

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



UNIVERSITY OF NORTH CAROLINA WILMINGTON

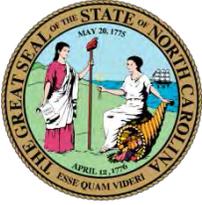
WILMINGTON, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2015

A CONSTITUENT INSTITUTION OF THE UNIVERSITY OF NORTH CAROLINA
SYSTEM AND A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

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, 2015, 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



Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

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, 2015, 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 Donald R. Watson Foundation, Inc., the UNCW Corporation, the UNCW Corporation II, or the UNCW Research Foundation, which collectively represent 18 percent, less than 1 percent, and 2 percent, respectively, of the assets, net position, and revenues of the University. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended component units, is based solely on the reports of the other auditors. 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. The financial statements of the blended component units were not audited in accordance with *Government Auditing Standards*.

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 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, 2015, 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.

Emphasis of Matter

As discussed in Note 17 to the financial statements, during the year ended June 30, 2015, the University of North Carolina Wilmington adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, 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 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 November 24, 2015 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 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

November 24, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2015. 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, deferred outflows and inflows, 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.

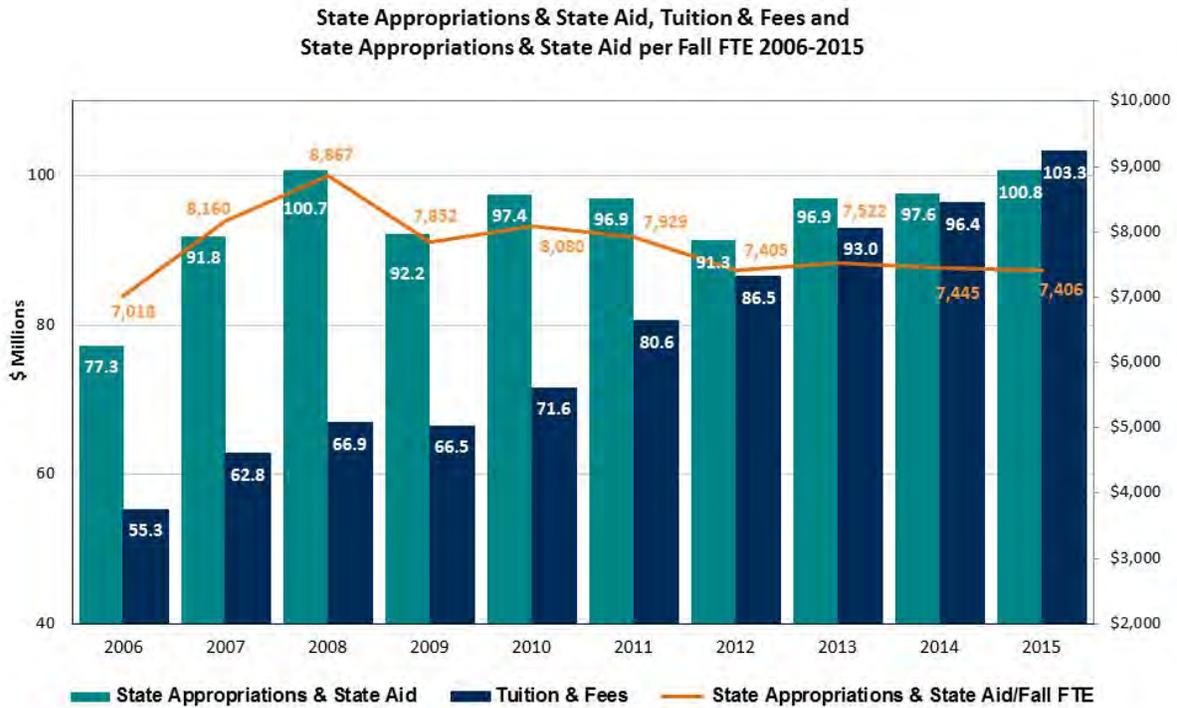
An important factor to consider when evaluating the financial viability of the University is the ability to meet financial obligations as they mature. The Statement of Cash Flows presents information that allows the reader to evaluate the University's ability to meet its financial obligations on a current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

Financial Highlights

For the fiscal year ended June 30, 2015, the North Carolina General Assembly (General Assembly) imposed a permanent budget reduction of \$1.2 million. In addition, the General Assembly imposed an 11.7% increase on out-of-state undergraduate tuition which was offset by a decrease in state appropriations by \$3.2 million. The University received state appropriations for enrollment growth of \$6 million, for salary reserves of \$246 thousand for employees exempt from the State Personnel Act (EPA), and for legislative salary increases of \$834 thousand for employees subject to the State Personnel Act (SPA).

The General Assembly approved a salary increase of \$1,000 and a special annual leave bonus of five days for all permanent University employees. The University partially funded the salary increase for EPA employees.

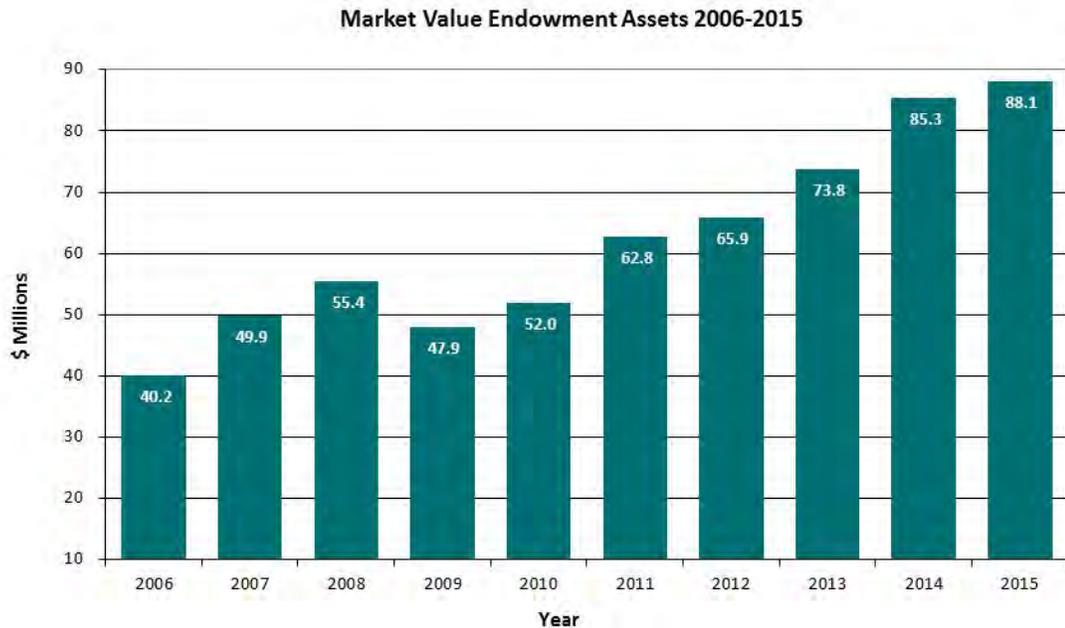
The University's appropriations were reduced by \$761 thousand at year-end.



While tuition and fee revenue has continued to rise over the last ten years, state appropriations and state aid have held relatively steady during recent years. For the first time in ten years, student tuition and fees exceeded state appropriations and state aid this fiscal year. State appropriations and state aid per fall student full-time equivalent has also remained relatively stable in recent years. However, with student enrollment steadily increasing each year, funding per fall student full-time equivalent is lower now than it was nine years ago.

The Endowment Fund (Fund) investments total net position increased 3% to \$88.1 million at June 30, 2015. The endowment received new gifts of \$1.5 million and generated net investment earnings of \$4.2 million after investment expenses and administrative fees. Investment earnings of \$2.9 million were distributed to scholarships and university programs.

The Fund is managed with a long-term time horizon and a primary return objective of 6.6% to generate a stream of distributions to support scholarships and university programs in “real dollars” in perpetuity. The Fund’s ten-year annualized return of 8.0% exceeds this objective by 1.4%. Over a more medium-term horizon, the three- and five- year annualized returns of 10.9% and 10.4% respectively, exceed the 5.8% and 6.3% needed for distributions plus inflation.



Capital construction-in-progress increased \$10.7 million as a result of the Social and Behavioral Sciences renovation project (S&BS), central energy plant upgrades, and outdoor enhancements of student recreational facilities that were in progress at year-end.

Statement of Net Position

The Statement of Net Position presents assets (current and noncurrent), deferred outflows, liabilities (current and noncurrent), deferred inflows, and net position (total assets plus deferred outflows minus total liabilities and deferred inflows) of the University. This statement provides a fiscal snapshot of the University's financial position as of June 30, 2015. This statement includes information on assets available for continuing operations and amounts due to vendors, investors, and lending institutions.

Condensed Statement of Net Position
 June 30, as Indicated

	2015	2014 (Restated)	Change	% Change
Assets				
Current Assets	\$ 129,419,182	\$ 119,562,617	\$ 9,856,565	8.2%
Capital Assets, Net	490,711,242	488,086,725	2,624,517	0.5%
Other Noncurrent Assets	97,673,829	98,916,624	(1,242,795)	-1.3%
Total Assets	717,804,253	706,565,966	11,238,287	1.6%
Deferred Outflows of Resources				
Deferred Loss on Refunding	3,392,141	2,174,373	1,217,768	56.0%
Deferred Outflows Related to Pensions	4,876,686	4,596,563	280,123	6.1%
Total Deferred Outflows	8,268,827	6,770,936	1,497,891	22.1%
Liabilities				
Current Liabilities	20,936,091	19,368,069	1,568,022	8.1%
Noncurrent Liabilities	243,524,682	267,475,269	(23,950,587)	-9.0%
Total Liabilities	264,460,773	286,843,338	(22,382,565)	-7.8%
Deferred Inflows of Resources				
Deferred Inflows Related to Pensions	16,048,182	0	16,048,182	100.0%
Net Position				
Net Investment in Capital Assets	269,027,444	260,491,504	8,535,940	3.3%
Restricted Nonexpendable	52,633,965	45,850,210	6,783,755	14.8%
Restricted Expendable	34,838,427	38,085,095	(3,246,668)	-8.5%
Unrestricted	89,064,289	82,066,755	6,997,534	8.5%
Total Net Position	\$ 445,564,125	\$ 426,493,564	\$ 19,070,561	4.5%

On June 30, 2015, total University assets were \$717.8 million. The largest asset categories were the University's cash and cash equivalents of \$132.8 million, endowment investments of \$84.2 million, and capital assets, net, of \$490.7 million.

