payable (\$4.4 million), and capital leases payable (\$0.8 million).

There have been no 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 is presented in Note 7 to the financial statements.

#### Economic Forecast

For fiscal year 2013-2014, the General Assembly approved funding for enrollment growth (\$3.6 million), annualized building operations for the Marine Biotechnology (MARBIONC) building, and approved the release of repair and renovation funds (\$2.6 million). Permanent reductions to state appropriations as approved by the General Assembly constitute \$3.9 million, or 4.1% of appropriations. The General Assembly provided no salary increases for state employees in fiscal year 2014, but did authorize five additional days of bonus leave that must be taken by June 30, 2014.

The University continues to face reductions to state appropriations, limited tuition increases, marginal performance funding, and reductions in federal funding. Efforts continue to protect the core academic and instruction service levels to our students with an emphasis on

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

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administrative efficiencies and cost elimination. The implementation of new forward-looking Unified Budget Planning process is underway along with an evaluation of shared service models to achieve further administration efficiencies while maintaining service levels. A second guaranteed energy savings performance contract is underway to determine its feasibility. This is a continuation of the University's efforts to provide additional funding to replace inefficient infrastructure and to further reduce energy consumption and related energy costs.

Federal funding for research has either flattened or diminished given the results of the Sequester and delays in federal budget negotiations. This revenue source is projected to remain flat over the next few years after a long period of sustained growth. This change has increased the competitiveness for federal funding and will challenge the University's opportunities for growth. Funding for indirect cost recoveries follow each direct dollar of research support. Likewise, indirect costs are negatively impacted and thereby reduce the investments made and support provided to the research enterprise.

Unchanged from the prior year is the questionable state of the U.S. economy and global markets. The Federal Reserve Bank's statements regarding future plans to slow quantitative easing has created a new volatility in the stock and bond markets. The divide between the executive and legislative branches of government creates a significant challenge for speeding up economic recovery in the near term. Given the prolonged weakened national economic condition, the State's recovery is expected to advance at a very modest pace. Uncertainty persists both globally and nationally, thus making innovation and efficiency in operations even more critical.

The University remains focused on sustaining a quality education through excellent teaching, research, and service. The University remains confident in our ability to provide the most powerful academic learning experience possible for our students. The University is focused on enhancing innovation and entrepreneurial activities to develop new revenue sources to supplement reduced state funding and to support resource reallocations. With continued emphasis on prudent resource allocations, cost containment measures, implementation of efficiency initiatives, and continuous assessment of processes to efficiently and effectively meet our mission, goals, and objectives.

### **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 accessing the Controller's Office web page [http://www.uncw.edu/controller/financial\\_reports.html](http://www.uncw.edu/controller/financial_reports.html) or contacting the Controller's Office at (910) 962-7086.



**University of North Carolina Wilmington**  
**Statement of Net Position**  
**June 30, 2013**

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

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 82,182,448
Restricted Cash and Cash Equivalents	16,166,802
Receivables, Net (Note 4)	3,828,157
Due from State of North Carolina Component Units	75,681
Inventories	310,490
Notes Receivable, Net (Note 4)	601,288
	<hr/>
Total Current Assets	103,164,866
	<hr/>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	16,150,045
Receivables, Net (Note 4)	13,713
Endowment Investments	70,350,026
Deferred Charges	3,397,326
Notes Receivable, Net (Note 4)	5,458,733
Capital Assets - Nondepreciable (Note 5)	38,444,539
Capital Assets - Depreciable, Net (Note 5)	458,132,369
	<hr/>
Total Noncurrent Assets	591,946,751
	<hr/>
Total Assets	695,111,617
	<hr/>

**LIABILITIES**

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	4,643,641
Unearned Revenue	4,613,346
Interest Payable	2,044,448
Long-Term Liabilities - Current Portion (Note 7)	6,485,661
	<hr/>
Total Current Liabilities	17,787,096
	<hr/>
Noncurrent Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	6,662
Funds Held for Others	3,848,462
U. S. Government Grants Refundable	4,356,005
Long-Term Liabilities (Note 7)	241,886,255
	<hr/>
Total Noncurrent Liabilities	250,097,384
	<hr/>
Total Liabilities	267,884,480
	<hr/>

*University of North Carolina Wilmington*  
*Statement of Net Position*  
*June 30, 2013*

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

**NET POSITION**

Net Investment in Capital Assets	272,634,426
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	28,056,507
Research	2,590,320
Endowed Professorships	14,682,090
Departmental Uses	19,328,878
Loans	1,116,525
Expendable:	
Scholarships and Fellowships	3,803,402
Research	44,782
Endowed Professorships	919,630
Departmental Uses	8,319,880
Loans	350,958
Capital Projects	3,154,183
Debt Service	1,315,235
Unrestricted	70,910,321
Total Net Position	<u>\$ 427,227,137</u>

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

**University of North Carolina Wilmington**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2013**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 93,042,367
Federal Grants and Contracts	8,496,278
State and Local Grants and Contracts	1,323,221
Nongovernmental Grants and Contracts	683,739
Sales and Services, Net (Note 9)	44,189,380
Interest Earnings on Loans	41,108
Other Operating Revenues	6,336,182

Total Operating Revenues	154,112,275
--------------------------	-------------

**EXPENSES**

Operating Expenses:

Salaries and Benefits	156,785,894
Supplies and Materials	21,261,301
Services	50,057,896
Scholarships and Fellowships	17,661,241
Utilities	7,297,733
Depreciation	14,585,939

Total Operating Expenses	267,650,004
--------------------------	-------------

Operating Loss	(113,537,729)
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	96,878,528
Noncapital Grants - Student Financial Aid	24,323,132
Noncapital Gifts, Net (Note 9)	2,973,079
Investment Income (Net of Investment Expense of \$187,952)	8,560,744
Interest and Fees on Debt	(10,761,013)
Federal Interest Subsidy on Debt	621,946
Other Nonoperating Expenses	(734,400)

Net Nonoperating Revenues	121,862,016
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Income Before Other Revenues	8,324,287
------------------------------	-----------

Capital Grants	17,457,010
Additions to Endowments	1,749,544

Increase in Net Position	27,530,841
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**NET POSITION**

Net Position - July 1, 2012, as Restated (Note 17)	399,696,296
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Net Position - June 30, 2013	\$ 427,227,137
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The accompanying notes to the financial statements are an integral part of this statement.

**University of North Carolina Wilmington**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2013**

**Exhibit A-3**

**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 147,876,005
Payments to Employees and Fringe Benefits	(156,236,375)
Payments to Vendors and Suppliers	(79,619,006)
Payments for Scholarships and Fellowships	(17,661,241)
Loans Issued	(904,125)
Collection of Loans	769,622
Interest Earned on Loans	29,443
Other Receipts	6,636,231
	<hr/>
Net Cash Used by Operating Activities	(99,109,446)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	96,878,528
Noncapital Grants - Student Financial Aid	24,323,132
Noncapital Gifts	2,811,465
Additions to Endowments	1,749,544
William D. Ford Direct Lending Receipts	65,171,547
William D. Ford Direct Lending Disbursements	(65,171,547)
Related Activity Agency Disbursements	(3,670,705)
Other Receipts	90,902
	<hr/>
Net Cash Provided by Noncapital Financing Activities	122,182,866

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

Capital Grants	17,581,405
Proceeds from Sale of Capital Assets	31,596
Acquisition and Construction of Capital Assets	(36,919,027)
Principal Paid on Capital Debt and Leases	(5,988,266)
Interest and Fees Paid on Capital Debt and Leases	(10,662,419)
Federal Interest Subsidy on Debt Received	621,946
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(35,334,765)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	79,678
Investment Income	4,594,042
Purchase of Investments and Related Fees	(5,773,317)
	<hr/>
Net Cash Used by Investing Activities	(1,099,597)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(13,360,942)
Cash and Cash Equivalents - July 1, 2012 (as restated)	127,860,237
	<hr/>
Cash and Cash Equivalents - June 30, 2013	<u>\$ 114,499,295</u>

**University of North Carolina Wilmington**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2013**

**Exhibit A-3**

**Page 2 of 2**

**RECONCILIATION OF NET OPERATING LOSS  
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$	(113,537,729)
Adjustments to Reconcile Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		14,585,939
Allowances, Write-Offs, and Amortizations		(17,487)
Nonoperating Other Income		258,740
Changes in Assets and Liabilities:		
Receivables (Net)		118,247
Due from State of North Carolina Component Units		27,473
Due from University Component Units		305,025
Inventories		83,693
Notes Receivable (Net)		(134,503)
Accounts Payable and Accrued Liabilities		(97,009)
Due to Primary Government		(1,278,984)
Unearned Revenue		97,826
Compensated Absences		480,520
Deposits Payable		(1,197)
		<u>(99,109,446)</u>
Net Cash Used by Operating Activities	\$	<u>(99,109,446)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:		
Cash and Cash Equivalents	\$	82,182,448
Restricted Cash and Cash Equivalents		16,166,802
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>16,150,045</u>
Total Cash and Cash Equivalents - June 30, 2013	\$	<u>114,499,295</u>