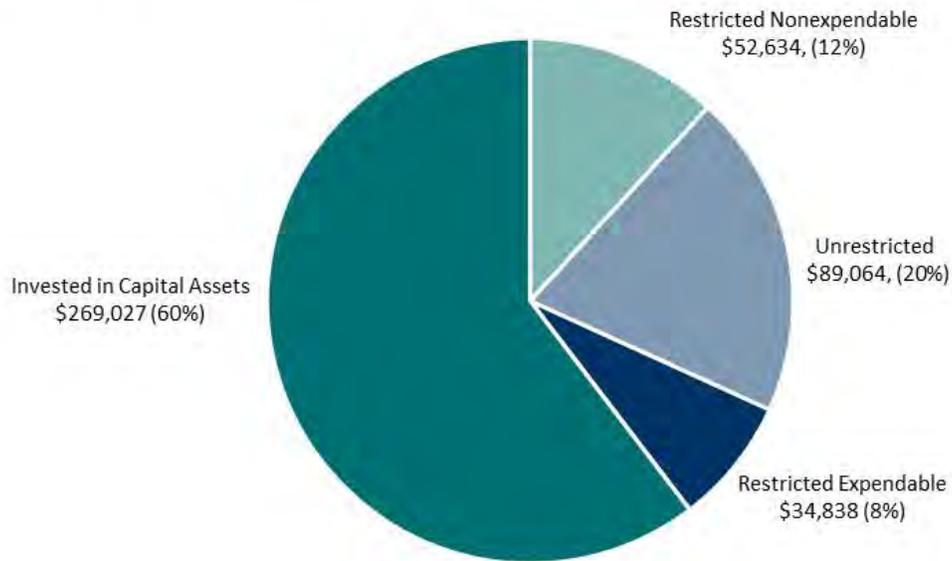
Endowment investments generated net investment earnings of \$3.3 million.

The increase in capital assets, net of \$2.6 million was the result of investments made for renovation projects and outdoor enhancements of student recreational facilities.

With the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, the University recorded deferred outflows related to pensions of \$4.9 million, a net pension liability of \$4.3 million, and deferred inflows related to pensions of \$16 million at June 30, 2015. The University's unrestricted net position at June 30, 2014 was \$101 million. After restating for GASB Statement No. 68, unrestricted net position was \$82.1 million as of July 1, 2014 - a decrease of \$18.6 million. Unrestricted net position at June 30, 2015 was \$89.1 million - an increase of \$7 million from the restated July 1, 2014 balance.

The Office of Housing and Residence Life's increase to unrestricted net position of \$5.1 million was the biggest contributor to the \$7 million change.

2015 Net Position \$445,564
(\$ Thousands)



Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position includes 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; examples include 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 – expenses not involved in the normal operations of the University.

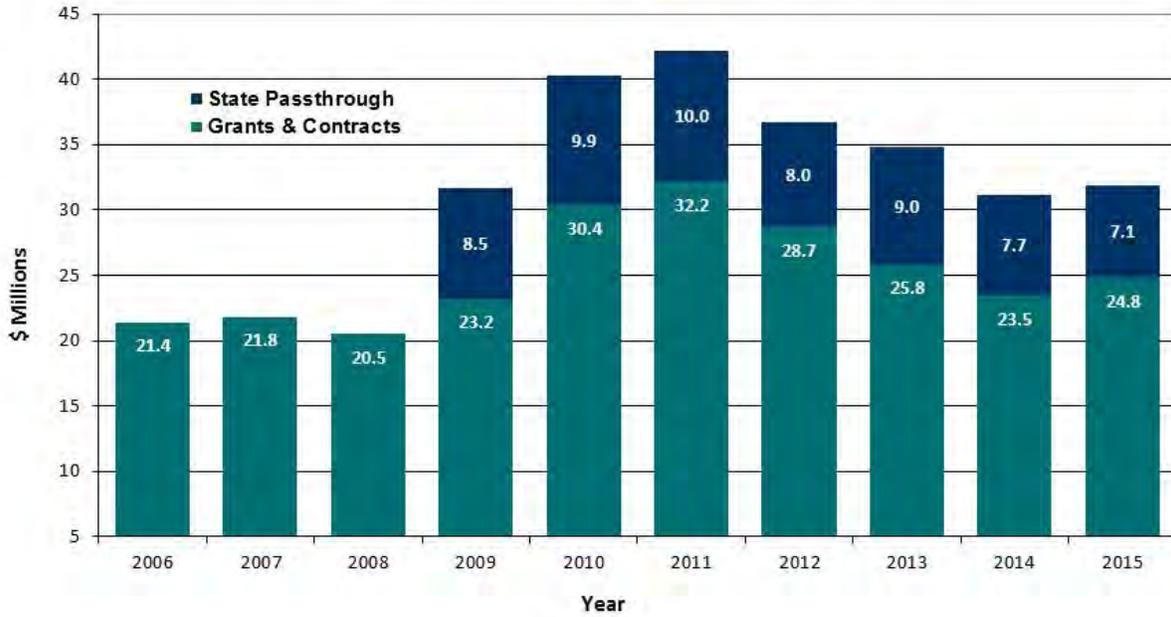
**Condensed Statement of Revenues, Expenses, and Changes in Net Position
For Year Ended June 30, as Indicated**

	2015	2014 *	Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 103,282,202	\$ 96,421,397	\$ 6,860,805	7.1%
Sales and Service, Net	49,060,440	47,969,874	1,090,566	2.3%
Grants and Contracts	8,427,380	7,880,202	547,178	6.9%
Other Operating Revenues	5,534,754	5,816,180	(281,426)	-4.8%
Total Operating Revenues	<u>166,304,776</u>	<u>158,087,653</u>	<u>8,217,123</u>	5.2%
Operating Expenses				
Salaries and Benefits	160,703,817	159,921,608	782,209	0.5%
Supplies and Materials	21,626,845	19,863,947	1,762,898	8.9%
Services	51,855,879	50,936,497	919,382	1.8%
Scholarships and Fellowships	18,977,506	18,327,034	650,472	3.5%
Utilities	8,023,968	7,783,473	240,495	3.1%
Depreciation	16,028,951	16,194,951	(166,000)	-1.0%
Total Operating Expenses	<u>277,216,966</u>	<u>273,027,510</u>	<u>4,189,456</u>	1.5%
Operating Loss	<u>(110,912,190)</u>	<u>(114,939,857)</u>	<u>4,027,667</u>	3.5%
Nonoperating Revenues (Expenses)				
State Appropriation	100,845,533	97,601,950	3,243,583	3.3%
Noncapital Gifts and Grants	26,784,797	26,698,543	86,254	0.3%
Investment Income, Net	5,675,560	10,842,857	(5,167,297)	-47.7%
Interest and Fees on Debt	(11,880,390)	(11,482,010)	(398,380)	3.5%
Federal Interest Subsidy on Debt	698,901	822,120	(123,219)	-15.0%
Other Nonoperating Revenues (Expenses)	1,462,087	(9,157)	1,471,244	16066.9%
Other Revenues				
Capital Appropriations		3,146,783	(3,146,783)	-100.0%
Capital Grants and Gifts	4,905,810	2,173,028	2,732,782	125.8%
Additions to Endowments	1,490,453	3,936,562	(2,446,109)	-62.1%
Total Net Nonoperating and Other Revenues	<u>129,982,751</u>	<u>133,730,676</u>	<u>(3,747,925)</u>	-2.8%
Increase in Net Position	19,070,561	18,790,819	279,742	1.5%
Net Position - Beginning of Year	<u>426,493,564</u>	<u>426,358,185</u>	<u>135,379</u>	0.0%
Net Position - End of Year Prior to Restatement	<u>445,564,125</u>	<u>445,149,004</u>	<u>415,121</u>	0.1%
Restatement to Record the University's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB No. 68 Requirements		(18,655,440)	18,655,440	100.0%
Net Position and Net Position as Restated	<u>\$ 445,564,125</u>	<u>\$ 426,493,564</u>	<u>\$ 19,070,561</u>	4.5%
Reconciliation of Change in Net Position				
Total Revenues	\$ 308,167,917	\$ 303,309,496	\$ 4,858,421	1.6%
Less: Total Expenses	<u>289,097,356</u>	<u>284,518,677</u>	<u>4,578,679</u>	1.6%
Increase in Net Position	<u>\$ 19,070,561</u>	<u>\$ 18,790,819</u>	<u>\$ 279,742</u>	1.5%

* Note: The year ended June 30, 2014 column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.