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

Assets Acquired through the Assumption of a Liability	\$	3,291,976
Change in Fair Value of Investments		3,906,573
Loss on Disposal of Capital Assets		(629,678)
Reduction in Liability through Termination of Capital Lease Agreement		(3,472,733)
Amortization of Bond Premiums, Discounts, and Deferred Charges on Refunding		18,908

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

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**UNIVERSITY OF NORTH CAROLINA WILMINGTON**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

**Blended Component Units** - Although legally separate, the Donald R. Watson Foundation, Inc. (Watson Foundation) and the UNCW Corporation, Inc. (Corporation), component units of the University, are reported as if they were part of the University.

The Watson Foundation is governed by a five-member board of which three are appointed by the Board of Trustees, and two are appointed by the benefactor. The Watson Foundation's purpose is to support charitable, religious, scientific and educational institutions which are approved Section 501(c)(3) tax-exempt organizations located in the State of North Carolina. Because a majority of the elected directors of the Watson Foundation are appointed by the members of the University of North Carolina Wilmington's Board of Trustees and the Watson Foundation's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Corporation was organized to enhance the University of North Carolina Wilmington's educational mission, including overseeing and assisting in the acquisition and financing of capital assets for the University. The Corporation is a public not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements. The Corporation is governed by a six member board of which three are delegates of the University. The remaining three positions are filled by persons external to the operations and business functions and are elected to serve on the board by the Corporation's Board of Directors. As the Corporation's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

Separate financial statements for the Watson Foundation and 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. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Condensed combining information regarding blended component units is provided in Note 16.

- 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 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.

- 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, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF 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.

- 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, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.
- H. Deferred Charges** - Deferred charges are comprised of prepayments of bond issuance and underwriter's fees to be written off in future periods.
- I. 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.

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.

- J. 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 for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- K. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, certificates of participation, notes payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts and unamortized cost on refundings. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The unamortized cost on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs are amortized over the life of the bonds using the straight-line method.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- L. 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.

- M. Net Position** - The University's net position is classified as follows:

**Net Investment in Capital Assets** - 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 Net Investment in Capital Assets.

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

**Restricted Net Position - Expendable** - Expendable restricted net position includes resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

**Unrestricted Net Position** - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

**N. 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 Position. 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 Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

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

**P. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, 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, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$111,864,321 which represents the University's equity position in the State Treasurer's STIF. The STIF (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, 2013. Assets and shares of the STIF 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 STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Cash on hand at June 30, 2013 was \$35,317. The carrying amount of the University's deposits not with the State Treasurer was \$2,599,657 and the bank balance was \$2,599,657. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2013, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 1,849,653</u>
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- B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

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

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

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

Investments of the University's component unit, the Watson Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, for the Long-Term Investment Pool.

### *Long-Term Investment Pool*

Investment Type	Fair Value
UNC Investment Fund	\$ 37,008,371
Equity Mutual Funds	29,352,189
Investments in Real Estate	294,766
<b>Total Long-Term Investment Pool</b>	<b>\$ 66,655,326</b>

**UNC Investment Fund, LLC** - At June 30, 2013, the University’s investments include \$37,008,371 which represents the University’s equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment 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 UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

**Non-Pooled Investments** - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2013, for the University's non-pooled investments.

### *Non-Pooled Investments*

	Fair Value	Investment Maturities 1 to 5 Years
<b>Investment Type</b>		
Debt Securities		
Debt Mutual Funds	\$ 372,518	\$ 372,518
Other Securities		
Equity Mutual Funds	1,057,539	
Investments in Real Estate	2,237,833	
Domestic Stocks	11,008	
Other-Life Insurance	15,802	
<b>Total Non-Pooled Investments</b>	<b>\$ 3,694,700</b>	

At June 30, 2013, 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
Debt Mutual Funds	\$ 372,518	\$ 178,753	\$ 48,767	\$ 43,496	\$ 58,970	\$ 35,832	\$ 6,700

Rating Agency: Standard & Poor's

**Total Investments** - The following table presents the fair value of the total investments at June 30, 2013:

	Fair Value
<b>Investment Type</b>	
Debt Securities	
Debt Mutual Funds	\$ 372,518
Other Securities	
UNC Investment Fund	37,008,371
Equity Mutual Funds	30,409,728
Investments in Real Estate	2,532,599
Domestic Stocks	11,008
Other - Life Insurance	15,802
<b>Total Investments</b>	<b>\$ 70,350,026</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the University as of June 30, 2013, is as follows:

Cash on Hand	\$	35,317
Amount of Deposits with Private Financial Institutions		2,599,657
Deposits in the Short-Term Investment Fund		111,864,321
Long-Term Investment Pool		66,655,326
Non-Pooled Investments		3,694,700
		<u>184,849,321</u>
<b>Total Deposits and Investments</b>	<b>\$</b>	<b><u>184,849,321</u></b>
Deposits		
Current:		
Cash and Cash Equivalents	\$	82,182,448
Restricted Cash and Cash Equivalents		16,166,802
Noncurrent:		
Restricted Cash and Cash Equivalents		16,150,045
		<u>114,499,295</u>
<b>Total Deposits</b>		<b><u>114,499,295</u></b>
Investments		
Noncurrent:		
Endowment Investments		70,350,026
		<u>70,350,026</u>
<b>Total Investments</b>		<b><u>70,350,026</u></b>
<b>Total Deposits and Investments</b>	<b>\$</b>	<b><u>184,849,321</u></b>

### 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. 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 three previous years. To the extent that the total return for the current year exceeds the payout, the excess is reinvested with the principal. If current year earnings do not meet the payout requirements, the University uses

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2013, net appreciation of \$22,112,921 was available to be spent, of which \$18,851,628 was classified in net position as restricted expendable, as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 1,969,198	\$ 196,592	\$ 1,772,606
Accounts	1,127,747		1,127,747
Intergovernmental	564,530		564,530
Pledges	207,730	10,387	197,343
Interest on Loans	126,026		126,026
Other	39,905		39,905
<b>Total Current Receivables</b>	<b>\$ 4,035,136</b>	<b>\$ 206,979</b>	<b>\$ 3,828,157</b>
<b>Noncurrent Receivables:</b>			
Pledges	\$ 14,435	\$ 722	\$ 13,713
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 538,621	\$ 49,220	\$ 489,401
Institutional Student Loan Programs	111,887		111,887
<b>Total Notes Receivable - Current</b>	<b>\$ 650,508</b>	<b>\$ 49,220</b>	<b>\$ 601,288</b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 4,604,742	\$ 460,474	\$ 4,144,268
Due from UNCW Foundation	1,278,445		1,278,445
Institutional Student Loan Programs	36,020		36,020
<b>Total Notes Receivable - Noncurrent</b>	<b>\$ 5,919,207</b>	<b>\$ 460,474</b>	<b>\$ 5,458,733</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012 (as restated)	Increases	Decreases	Balance June 30, 2013
<b>Capital Assets, Nondepreciable:</b>				
Land and Permanent Easements	\$ 6,258,371	\$ 0	\$ 0	\$ 6,258,371
Art, Literature, and Artifacts	1,673,320			1,673,320
Construction in Progress	58,570,159	25,750,924	53,808,235	30,512,848
<b>Total Capital Assets, Nondepreciable</b>	<b>66,501,850</b>	<b>25,750,924</b>	<b>53,808,235</b>	<b>38,444,539</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	485,973,041	53,697,247	3,600,000	536,070,288
Machinery and Equipment	39,825,480	4,213,372	3,668,057	40,370,795
General Infrastructure	41,751,864	110,988		41,862,852
<b>Total Capital Assets, Depreciable</b>	<b>567,550,385</b>	<b>58,021,607</b>	<b>7,268,057</b>	<b>618,303,935</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings	111,371,920	11,653,681	759,661	122,265,940
Machinery and Equipment	25,449,347	1,971,335	3,006,783	24,413,899
General Infrastructure	12,530,804	960,923		13,491,727
<b>Total Accumulated Depreciation</b>	<b>149,352,071</b>	<b>14,585,939</b>	<b>3,766,444</b>	<b>160,171,566</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>418,198,314</b>	<b>43,435,668</b>	<b>3,501,613</b>	<b>458,132,369</b>
<b>Capital Assets, Net</b>	<b>\$ 484,700,164</b>	<b>\$ 69,186,592</b>	<b>\$ 57,309,848</b>	<b>\$ 496,576,908</b>

During the year ended June 30, 2013, the University incurred \$11,384,784 in interest costs related to the acquisition and construction of capital assets. Of this total, \$10,667,592 was charged in interest expense, and \$717,192 was capitalized.