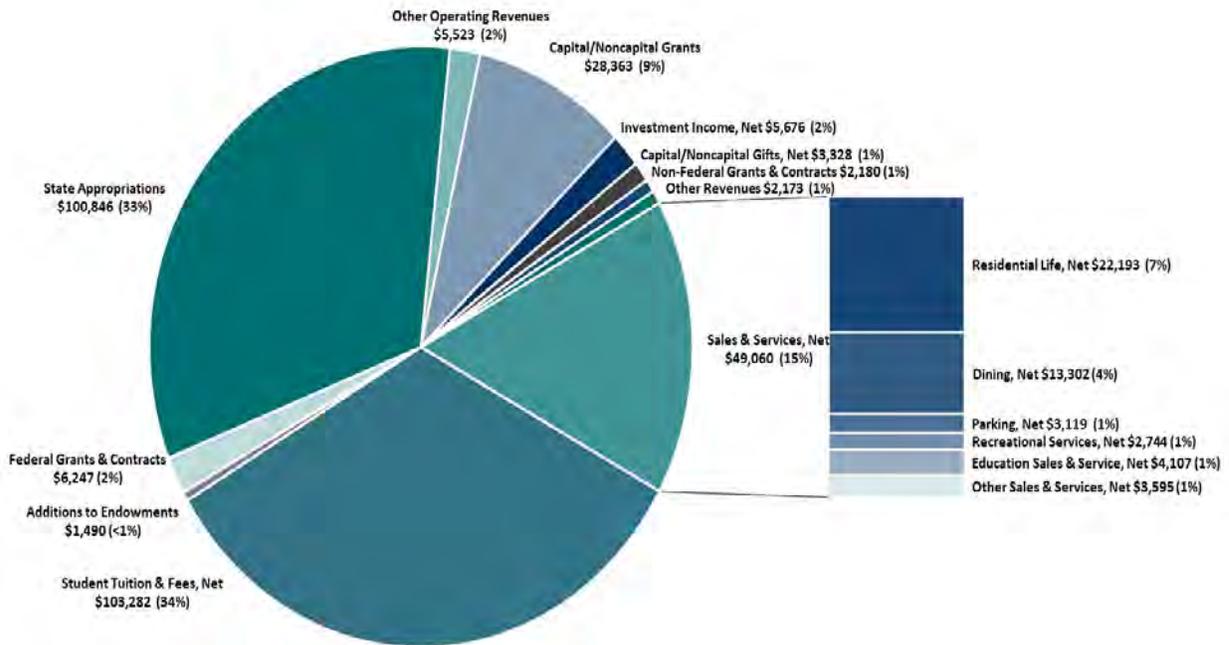
Student full-time equivalents increased 3.9% in fiscal year 2015. This, in addition to an 11.7% legislative increase in non-resident tuition, contributed to the 7.1% increase in student tuition and fees, net. The increase in students also resulted in an increase in sales and services, net of 2.3% from additional residential life and dining revenues of \$1.4 million.

Grants & Contracts Revenue 2006-2015
 (Includes Noncapital Grants - State Passthrough for 2009 - 2015)



After three years of declining revenue due to a reduction in federal funding, grants and contracts revenue increased \$707 thousand or 2.3%.

2015 Revenue by Source \$308,168
 (\$ Thousands)



Investment income dropped 47.7% reflective of the markets' over-all indices decline in 2015. The University earned only 5.4% in 2015 versus 14.6% in 2014.

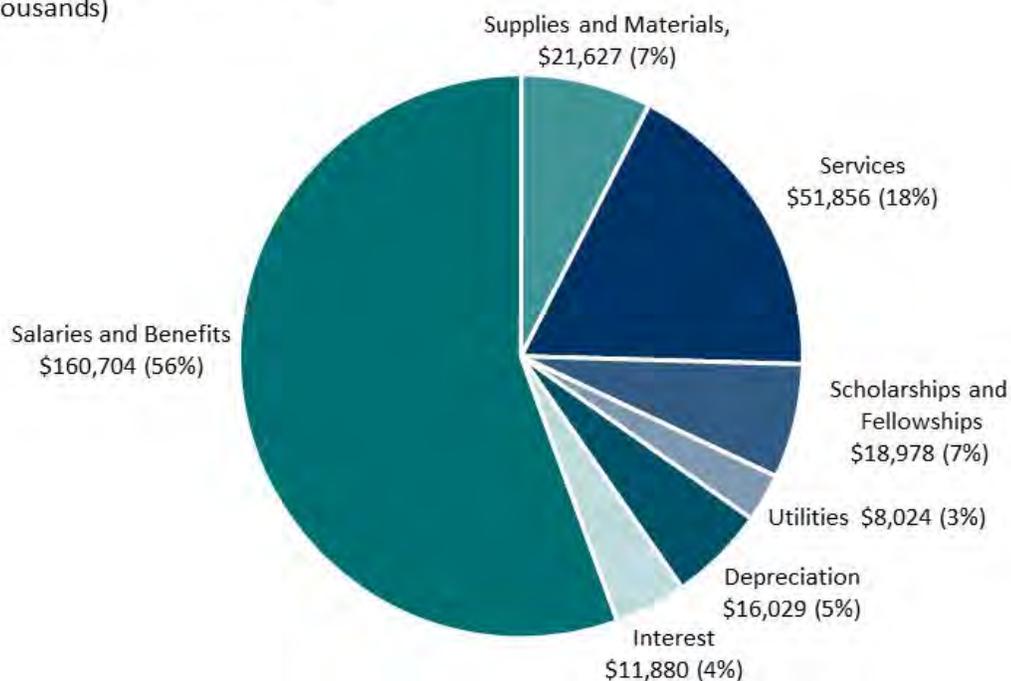
The increase of \$1.5 million in other nonoperating revenues (expenses) is attributable to blending bond issuance costs and prepaid insurance costs of the UNCW Corporation.

After receiving \$3.1 million in capital appropriations funding for repairs and renovations in 2014, the University did not receive 2015 funding during the current fiscal year. The repairs and renovations funding, though approved in 2015, will not become available until 2016.

The \$2.7 million increase in capital grant revenue includes grants awarded for the construction of nanosatellites, the expansion of the boat dock at the Center for Marine Sciences (CMS), and the increase in state capital aid funding for S&BS building renovations. The S&BS renovations were completed in the fall of 2015 for the start of the academic year.

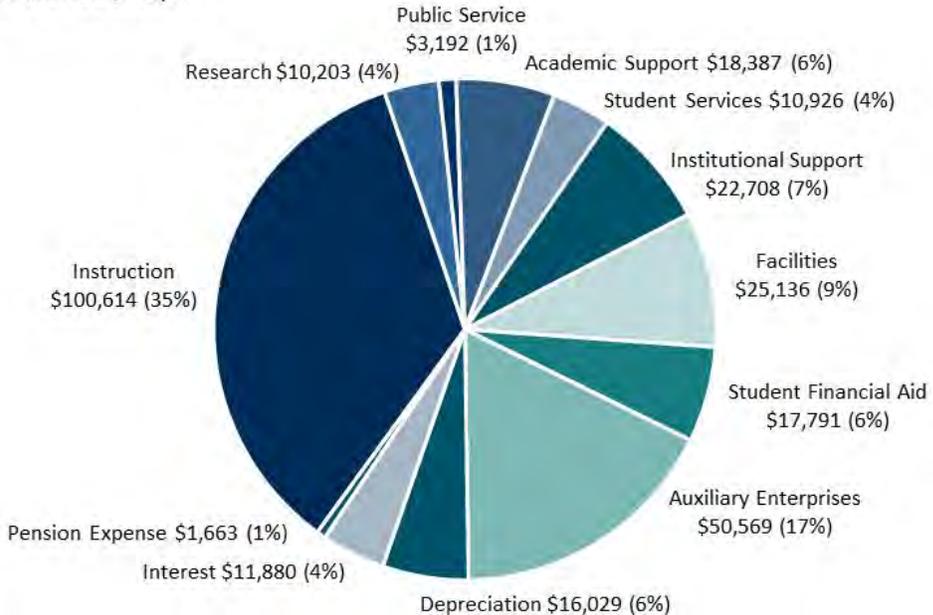
Additions to endowments decreased 62.1% as a one-time gift of \$2.5 million was received in fiscal year 2014.

2015 Expense by Nature \$289,097
(\$ Thousands)



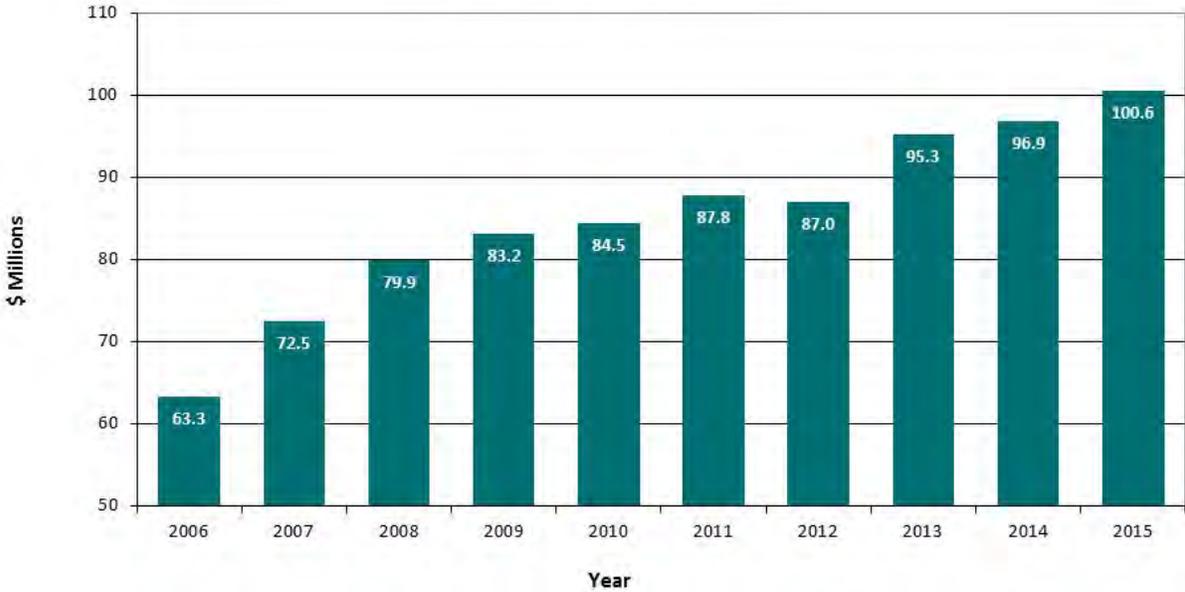
Supplies and materials expenses increased 8.9% this fiscal year. Classroom and faculty office furniture for S&BS building renovations accounted for \$1.1 million of this increase.