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
<b>Current Accounts Payable and Accrued Liabilities</b>	
Accounts Payable	\$ 1,662,302
Accrued Payroll	642,866
Contract Retainage	2,329,628
Intergovernmental Payables	8,845
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 4,643,641</b>
<b>Noncurrent Accounts Payable</b>	
Claims Payable	\$ 6,662

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

#### A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Restatement	Additions	Reductions	Balance June 30, 2013	Current Portion
Revenue Bonds Payable	\$ 112,136,544	\$ 0	\$ 0	\$ 4,753,860	\$ 107,382,684	\$ 5,001,291
Certificates of Participation		125,950,000		1,080,000	124,870,000	1,265,000
Add/Deduct Premium/Discount	3,973,892	750,841		214,268	4,510,465	
Deduct Unamortized Cost on Refunding	(2,565,092)			(195,360)	(2,369,732)	
<b>Total Revenue Bonds and Certificates of Participation Payable</b>	<b>113,545,344</b>	<b>126,700,841</b>		<b>5,852,768</b>	<b>234,393,417</b>	<b>6,266,291</b>
Notes Payable	4,468,111			83,822	4,384,289	99,754
Capital Leases Payable	130,290,555	(125,950,000)		3,524,409	816,146	53,554
Compensated Absences	8,297,544		1,318,463	837,943	8,778,064	66,062
<b>Total Long-Term Liabilities</b>	<b>\$ 256,601,554</b>	<b>\$ 750,841</b>	<b>\$ 1,318,463</b>	<b>\$ 10,298,942</b>	<b>\$ 248,371,916</b>	<b>\$ 6,485,661</b>

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

Additional information regarding blended component units is included in Note 16.

Additional information regarding the restatement is included in Note 17.

Capital leases payable in the amount of \$125,950,000 related to the UNCW Corporation, Inc. (Corporation) has been reclassified as Certificates of Participation along with its associated premium and discount, as a result of the implementation of GASB Statement No. 61 and the blending of this component unit. In prior years, the University reported the Corporation discretely and presented its debt as capital leases.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### B. Revenue Bonds Payable and Certificates of Participation - The University was indebted for revenue bonds payable and certificates of participation 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, 2013	Principal Outstanding June 30, 2013
<b>Revenue Bonds Payable</b>						
<b>UNCW General Revenue Bonds</b>						
Construct New Union	2003A	2.5 - 5.25	01/01/2013	\$ 30,000,000	\$ 30,000,000	\$ 0
Construct MARBIONC Facility	2010	1.38 - 5.97 *	01/01/2040	15,750,000	740,000	15,010,000
Schwartz/Suites & Wagoner Renovation Projects	2011	3.64	03/01/2026	9,000,000	952,316	8,047,684
Refund 2003A Union	2012	2.84	01/01/2028	11,755,000		11,755,000
Total UNCW General Revenue Bonds				<u>66,505,000</u>	<u>31,692,316</u>	<u>34,812,684</u>
<b>The University of North Carolina System Pool Revenue Bonds</b>						
Refund Series J and Recreation (2005A)	(A)	4.0 - 5.25	04/01/2019	12,630,000	6,275,000	6,355,000
Union Addition & Parking (2006A)	(B)	4.0 - 5.0	10/01/2033	19,400,000	4,195,000	15,205,000
Refund Series 2002A & 2003A; Rec Ctr Exp (2010C)	(C)	2.5 - 5.0	10/01/2026	32,170,000	1,820,000	30,350,000
Recreation Center Expansion (2010D)	(D)	6.627 - 6.727 *	10/01/2039	20,660,000		20,660,000
Total The University of North Carolina System Pool Revenue Bonds				<u>84,860,000</u>	<u>12,290,000</u>	<u>72,570,000</u>
<b>Certificates of Participation</b>						
Student Housing-Seahawk Village	2005	3.0 - 5.25	06/01/2036	28,710,000	1,000,000	27,710,000
Student Housing-Seahawk Landing	2006	4.0 - 5.0	06/01/2037	38,290,000	690,000	37,600,000
Student Housing-Seahawk Crossing & Parking Deck	2008	3.5 - 5.0	06/01/2038	61,460,000	1,900,000	59,560,000
Total Certificates of Participation				<u>128,460,000</u>	<u>3,590,000</u>	<u>124,870,000</u>
<b>Total Revenue Bonds Payable and Certificates of Participation (principal only)</b>				<u>\$ 279,825,000</u>	<u>\$ 47,572,316</u>	<u>232,252,684</u>
Less: Unamortized Cost on Refunding						(2,369,732)
Less: Unamortized Discount						(355,760)
Plus: Unamortized Premium						<u>4,866,225</u>
<b>Total Revenue Bonds Payable and Certificates of Participation</b>						<u>\$ 234,393,417</u>

(A) The University of North Carolina System Pool Revenue Bonds, Series 2005A  
(B) The University of North Carolina System Pool Revenue Bonds, Series 2006A  
(C) The University of North Carolina System Pool Revenue Bonds, Series 2010C  
(D) The University of North Carolina System Pool Revenue Bonds, Series 2010D

\* 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, 2013, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Certificates of Participation		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 5,001,290	\$ 5,163,140	\$ 1,265,000	\$ 6,003,588	\$ 99,754	\$ 151,269
2015	5,184,356	4,960,667	1,400,000	5,950,901	110,947	147,711
2016	5,423,078	4,719,865	1,840,000	5,892,088	128,852	143,706
2017	5,677,482	4,471,999	2,055,000	5,817,801	141,896	139,121
2018	5,742,592	4,201,235	2,465,000	5,733,425	161,999	134,023
2019-2023	26,086,191	17,385,263	19,450,000	26,483,596	1,098,760	570,655
2024-2028	22,512,695	12,472,971	26,780,000	20,970,509	1,728,600	333,522
2029-2033	13,130,000	8,146,690	33,985,000	13,752,365	913,481	40,309
2034-2038	12,970,000	4,017,310	35,630,000	4,746,129		
2039-2040	5,655,000	421,580				
<b>Total Requirements</b>	<u>\$ 107,382,684</u>	<u>\$ 65,960,720</u>	<u>\$ 124,870,000</u>	<u>\$ 95,350,402</u>	<u>\$ 4,384,289</u>	<u>\$ 1,660,316</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**D. 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, 2013	Principal Outstanding June 30, 2013
Guaranteed Energy Savings Contract	BB&T	3.47%	03/01/2030	\$ 4,542,387	\$ 158,098	\$ 4,384,289

### NOTE 8 - LEASE OBLIGATIONS

**A. Capital Lease Obligations** - Capital lease obligations relating to buildings are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 71,317
2015	71,317
2016	71,317
2017	657,821
Total Minimum Lease Payments	871,772
Amount Representing Interest (2.24% Rate of Interest)	55,626
<b>Present Value of Future Lease Payments</b>	<b>\$ 816,146</b>

Buildings acquired under capital lease amounted to \$908,561 at June 30, 2013. Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$200,914 at June 30, 2013.

**B. Operating Lease Obligations** - The University entered into operating leases for \$580,449 for an aquaculture facility, boat slips, IT server, and Printing Services printer. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 181,116
2015	130,216
2016	130,216
2017	130,216
2018	8,685
<b>Total Minimum Lease Payments</b>	<b>\$ 580,449</b>

Rental expense for all operating leases during the year was \$489,866.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 109,540,901	\$ 0	\$ 16,485,028	\$ 13,506	\$ 93,042,367
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 24,245,497	\$ 0	\$ 3,674,700	\$ 26,743	\$ 20,544,054
Dining	14,054,580		2,082,790	13,525	11,958,265
Parking	3,043,503	100,043	149,780	946	2,792,734
Communications	3,015,942	3,011,313			4,629
Athletics	2,241,726			16,642	2,225,084
Physical Plant	3,475,592	3,341,858			133,734
Printing and Duplicating	1,283,190	1,179,206			103,984
Bookstore	616,557				616,557
Postal Services	435,673	228,030		333	207,310
Other	2,531,803	266,167		11,382	2,254,254
Sales and Services of Education and Related Activities	3,348,775				3,348,775
<b>Total Sales and Services</b>	<b>\$ 58,292,838</b>	<b>\$ 8,126,617</b>	<b>\$ 5,907,270</b>	<b>\$ 69,571</b>	<b>\$ 44,189,380</b>
<b>Nonoperating - Noncapital Gifts</b>	<b>\$ 2,967,967</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ (5,112)</b>	<b>\$ 2,973,079</b>