2015 Expense by Function \$289,097
(\$ Thousands)



Instruction expense, the largest component of expenses by function with \$100.6 million, increased by 3.9%. The largest component of instruction expense is salaries and benefits. As reflected in the following graph, instruction expense has increased steadily over the last ten years.

Instruction Expense 2006-2015



Statement of Cash Flows

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

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

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

	2015	2014	Change	% Change
Cash Provided (Used) by:				
Operating Activities	\$ (96,440,639)	\$ (93,315,115)	\$ (3,125,524)	3.3%
Noncapital Financing Activities	128,667,080	126,341,817	2,325,263	1.8%
Capital Financing Activities	(30,794,842)	(18,905,410)	(11,889,432)	62.9%
Investing Activities	1,657,832	1,094,517	563,315	51.5%
Net Change In Cash	3,089,431	15,215,809	(12,126,378)	-79.7%
Cash Beginning of Year	129,715,104	114,499,295	15,215,809	13.3%
Cash Ending of Year	\$ 132,804,535	\$ 129,715,104	\$ 3,089,431	2.4%

Operating Activities

Major cash sources were student tuition and fees of \$103 million, sales and services of \$54.6 million, and contracts and grants of \$9.4 million. Major cash uses were compensation to employees of \$164.5 million, payments to vendors and suppliers for goods and services of \$83.6 million, and disbursements to students for scholarships and awards of \$19 million.

Noncapital Financial Activities

The major cash inflow was state appropriations of \$100.8 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 of \$27.8 million.

Capital Financing Activities

Cash provided included proceeds from capital debt of \$65.7 million from the issuance of the Refunding Limited Obligation Bonds, Series 2015 and capital grants of \$4.8 million. Cash used was primarily for the acquisition of capital assets of \$18.1 million and the repayment of principal and interest on capital debt of \$84.2 million which included the current and advance refunding of Series 2005 and 2006 Certificates of Participation, respectively.

Investing Activities

Cash provided included sales and maturities of investments of \$1.1 million and investment income of \$4.2 million. Cash used reflects the purchase of investments and related fees of \$3.7 million.

Capital Assets and Debt Administration

Capital Assets

The University had \$490.7 million invested in capital assets at June 30, 2015, as reported in the table below. This represents an increase of \$2.6 million from 2014.

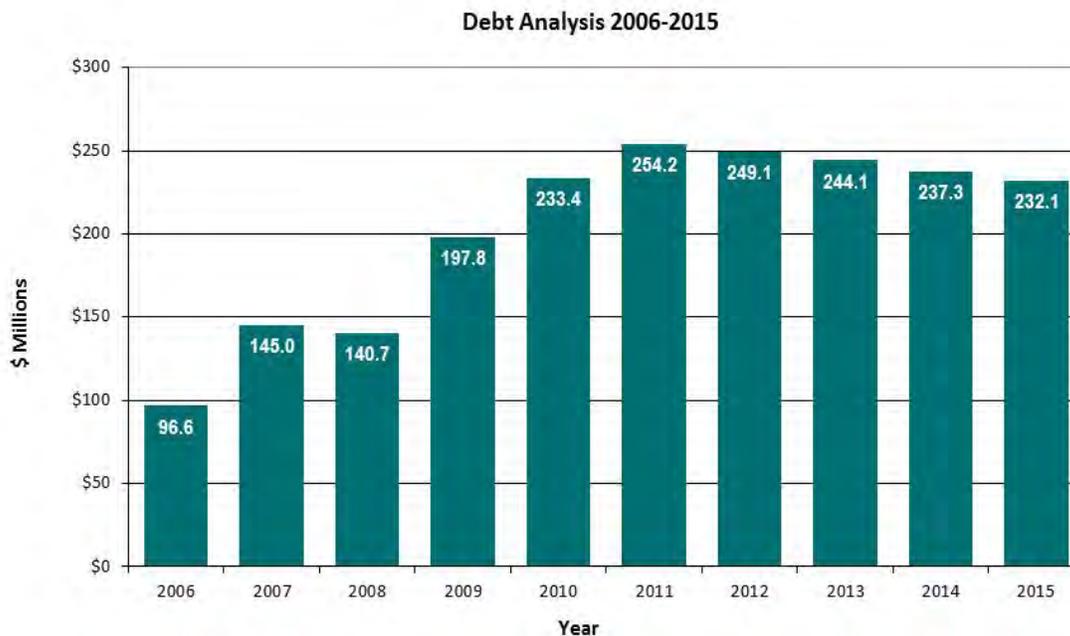
Capital Assets Net of Depreciation June 30, as Indicated			
	2015	2014	Change
Land and Permanent Easements	\$ 9,263,459	\$ 9,263,459	\$ 0
Art, Literature, and Artifacts	1,802,023	1,681,375	120,648
Construction In Progress	12,297,968	1,634,724	10,663,244
Buildings, Net	421,391,717	431,781,485	(10,389,768)
Machinery and Equipment, Net	16,623,624	15,072,265	1,551,359
General Infrastructure, Net	29,332,451	28,653,417	679,034
Total Capital Assets	\$ 490,711,242	\$ 488,086,725	\$ 2,624,517

The \$10.7 million increase in construction in progress is a result of the renovation of the S&BS building and the construction of a new central energy plant. These buildings were not fully operational at fiscal year-end but will be capitalized in fiscal year 2016. A combination of depreciation expense of \$16 million and a decline in the University's investment of new buildings on campus has resulted in a decrease in buildings, net of \$10.4 million. Machinery and equipment, net increased \$1.6 million largely due to the purchase of new telecommunication equipment for the S&BS renovation and additional telecommunications support of campus for \$735 thousand as well as \$1.1 million for new equipment in CMS, including a \$400 thousand Bio Sampling System. General infrastructure additions included a floating dock expansion at CMS and a new intramural practice field.

Debt

As of June 30, 2015, the University's \$232.1 million in long-term debt included outstanding revenue bonds payable and special indebtedness of \$224.7 million and notes payable of \$7.4 million.

In May 2015, the University issued \$59.6 million in Refunding Limited Obligation Bonds for the current refunding of Series 2005 Certificates of Participation (COPs) and the advance refunding of Series 2006 COPs. The current refunding of Series 2005 COPs in the amount of \$24.9 million reduced total debt service by \$5.3 million over the next 21 years. The advance refunding of Series 2006 COPs in the amount of \$34.6 million reduced total debt service by \$4.4 million over the next 22 years. At June 30, 2015, the outstanding balance was \$36.8 million for the defeased Series 2006 COPs.

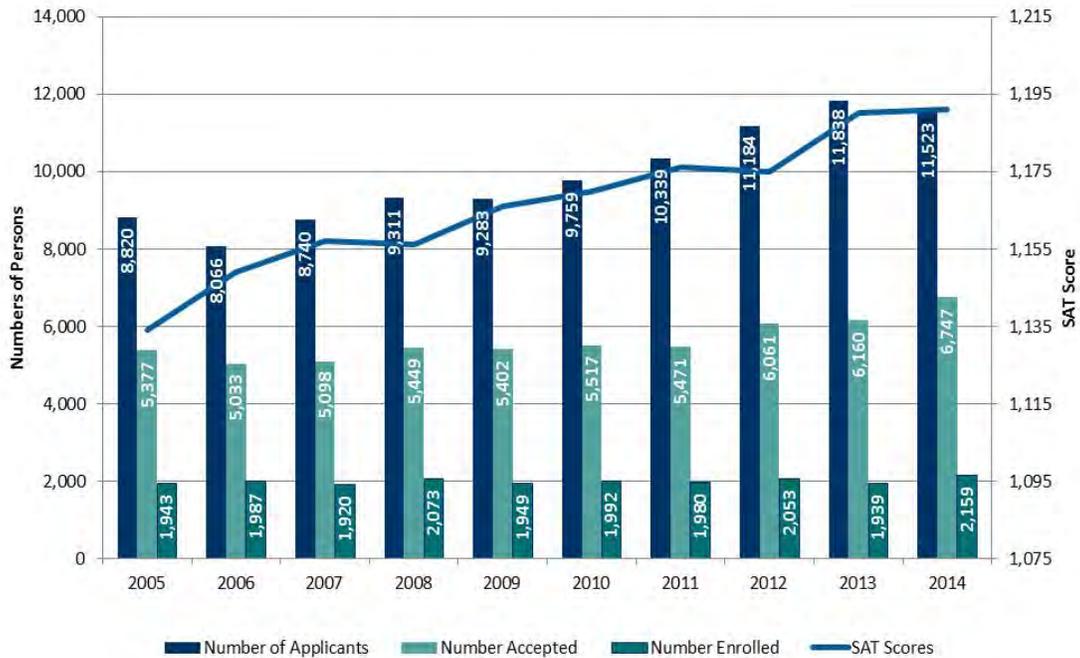


There have been no significant changes in credit ratings or debt limitations that will affect future financing for the University.

Economic Forecast

For the fiscal year 2016, the General Assembly approved funding for enrollment growth of \$10.5 million in state appropriations. The Board of Governors also approved the University's tuition increases for 2016 resulting in an anticipated increase in student tuition and fee revenue of \$1.8 million.