\*The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 85,402,312	\$ 4,000,027	\$ 5,671,493	\$ 189,598	\$ 225	\$ 0	\$ 95,263,655
Research	7,786,189	1,486,221	3,057,177	92,216	9,698		12,431,501
Public Service	1,921,363	188,033	1,180,506	246,143			3,536,045
Academic Support	10,325,736	4,852,862	2,782,697	9,743			17,971,038
Student Services	7,753,371	863,999	2,143,769	18,228			10,779,367
Institutional Support	18,939,661	1,768,287	3,584,577	3,000	13,381		24,308,906
Facilities	12,055,048	3,477,596	3,279,017		5,060,531		23,872,192
Student Financial Aid	41,337	19	102,570	16,426,472			16,570,398
Auxiliary Enterprises	12,560,877	4,624,257	28,256,090	675,841	2,213,898		48,330,963
Depreciation						14,585,939	14,585,939
<b>Total Operating Expenses</b>	<b>\$ 156,785,894</b>	<b>\$ 21,261,301</b>	<b>\$ 50,057,896</b>	<b>\$ 17,661,241</b>	<b>\$ 7,297,733</b>	<b>\$ 14,585,939</b>	<b>\$ 267,650,004</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 11 - PENSION PLANS

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

The Teachers' and State Employees' Retirement System (TSERS) 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. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$126,154,303, of which \$55,820,098 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$4,649,814 and \$3,349,206, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$4,649,814, \$4,220,585, and \$2,874,128, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 TSERS. 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 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, 2013, 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 \$126,154,303, of which \$53,789,224 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$3,679,183 and \$3,227,353, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code 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 \$236,413 for the year ended June 30, 2013.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2013, were \$72,300. The voluntary contributions by employees amounted to \$674,318 for the year ended June 30, 2013.

Internal Revenue Code 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. The plan administrators are TIAA-CREF and Fidelity Investments. No costs are incurred by the University. The voluntary contributions by employees amounted to \$1,544,477 for the year ended June 30, 2013.

### **NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS**

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

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

For the current fiscal year the University contributed 5.30% 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, 2012, and 2011, were 5.0% and 4.9%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$5,809,294, \$5,322,845, and \$5,329,549, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- 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, 2013, the University made a statutory contribution of 0.44% 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, 2012, and 2011, were 0.52% and 0.52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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June 30, 2013, 2012, and 2011, which were \$482,281, \$553,576, and \$565,585, 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*.

### NOTE 13 - RISK MANAGEMENT

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

The risk of tort claims of up to \$1,000,000 per claimant is 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. However, some agencies have chosen a higher deductible for a reduction in premium.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University retains the risk for workers' compensation.

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% for the current fiscal year.

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

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

**A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$3,935,705 and on other purchases were \$7,542,000 at June 30, 2013.

**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 are as follows:

Purpose	Amount
Endowment Pledges	\$ 2,630,243

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 15 - RELATED PARTIES

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

The Foundation of the University of North Carolina Wilmington and the University of North Carolina Wilmington Student Aid Association serve as the primary fundraising arms of the University. It is through these foundations that 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. This support approximated \$940,460 for the year ended June 30, 2013.

In addition to this support, 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 Foundation of the University of North Carolina Wilmington (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 a fixed rate of 2.5% per annum for three years and includes two one year optional renewal periods. For the year ended June 30, 2013, the Foundation has paid all accrued note interest and has made principal payments of \$471,555 towards this loan. The current loan balance has been reduced from \$1,750,000 to \$1,278,445 at June 30, 2013 and was subsequently paid in full in September, 2013. The purpose of the loan was to provide financing for the acquisition of property by the Foundation for investment purposes.

The University of North Carolina Wilmington Alumni Association serves to connect and involve alumni, students and friends in the promotion and advancement of the University.