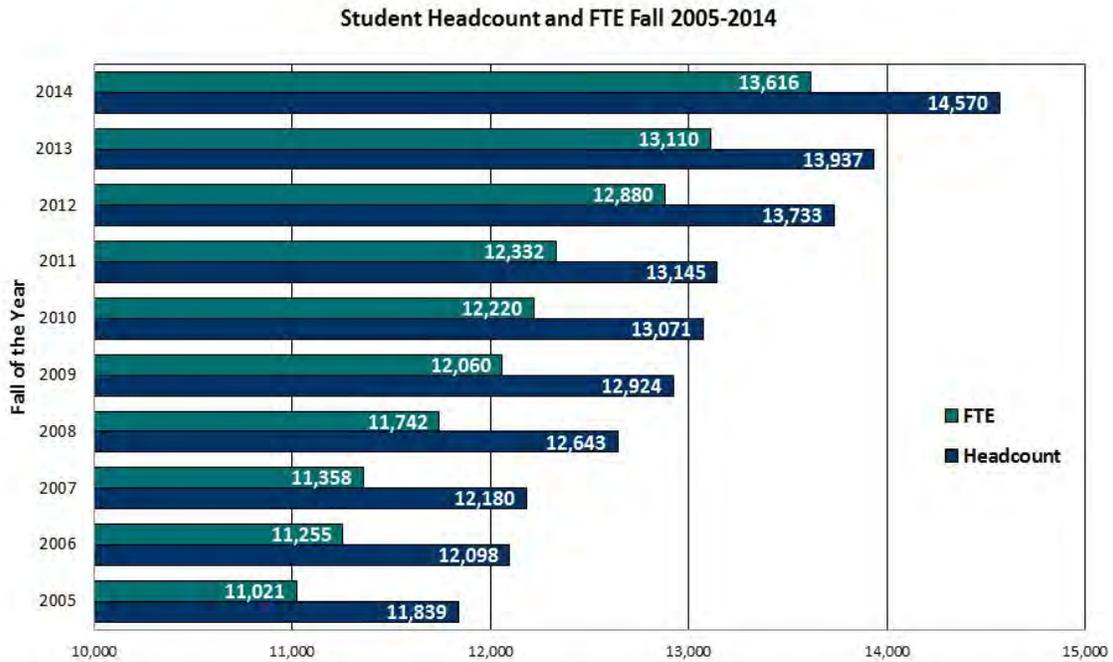
Freshman Fall Enrollment & SAT Scores 2005-2014



Looking forward, the University continues to face reductions in state appropriations, limited tuition increases, and reductions in federal funding. Efforts continue to protect the core academic and instruction services levels to our students. The University will continue building upon our many strengths - applied learning, a strong base in liberal arts and sciences, community engagement and global connectivity.

In fiscal year 2015, federal funding for research and sponsored programs increased over 130%. However, federal awards for fiscal year 2016 are projected to remain at fiscal year 2015 levels due to limited federal budget dollars in the coming federal fiscal year. While the number of University proposal submissions has remained steady, the dollar amount per proposal has decreased. As a result, slow growth of revenue is projected over the next few years as funding increases from non-federal sources. Limited funds have increased the competitiveness for federal funding and will challenge the University's opportunities for growth. Funding for indirect cost recoveries comes from research and sponsored programs revenue. Therefore, when funding is limited, the amount available to make investments and provide support for the research enterprise is also limited.

The U.S. economy is continuing to recover, but is faced with unpredictability in the coming year. While production and unemployment rates improve both in the nation and in North Carolina, global uncertainty could adversely impact the U.S. economy. Many anticipate that the U.S. Federal Reserve Bank will slowly begin to adjust short-term interest rates in the coming year. This can be seen as a signal of confidence in the economic recovery. Despite moderate economic growth, the University is operating in a challenging higher education environment with reduction in state support and continued pressure placed on public universities to limit in-state tuition increases and reduce operating budgets.



The University is committed to delivering excellent and affordable public higher education to its students. The University is focused on enhancing and developing diverse revenue sources including distance education offerings, international programs, new academic programs, innovation and entrepreneurial activities, and auxiliary services to supplement state funding. The University will continue to emphasize prudent resource allocation, cost containment measures, implementation of efficiency initiatives and continuous assessment of processes to successfully achieve the University’s 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 contacting the Controller’s Office at (910) 962-3144 or accessing the Controller’s Office web page http://www.uncw.edu/controller/financial_reports.html.



FINANCIAL STATEMENTS

University of North Carolina Wilmington
Statement of Net Position
June 30, 2015

Exhibit A-1

Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 106,306,916
Restricted Cash and Cash Equivalents	17,603,318
Receivables, Net (Note 4)	4,548,526
Inventories	321,934
Prepaid Items	319
Notes Receivable, Net (Note 4)	638,169

Total Current Assets	129,419,182
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	8,894,301
Receivables, Net (Note 4)	195,332
Prepaid Items	1,036,774
Endowment Investments	84,176,950
Notes Receivable, Net (Note 4)	3,370,472
Capital Assets - Nondepreciable (Note 5)	23,363,450
Capital Assets - Depreciable, Net (Note 5)	467,347,792

Total Noncurrent Assets	588,385,071
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Total Assets	717,804,253
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	3,392,141
Deferred Outflows Related to Pensions	4,876,686

Total Deferred Outflows of Resources	8,268,827
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	3,949,894
Deposits Payable	26,024
Unearned Revenue	7,078,270
Interest Payable	2,024,958
Long-Term Liabilities - Current Portion (Note 7)	7,856,945

Total Current Liabilities	20,936,091
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Noncurrent Liabilities:

Funds Held for Others	2,426,690
U. S. Government Grants Refundable	4,311,276
Long-Term Liabilities, Net (Note 7)	236,786,716

Total Noncurrent Liabilities	243,524,682
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Total Liabilities	264,460,773
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	16,048,182
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University of North Carolina Wilmington
Statement of Net Position
June 30, 2015

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	269,027,444
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	21,412,630
Research	1,835,876
Endowed Professorships	10,955,345
Departmental Uses	17,481,732
Loans	948,382
Expendable:	
Scholarships and Fellowships	13,303,737
Research	1,254,005
Endowed Professorships	6,922,461
Departmental Uses	8,393,579
Loans	667,866
Capital Projects	3,807,417
Debt Service	489,362
Unrestricted	<u>89,064,289</u>
Total Net Position	<u>\$ 445,564,125</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, 2015

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 103,282,202
Federal Grants and Contracts	6,246,950
State and Local Grants and Contracts	1,035,220
Nongovernmental Grants and Contracts	1,145,210
Sales and Services, Net (Note 9)	49,060,440
Interest Earnings on Loans	11,569
Other Operating Revenues	5,523,185
	<hr/>
Total Operating Revenues	166,304,776

EXPENSES

Operating Expenses:

Salaries and Benefits	160,703,817
Supplies and Materials	21,626,845
Services	51,855,879
Scholarships and Fellowships	18,977,506
Utilities	8,023,968
Depreciation	16,028,951
	<hr/>
Total Operating Expenses	277,216,966

Operating Loss	<hr/> <u>(110,912,190)</u>
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	100,845,533
Noncapital Grants - Student Financial Aid	23,519,563
Noncapital Gifts, Net (Note 9)	3,265,234
Investment Income (Net of Investment Expense of \$228,957)	5,675,560
Interest and Fees on Debt	(11,880,390)
Federal Interest Subsidy on Debt	698,901
Other Nonoperating Revenues	1,462,087
	<hr/>

Net Nonoperating Revenues	123,586,488
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Income Before Other Revenues	12,674,298
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Capital Grants	4,843,367
Capital Gifts	62,443
Additions to Endowments	1,490,453
	<hr/>

Increase in Net Position	19,070,561
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NET POSITION

Net Position - July 1, 2014, as Restated (Note 17)	<hr/> 426,493,564
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Net Position - June 30, 2015	<hr/> <u>\$ 445,564,125</u>
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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, 2015

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 166,929,920
Payments to Employees and Fringe Benefits	(164,487,152)
Payments to Vendors and Suppliers	(83,606,946)
Payments for Scholarships and Fellowships	(18,973,512)
Loans Issued	(247,935)
Collection of Loans	784,088
Other Receipts	3,160,898

Net Cash Used by Operating Activities (96,440,639)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	100,845,533
Noncapital Grants - Student Financial Aid	23,494,555
Noncapital Gifts	2,836,539
Additions to Endowments	1,490,453
William D. Ford Direct Lending Receipts	77,682,715
William D. Ford Direct Lending Disbursements	(77,682,715)

Net Cash Provided by Noncapital Financing Activities 128,667,080

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	65,736,641
Capital Grants	4,843,367
Capital Gifts	62,443
Proceeds from Sale of Capital Assets	67,988
Acquisition and Construction of Capital Assets	(18,054,121)
Principal Paid on Capital Debt and Leases	(70,727,156)
Interest and Fees Paid on Capital Debt and Leases	(13,422,905)
Federal Interest Subsidy on Debt Received	698,901

Net Cash Used by Capital Financing and Related Financing Activities (30,794,842)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	1,105,078
Investment Income	4,240,790
Purchase of Investments and Related Fees	(3,688,036)

Net Cash Provided by Investing Activities 1,657,832

Net Increase in Cash and Cash Equivalents 3,089,431
Cash and Cash Equivalents - July 1, 2014 129,715,104

Cash and Cash Equivalents - June 30, 2015 \$ 132,804,535

University of North Carolina Wilmington
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (110,912,190)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	16,028,951
Allowances and Write-Offs	70,236
Pension Expense	1,663,168
Nonoperating Other Income	2,036,385
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(1,148,243)
Due from Primary Government	2,919
Inventories	5,088
Prepaid Items	(1,028,957)
Notes Receivable, Net	534,352
Accounts Payable and Accrued Liabilities	(651,097)
Due to Primary Government	(1,365,193)
Unearned Revenue	1,790,059
Funds Held for Others	1,635,083
US Government Grants Refundable	(14,252)
Deferred Outflows for Contributions Subsequent to the Measurement Date	(4,876,686)
Compensated Absences	(230,365)
Deposits Payable	20,103
Net Cash Used by Operating Activities	<u>\$ (96,440,639)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 106,306,916
Restricted Cash and Cash Equivalents	17,603,318
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>8,894,301</u>
Total Cash and Cash Equivalents - June 30, 2015	<u>\$ 132,804,535</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 1,881,461
Assets Acquired through a Gift	530,342
Change in Fair Value of Investments	487,291
Loss on Disposal of Capital Assets	(43,956)
Amortization of Bond Premiums/Discounts	215,784
Increase in Receivables Related to Nonoperating Income	43,653

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



NOTES TO THE FINANCIAL STATEMENTS

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 (University) 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. See below for further discussion of the University's component units.

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

The Watson Foundation was organized to support charitable, religious, scientific and educational institutions located in the State of North Carolina provided that each supported organization is tax exempt and eligible to receive charitable donations. The Watson Foundation is a public not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. 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. Because a majority of the 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 primary purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

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 University's operations and business functions and are appointed by the UNCW Chancellor to serve on the board. 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.

The Corporation II includes the activities of the single member entities, UNCW Corporation Oleander One, LLC, and UNCW Corporation College Station, LLC. The Corporation II was organized to enhance the University of North Carolina Wilmington's educational mission, including constructing or managing facilities for the University. These entities acquire real property that is used solely by the University for auxiliary support, off-campus parking, or other agreed upon activities. The Corporation II is a public not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements. The Corporation II is governed by a seven-member board of which four are delegates of the University. The remaining three positions are filled by persons external to the University's operations and business functions and are appointed by the UNCW Chancellor to serve on the board. As the Corporation II's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

The Research Foundation includes the activities of the single member entities, UNCW Corporation Research I, LLC, MARBIONC Development Group, LLC, The CREST Millennial Campus, LLC, and the UNCW Entrepreneurship Center, LLC. The Research Foundation was organized to enhance the University of North Carolina Wilmington's educational mission. These entities, through collaborative research relationships, pursue commercialization opportunities and the economic development of research discoveries, materials and intellectual properties for the benefit of the University. The Research Foundation is a public not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements. The Research Foundation is governed by a four-member board, all of which are delegates of the University. As the Research Foundation'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, the Corporation, the Corporation II, and the Research Foundation may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC 28403-5934, 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 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. The fair value for investments in the UNC Investment Fund was based on amounts reported to the University by UNC Management Company, Inc. 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, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out method.
- H. **Prepaid Items** – Prepaid items are comprised of prepayments of royalties and bond insurance 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 in the following manner:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-50 years
Machinery & Equipment	4-50 years
General Infrastructure	10-50 years

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, special indebtedness, net pension liability, notes payable, and compensated absences, that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Deferred charges on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight line method, and are included as Deferred Outflows or Deferred Inflows of Resources on the Statement of Net Position. Issuance costs are expensed.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 Comprehensive Annual Financial Report. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

- 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. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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.

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. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

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 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 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, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$131,016,790 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. 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.

Cash on hand at June 30, 2015 was \$33,191. The carrying amount of the University's deposits not with the State Treasurer was \$1,754,554 and the bank balance was \$1,739,554. 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, 2015, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ <u>934,883</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; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; 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 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 unit value method. Under this method, the pool uses a unit basis to determine each participating fund’s market value and to distribute the fund’s earnings. 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, 2015, for the Long-Term Investment Pool.

Long-Term Investment Pool

Investment Type	Fair Value
UNC Investment Fund	\$ 45,224,400
Equity Mutual Funds	<u>32,417,666</u>
Total Long-Term Investment Pool	<u>\$ 77,642,066</u>

UNC Investment Fund, LLC - At June 30, 2015, the University's investments include \$45,224,400 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, does not have a credit rating, and is not subject to any regulatory oversight. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in the 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, 2015, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years)	
		1 to 5	6 to 10
Debt Securities			
Debt Mutual Funds	\$ 395,890	\$ 42,054	\$ 353,836
Other Securities			
Equity Mutual Funds	1,119,319		
Investments in Real Estate	4,991,964		
Domestic Stocks	14,569		
Other: Life Insurance	13,142		
Total Non-Pooled Investments	\$ 6,534,884		

At June 30, 2015, 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	\$ 395,890	\$ 174,261	\$ 47,015	\$ 55,839	\$ 63,772	\$ 47,580	\$ 7,423

Rating Agency: Standard & Poor's

Total Investments - The following table presents the fair value of the total investments at June 30, 2015:

Investment Type	Fair Value
Debt Securities	
Debt Mutual Funds	\$ 395,890
Other Securities	
UNC Investment Fund	45,224,400
Equity Mutual Funds	33,536,985
Investments in Real Estate	4,991,964
Domestic Stocks	14,569
Other: Life Insurance	13,142
	\$ 84,176,950
Total Investments	\$ 84,176,950

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2015, is as follows:

Cash on Hand	\$ 33,191
Amount of Deposits with Private Financial Institutions	1,739,554
Deposit in Escrow	15,000
Deposits in the Short-Term Investment Fund	131,016,790
Long-Term Investment Pool	77,642,066
Non-Pooled Investments	6,534,884
	\$ 216,981,485
Total Deposits and Investments	\$ 216,981,485
Deposits	
Current:	
Cash and Cash Equivalents	\$ 106,306,916
Restricted Cash and Cash Equivalents	17,603,318
Noncurrent:	
Restricted Cash and Cash Equivalents	8,894,301
	132,804,535
Total Deposits	132,804,535
Investments	
Noncurrent:	
Endowment Investments	84,176,950
	84,176,950
Total Investments	84,176,950
Total Deposits and Investments	\$ 216,981,485

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 over the three previous years. To the extent that the total return for the current year exceeds the payout, the excess is reinvested with principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2015, net appreciation of \$29,219,855 was available to be spent, of which \$25,647,398 was classified in net position as restricted for specific purposes, including scholarships and fellowships, research, professorships, departmental and other uses. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,434,052	\$ 241,604	\$ 2,192,448
Accounts	1,451,717	3,367	1,448,350
Intergovernmental	645,428		645,428
Pledges	134,058	6,703	127,355
Interest on Loans	118,510		118,510
Other	16,435		16,435
Total Current Receivables	<u>\$ 4,800,200</u>	<u>\$ 251,674</u>	<u>\$ 4,548,526</u>
Noncurrent Receivables:			
Pledges	<u>\$ 214,671</u>	<u>\$ 19,339</u>	<u>\$ 195,332</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 502,130	\$ 44,475	\$ 457,655
Institutional Student Loan Programs	180,514		180,514
Total Notes Receivable - Current	<u>\$ 682,644</u>	<u>\$ 44,475</u>	<u>\$ 638,169</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 3,704,946	\$ 370,495	\$ 3,334,451
Institutional Student Loan Programs	36,021		36,021
Total Notes Receivable - Noncurrent	<u>\$ 3,740,967</u>	<u>\$ 370,495</u>	<u>\$ 3,370,472</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 9,263,459	\$ 0	\$ 0	\$ 9,263,459
Art, Literature, and Artifacts	1,681,375	128,255	7,607	1,802,023
Construction in Progress	1,634,724	13,638,273	2,975,029	12,297,968
Total Capital Assets, Nondepreciable	<u>12,579,558</u>	<u>13,766,528</u>	<u>2,982,636</u>	<u>23,363,450</u>
Capital Assets, Depreciable:				
Buildings	566,719,330	2,495,486		569,214,816
Machinery and Equipment	38,900,914	3,744,637	1,440,384	41,205,167
General Infrastructure	43,125,046	1,733,790		44,858,836
Total Capital Assets, Depreciable	<u>648,745,290</u>	<u>7,973,913</u>	<u>1,440,384</u>	<u>655,278,819</u>
Less Accumulated Depreciation for:				
Buildings	134,937,845	12,885,254		147,823,099
Machinery and Equipment	23,828,649	2,088,941	1,336,047	24,581,543
General Infrastructure	14,471,629	1,054,756		15,526,385
Total Accumulated Depreciation	<u>173,238,123</u>	<u>16,028,951</u>	<u>1,336,047</u>	<u>187,931,027</u>
Total Capital Assets, Depreciable, Net	<u>475,507,167</u>	<u>(8,055,038)</u>	<u>104,337</u>	<u>467,347,792</u>
Capital Assets, Net	<u>\$ 488,086,725</u>	<u>\$ 5,711,490</u>	<u>\$ 3,086,973</u>	<u>\$ 490,711,242</u>

During the year ended June 30, 2015, the University incurred \$11,862,301 in interest costs related to the acquisition and construction of capital assets.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,892,349
Accrued Payroll	667,886
Contract Retainage	1,346,504
Intergovernmental Payables	43,155
Total Current Accounts Payable and Accrued Liabilities	<u>\$ 3,949,894</u>

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, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Revenue Bonds Payable	\$ 102,381,394	\$ 0	\$ 5,184,356	\$ 97,197,038	\$ 5,423,078
Special Indebtedness	123,605,000	59,550,000	65,185,000	117,970,000	1,695,000
Plus: Unamortized Premium	3,604,630	6,372,195	223,515	9,753,310	
Less: Unamortized Discount		(185,554)	(7,731)	(177,823)	
Total Revenue Bonds and Special Indebtedness, Net	229,591,024	65,736,641	70,585,140	224,742,525	7,118,078
Net Pension Liability	23,252,003		18,981,577	4,270,426	
Notes Payable	7,709,174		357,800	7,351,374	381,472
Compensated Absences	8,509,701	7,023,527	7,253,892	8,279,336	357,395
Total Long-Term Liabilities	\$ 269,061,902	\$ 72,760,168	\$ 97,178,409	\$ 244,643,661	\$ 7,856,945

Additional information regarding the net pension liability is included in Note 11.
Additional information regarding blended component units is included in Note 16.