The UNCW Research Foundation, through its collaborative research relationships, pursues commercialization opportunities and the economic development of research discoveries, materials and intellectual properties for the benefit of the University.

The UNCW Corporation II acquires real property that is used solely by the University for auxiliary support, off-campus parking, or other agreed upon activities.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

All of these foundations are self-sustaining; however, the University does support their operations through donated administrative services. 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.

### NOTE 16 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2013, are presented as follows:

#### *Condensed Statement of Net Position June 30, 2013*

	Donald R. Watson Foundation, Inc.	UNCW Corporation, Inc.	Eliminations	Total
<b>ASSETS</b>				
Current Assets	\$ 36,750	\$ 1,766,199	\$ (1,766,199)	\$ 36,750
Other Noncurrent Assets	1,430,057	126,202,956	(123,810,489)	3,822,524
Total Assets	<u>1,466,807</u>	<u>127,969,155</u>	<u>(125,576,688)</u>	<u>3,859,274</u>
<b>LIABILITIES</b>				
Current Liabilities		1,766,199	(1,766,199)	
Noncurrent Liabilities		126,202,956	(123,810,489)	2,392,467
Total Liabilities		<u>127,969,155</u>	<u>(125,576,688)</u>	<u>2,392,467</u>
<b>NET POSITION</b>				
Restricted - Nonexpendable	999,796			999,796
Restricted - Expendable	467,011			467,011
Total Net Position	<u>\$ 1,466,807</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,466,807</u>

#### *Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2013*

	Donald R. Watson Foundation, Inc.	UNCW Corporation, Inc.	Eliminations	Total
<b>OPERATING REVENUES</b>				
Sales and Services	\$ 0	\$ 5,214,066	\$ (5,214,066)	\$ 0
Other Operating Revenues		112,789	(112,789)	
Total Operating Revenues		<u>5,326,855</u>	<u>(5,326,855)</u>	
<b>OPERATING EXPENSES</b>				
Operating Expenses	86,177	112,789	(112,789)	86,177
Operating Income (Loss)	<u>(86,177)</u>	<u>5,214,066</u>	<u>(5,214,066)</u>	<u>(86,177)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment Income	158,333			158,333
Interest and Fees on Debt		(5,214,066)	5,214,066	
Net Nonoperating Revenues (Expenses)	<u>158,333</u>	<u>(5,214,066)</u>	<u>5,214,066</u>	<u>158,333</u>
Increase in Net Position	<u>72,156</u>			<u>72,156</u>
<b>NET POSITION</b>				
Net Position, July 1, 2012	1,394,651			1,394,651
Net Position, June 30, 2013	<u>\$ 1,466,807</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,466,807</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

### *Condensed Statement of Cash Flows* *June 30, 2013*

	<b>Donald R. Watson Foundation, Inc.</b>	<b>UNCW Corporation, Inc.</b>	<b>Total</b>
Net Cash Provided (Used) by Operating Activities	\$ (53,552)	\$ 5,428,077	\$ 5,374,525
Net Cash Used by Capital and Related Financing Activities		(6,254,883)	(6,254,883)
Net Cash Provided by Investing Activities	45,618	826,806	872,424
Net Decrease in Cash and Cash Equivalents	(7,934)		(7,934)
Cash and Cash Equivalents, July 1, 2012	43,051		43,051
Cash and Cash Equivalents, June 30, 2013	\$ 35,117	\$ 0	\$ 35,117

### **NOTE 17 - NET POSITION RESTATEMENT**

As of July 1, 2012, net position as previously reported was restated as follows:

	Amount
July 1, 2012 Net Position as Previously Reported	\$ 406,730,759
<b>Restatement:</b> To correct error of Supplies and Materials understatement incorrectly capitalized as Construction in Progress.	(7,034,463)
<b>July 1, 2012 Net Position as Restated</b>	<b>\$ 399,696,296</b>



**Office of the State Auditor**

**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**

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

We have audited, in accordance with the 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, the financial statements of the University of North Carolina Wilmington, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 6, 2013. Our report includes a reference to other auditors who audited the financial statements of the UNCW Corporation, Inc., as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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. A *significant deficiency* is a deficiency,

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

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or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

December 6, 2013

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
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Raleigh, North Carolina 27699-0601

Telephone: 919-807-7500

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For additional information contact:

Bill Holmes

Director of External Affairs