B. Revenue Bonds Payable and Special Indebtedness - The University was indebted for revenue bonds payable and special indebtedness (which includes Certificates of Participation and Limited Obligation Bonds) 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, 2015	Principal Outstanding June 30, 2015
Revenue Bonds Payable						
UNCW General Revenue Bonds						
Construct MARBIONC Facility	2010	2.92 - 5.97 *	01/01/2040	\$ 15,750,000	\$ 1,495,000	\$ 14,255,000
Schwartz/Suites & Wagoner Renovation Projects	2011	3.64	03/01/2026	9,000,000	1,962,962	7,037,038
Refund 2003A Union	2012	2.84	01/01/2028	11,755,000	100,000	11,655,000
Total UNCW General Revenue Bonds				36,505,000	3,557,962	32,947,038
The University of North Carolina System Pool Revenue Bonds						
Refund Series J and Recreation (2005A)	(A)	4.0 - 5.25	04/01/2019	12,630,000	8,360,000	4,270,000
Union Addition & Parking (2006A)	(B)	4.5 - 5.0	10/01/2033	19,400,000	5,810,000	13,590,000
Refund Series 2002A & 2003A; Rec Ctr Exp (2010C)	(C)	3.0 - 5.25	10/01/2026	32,170,000	6,440,000	25,730,000
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				84,860,000	20,610,000	64,250,000
Special Indebtedness						
Student Housing-Seahawk Crossing & Parking Deck	2008	4.0 - 5.0	06/01/2038	61,460,000	3,040,000	58,420,000
Student Housing-Seahawk Village & Seahawk Landing	2015	3.0 - 5.0	06/01/2037	59,550,000		59,550,000
Total Special Indebtedness				121,010,000	3,040,000	117,970,000
Total Revenue Bonds Payable and Special Indebtedness (principal only)				\$ 242,375,000	\$ 27,207,962	215,167,038
Less: Unamortized Discount						(177,823)
Plus: Unamortized Premium						9,753,310
Total Revenue Bonds Payable and Special Indebtedness						\$ 224,742,525

(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
(C) 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 32% 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, 2015, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Special Indebtedness		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest *
2016	\$ 5,423,078	\$ 4,719,865	\$ 1,695,000	\$ 5,589,619	\$ 381,472	\$ 212,026
2017	5,677,482	4,471,999	2,035,000	5,388,300	3,067,063	165,915
2018	5,742,592	4,201,235	2,425,000	5,318,700	161,999	134,023
2019	5,488,435	3,923,518	3,085,000	5,218,912	177,121	128,271
2020	4,920,036	3,686,768	3,550,000	5,110,562	199,669	121,929
2021-2025	24,887,737	15,308,441	22,080,000	22,838,656	1,326,460	488,482
2026-2030	18,217,678	10,669,729	28,485,000	16,999,819	2,037,590	205,803
2031-2035	13,550,000	6,504,158	35,625,000	9,855,013		
2036-2040	13,290,000	2,351,199	18,990,000	1,639,175		
Total Requirements	\$ 97,197,038	\$ 55,836,912	\$ 117,970,000	\$ 77,958,756	\$ 7,351,374	\$ 1,456,449

* The interest rate on the \$3.2m Notes Payable for UNCW Corporation II is based on Libor + 2.05%, calculated at 2.23% at June 30, 2015.

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

On May 12, 2015 the University issued \$24,920,000 in Refunding Limited Obligation Bonds, Series 2015 with an average interest rate of 4.38%. The bonds were issued for a current refunding of \$27,360,000 of outstanding Series 2005 Certificates of Participation with an average interest rate of 4.93%. The refunding was undertaken to reduce total debt service payments by \$5,302,395 over the next 21 years and resulted in an economic gain of \$3,820,154.

On May 12, 2015 the University issued \$34,630,000 in Refunding Limited Obligation Bonds, Series 2015 with an average interest rate of 4.79%. The bonds were issued to advance refund \$37,250,000 of outstanding bonds Series 2006 Certificates of Participation with an average interest rate of 4.93%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$4,369,214 over the next 22 years and resulted in an economic gain of \$3,096,417. At June 30, 2015, the outstanding balance was \$36,825,000 for the defeased Series 2006 Certificates of Participation.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015
Guaranteed Energy Savings Contract	BB&T	3.47%	03/01/2030	\$ 4,542,387	\$ 368,799	\$ 4,173,588
Oleander One, LLC	BB&T	2.23%	11/05/2016	2,638,698	552,320	2,086,378
College Station, LLC	BB&T	2.23%	11/05/2016	1,394,730	303,322	1,091,408
Total Notes Payable				<u>\$ 8,575,815</u>	<u>\$ 1,224,441</u>	<u>\$ 7,351,374</u>

The University plans to refinance the notes maturing on November 5, 2016 with other long-term financing.

NOTE 8 - Lease Obligations

Operating Lease Obligations - The University entered into operating leases for \$1,824,570 for an aquaculture facility, land, IT server, printer, copier and automobile. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	\$ 226,484
2017	226,484
2018	199,692
2019	91,910
2020	40,000
2021-2025	200,000
2026-2030	200,000
2031-2035	200,000
2036-2040	200,000
2041-2045	200,000
2046	40,000
Total Minimum Lease Payments	<u>\$ 1,824,570</u>

Rental expense for all operating leases during the year was \$229,513.

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
Operating Revenues:					
Student Tuition and Fees	\$ 120,140,844	\$ 0	\$ 16,803,286	\$ 55,356	\$ 103,282,202
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 25,916,648	\$ 149,842	\$ 3,547,054	\$ 26,308	\$ 22,193,444
Dining	14,689,759		1,370,818	16,541	13,302,400
Physical Plant	3,570,750	3,560,073			10,677
Parking	3,334,141	73,982	135,525	5,634	3,119,000
Communications	3,156,134	3,156,134			0
Recreational Services	2,838,424	69,940		24,097	2,744,387
Printing and Duplicating	1,282,504	1,079,437		612	202,455
Bookstore	936,223				936,223
Postal Services	446,735	201,713		462	244,560
Other	3,053,601	837,342		15,568	2,200,691
Sales and Services of Education and Related Activities	4,545,456	434,722		4,131	4,106,603
Total Sales and Services	\$ 63,770,375	\$ 9,563,185	\$ 5,053,397	\$ 93,353	\$ 49,060,440
Nonoperating - Noncapital Gifts	\$ 3,259,879	\$ 0	\$ 0	\$ (5,355)	\$ 3,265,234

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	\$ 88,262,788	\$ 4,428,216	\$ 7,777,816	\$ 142,315	\$ 2,540	\$ 0	\$ 100,613,675
Research	6,134,874	1,476,581	2,500,857	89,612	584		10,202,508
Public Service	1,800,867	257,133	966,587	165,838	1,457		3,191,882
Academic Support	10,642,997	4,937,752	2,795,083	10,000	1,210		18,387,042
Student Services	7,819,591	629,669	2,453,377	22,899	242		10,925,778
Institutional Support	17,437,606	1,436,855	3,806,417	16,000	10,729		22,707,607
Facilities	13,122,210	3,474,589	3,091,116		5,448,320		25,136,235
Student Financial Aid	15,073			17,776,139			17,791,212
Auxiliary Enterprises	13,804,643	4,986,050	28,464,626	754,703	2,558,886		50,568,908
Depreciation						16,028,951	16,028,951
Pension Expense	1,663,168						1,663,168
Total Operating Expenses	\$ 160,703,817	\$ 21,626,845	\$ 51,855,879	\$ 18,977,506	\$ 8,023,968	\$ 16,028,951	\$ 277,216,966

NOTE 11 - PENSION PLANS

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan

established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The University's contributions to the pension plan were \$4,876,686, and employee contributions were \$3,197,827 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *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.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan’s fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the University reported a liability of \$4,270,426 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The University’s proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the University’s proportion was 0.36424%, which was a decrease of 0.01876% from its proportion measured as of June 30, 2013.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 30,656,081	\$ 4,270,426	\$ (18,008,415)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the University recognized pension expense of \$1,663,168. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0	\$ 995,413
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		14,428,209
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		624,560
Contributions Subsequent to the Measurement Date	4,876,686	
Total	\$ 4,876,686	\$ 16,048,182

Deferred outflows of resources related to pensions of \$4,876,686 will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of
Deferred Outflows of Resources and Deferred Inflows of
Resources That will be Recognized in Pension Expense:

Year ended June 30:	<u>Amount</u>
2016	\$ (4,034,489)
2017	(4,034,489)
2018	(4,034,489)
2019	<u>(3,944,715)</u>
Total	<u>\$ (16,048,182)</u>

B. Defined Contribution Plan - The Optional Retirement Program (Program) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty and staff 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, 2015, 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 \$132,531,199, of which \$61,003,272 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$4,172,624 and \$3,660,196, respectively. The amount of pension expense recognized in the current year related to the Program is equal to the employer contributions. The University had \$163,120 of forfeitures reflected in pension expense in the current year.

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 (TSERS) or the Optional Retirement Program (ORP). 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 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 TSERS 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 5.49% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.40% and 5.30%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were \$6,275,091, \$5,947,985, and \$5,809,294, 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 TSERS and ORP. 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, 2015, the University made a statutory contribution of .41% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, was .44% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were \$468,632, \$484,651, and \$482,281, 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.

A. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

B. Other Risk Management and Insurance Activities**1. Automobile, Fire, and Other Property Losses**

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.

The University has purchased all-risk coverage for eleven of its buildings and the contents located within those buildings. All other buildings and contents are insured for fire and lightning. The University attempts to cover all buildings and contents based on their replacement values. The University has covered all building and content losses subject to a \$5,000 per occurrence deductible.

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

2. Public Officers' and Employees' Liability Insurance

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.

3. Employee Dishonesty and Computer Fraud

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.

4. Statewide Workers' Compensation Program

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.

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 \$3,436,330 and on other purchases were \$3,451,801 at June 30, 2015.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting 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	\$ 1,122,630

NOTE 15 - RELATED PARTIES

Foundations - There are four separately incorporated nonprofit foundations associated with the University. These foundations are the UNCW Student Aid Association, Inc., the Foundation of the University of North Carolina at Wilmington, Inc. (Foundation), the Alumni Association of the University of North Carolina at Wilmington, and the Friends of the University of North Carolina at Wilmington, Inc.

The UNCW Student Aid Association, Inc. fosters and promotes the education of student athletes by obtaining donations for the scholarship program at the University. The association also raises funds for the improvement and construction of physical facilities used by the University for athletic purposes, for the University's athletic scholarship fund, and to provide operational and supplementary support for the entire sports program. In addition, the association exists to encourage a fraternal spirit of loyalty and interest in the University by alumni, friends, and benefactors. Direct support from the UNCW Student Aid Association, Inc. totaled \$1,133,398 for the year ended June 30, 2015.

The Foundation assists the University in soliciting and receiving private gifts from individuals, corporations, and other organizations. These gifts support the University by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds for academic programs. In addition, the Foundation can accept and liquidate non-cash gifts for the University and acquire property on the University's behalf. The Foundation's direct support to the University totaled \$179,458 for the year ended June 30, 2015.

The Alumni Association of the University of North Carolina at Wilmington serves to connect and involve alumni, students and friends in the promotion and advancement of the University. Occasionally donations are made from this association to the University. This support totaled \$5,368 for the year ended June 30, 2015.

The Friends of the University of North Carolina at Wilmington, Inc. contribute gifts to the University based on grant requests and may at a donor's request, contribute to a University academic scholarship fund. This support totaled \$11,663 for the year ended June 30, 2015.

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. Separate financial statements for these foundations may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC 28403-5952, or by calling (910) 962-3139.

NOTE 16 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2015, is presented as follows:

Condensed Statement of Net Position

June 30, 2015

	University	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Eliminations *	Total
ASSETS							
Current Assets	\$ 127,871,573	\$ 1,540,558	\$ 2,890,145	\$ 80,542	\$ 360,924	\$ (3,324,560)	\$ 129,419,182
Capital Assets	487,706,154			3,005,088			490,711,242
Other Noncurrent Assets	97,574,208		122,430,489	652,249	104,439	(123,087,556)	97,673,829
Total Assets	713,151,935	1,540,558	125,320,634	3,737,879	465,363	(126,412,116)	717,804,253
TOTAL DEFERRED OUTFLOWS OF RESOURCES							
	8,268,827		1,413,128			(1,413,128)	8,268,827
LIABILITIES							
Current Liabilities	20,707,745		2,140,779	554,018	9,040	(2,475,491)	20,936,091
Noncurrent Liabilities	241,339,171		123,179,855	2,925,166	7,592	(123,927,102)	243,524,682
Total Liabilities	262,046,916		125,320,634	3,479,184	16,632	(126,402,593)	264,460,773
TOTAL DEFERRED INFLOWS OF RESOURCES							
	16,048,182		1,413,128			(1,413,128)	16,048,182
NET POSITION							
Net Investment in Capital Assets	268,491,988			535,456			269,027,444
Restricted - Nonexpendable	51,634,169	999,796					52,633,965
Restricted - Expendable	34,039,912	540,762			130,027	127,726	34,838,427
Unrestricted	89,159,595			(276,761)	318,704	(137,249)	89,064,289
Total Net Position	\$ 443,325,664	\$ 1,540,558	\$ 0	\$ 258,695	\$ 448,731	\$ (9,523)	\$ 445,564,125

* The elimination of \$9,523 of Net Position is due to timing differences in expense recognition between The UNCW Research Foundation and the University.

Condensed Statement of Revenues, Expenses, & Changes in Net Position
For the Fiscal Year Ended June 30, 2015

	University	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Eliminations *	Total
OPERATING REVENUES							
Student Tuition and Fees, Net	\$ 103,282,202	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 103,282,202
Federal Grants and Contracts	6,246,950						6,246,950
State and Local Grants and Contracts	1,035,220						1,035,220
Nongovernmental Grants & Contracts	1,145,210				125,000	(125,000)	1,145,210
Sales & Services, Net	48,978,558		5,909,429		160,324	(5,987,871)	49,060,440
Interest Earnings on Loans	11,569						11,569
Other Operating Revenue	5,416,818	2,629	525,551	315,885	216,958	(954,656)	5,523,185
Total Operating Revenues	166,116,527	2,629	6,434,980	315,885	502,282	(7,067,527)	166,304,776
OPERATING EXPENSES							
Operating Expenses	261,349,994	93,560	100,617	49,518	419,468	(825,142)	261,188,015
Depreciation	16,028,951						16,028,951
Total Operating Expenses	277,378,945	93,560	100,617	49,518	419,468	(825,142)	277,216,966
Operating Income (Loss)	(111,262,418)	(90,931)	6,334,363	266,367	82,814	(6,242,385)	(110,912,190)
NONOPERATING REVENUES (EXPENSES)							
State Appropriations	100,845,533						100,845,533
Noncapital Grants - Student Financial Aid	23,519,563						23,519,563
Noncapital Gifts, Net	3,225,417				37,634	2,183	3,265,234
Investment Income	5,721,603	25,093				(71,136)	5,675,560
Interest & Fees on Debt	(11,806,284)		(5,909,429)	(74,106)		5,909,429	(11,880,390)
Federal Interest Subsidy on Debt	698,901						698,901
Other Nonoperating Revenues (Expense)	1,462,087		(424,934)			424,934	1,462,087
Net Nonoperating Revenues (Expenses)	123,666,820	25,093	(6,334,363)	(74,106)	37,634	6,265,410	123,586,488
Capital Grants	4,843,367						4,843,367
Capital Gifts, Net	62,443						62,443
Additions to Endowments	1,490,453						1,490,453
Increase (Decrease) in Net Position	18,800,665	(65,838)		192,261	120,448	23,025	19,070,561
NET POSITION							
Net Position, July 1, 2014, as restated	424,524,999	1,606,396		66,434	328,283	(32,548)	426,493,564
Net Position, June 30, 2015	\$ 443,325,664	\$ 1,540,558	\$ 0	\$ 258,695	\$ 448,731	\$ (9,523)	\$ 445,564,125

* The elimination of \$9,523 of Net Position is due to timing differences in expense recognition between The UNCW Research Foundation and the University.

Condensed Statement of Cash Flows
June 30, 2015

	University	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Total
Net Cash Provided (Used) by Operating Activities	\$ (104,298,260)	\$ (5,142)	\$ 7,359,559	\$ 320,959	\$ 182,245	\$ (96,440,639)
Net Cash Provided by Noncapital Financing Activities	128,667,080					128,667,080
Net Cash Used by Capital and Related Financing Activities	(23,114,324)		(7,359,559)	(320,959)		(30,794,842)
Net Cash Provided by Investing Activities	1,657,156	676				1,657,832
Net Increase (Decrease) in Cash and Cash Equivalents	2,911,652	(4,466)			182,245	3,089,431
Cash and Cash Equivalents - July 1, 2014	129,525,866	29,815		2,850	156,573	129,715,104
Cash and Cash Equivalents - June 30, 2015	\$ 132,437,518	\$ 25,349	\$ 0	\$ 2,850	\$ 338,818	\$ 132,804,535

NOTE 17 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2014 Net Position as Previously Reported	\$ 445,149,004
Restatement:	
Record the University's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB 68 Requirements.	<u>(18,655,440)</u>
July 1, 2014 Net Position as Restated	<u>\$ 426,493,564</u>



REQUIRED SUPPLEMENTARY INFORMATION

University of North Carolina Wilmington
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years

Exhibit B-1

	<u>2014</u>		<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.36424%		0.38300%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 4,270,426	\$	23,252,003
Covered-Employee Payroll	\$ 52,894,845	\$	55,820,098
Net Pension Liability as a Percentage of Covered-Employee Payroll	8.07%		41.66%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%		90.60%

**University of North Carolina Wilmington
 Required Supplementary Information
 Schedule of University Contributions
 Teachers' and State Employees' Retirement System
 Last Ten Fiscal Years**

Exhibit B-2

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contribution	\$ 4,876,686	\$ 4,596,562	\$ 4,649,814	\$ 4,220,585	\$ 2,874,128
Contributions in Relation to the Contractually Determined Contribution	<u>4,876,686</u>	<u>4,596,562</u>	<u>4,649,814</u>	<u>4,220,585</u>	<u>2,874,128</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>				
Covered-Employee Payroll	\$ 53,297,118	\$ 52,894,845	\$ 55,820,098	\$ 56,728,297	\$ 58,298,735
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually Required Contribution	\$ 2,073,920	\$ 1,970,758	\$ 1,667,988	\$ 1,307,243	\$ 1,016,246
Contributions in Relation to the Contractually Determined Contribution	<u>2,073,920</u>	<u>1,970,758</u>	<u>1,667,988</u>	<u>1,307,243</u>	<u>1,016,246</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>				
Covered-Employee Payroll	\$ 58,092,990	\$ 58,653,497	\$ 54,688,144	\$ 49,144,505	\$ 43,429,305
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

University of North Carolina Wilmington
Notes to Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

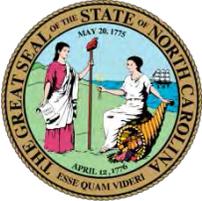
<u>Cost of Living Increase</u>								
<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

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

Board of Trustees
University of North Carolina 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, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 24, 2015. Our report includes a reference to other auditors who audited the financial statements of the Donald R. Watson Foundation, Inc. (Watson Foundation), the UNCW Corporation (Corporation), the UNCW Corporation II (Corporation II), and the UNCW Research Foundation (Research Foundation), as described in our report on the University's financial statements. The financial statements of the Watson Foundation, Corporation, Corporation II and the Research Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

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, 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

November 24, 2015

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