

STATE OF NORTH CAROLINA

UNIVERSITY OF NORTH CAROLINA WILMINGTON

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA

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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, 2014, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
University of North Carolina 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, 2014, 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 19 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*.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 University of North Carolina Wilmington, as of June 30, 2014, and the changes in financial position and, where applicable, 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, 2014, the University of North Carolina Wilmington adopted Governmental Accounting Standards Board Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. 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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014 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 21, 2014

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UNIVERSITY OF NORTH CAROLINA WILMINGTON 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, 2014. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the previous year is presented to provide a better understanding of the financial information.

Using the Financial Statements

The University's financial report includes three basic comprehensive financial statements that depict the financial activity and fiscal condition of the University for the current year: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles. The accrual basis of accounting has been used to prepare the statements. This method of accounting requires that revenues and assets be recognized when the service is provided. Expenses and liabilities are recognized when others provide services, regardless of when cash is exchanged.

The Statement of Net Position includes all University assets and liabilities. The University's net position (the monetary difference between total assets and total liabilities) is one indicator of the University's financial viability. Over time, changes in net position provide information on the improvement or erosion of the University's financial condition when considered with non-financial facts such as enrollment levels and the condition of facilities.

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

As of July 1, 2013, the University blended the component units, UNCW Corporation II (Corporation II) and UNCW Research Foundation (Research Foundation), which were previously reported as related parties. The University's net position increased \$135,907 as a result of this change.

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.

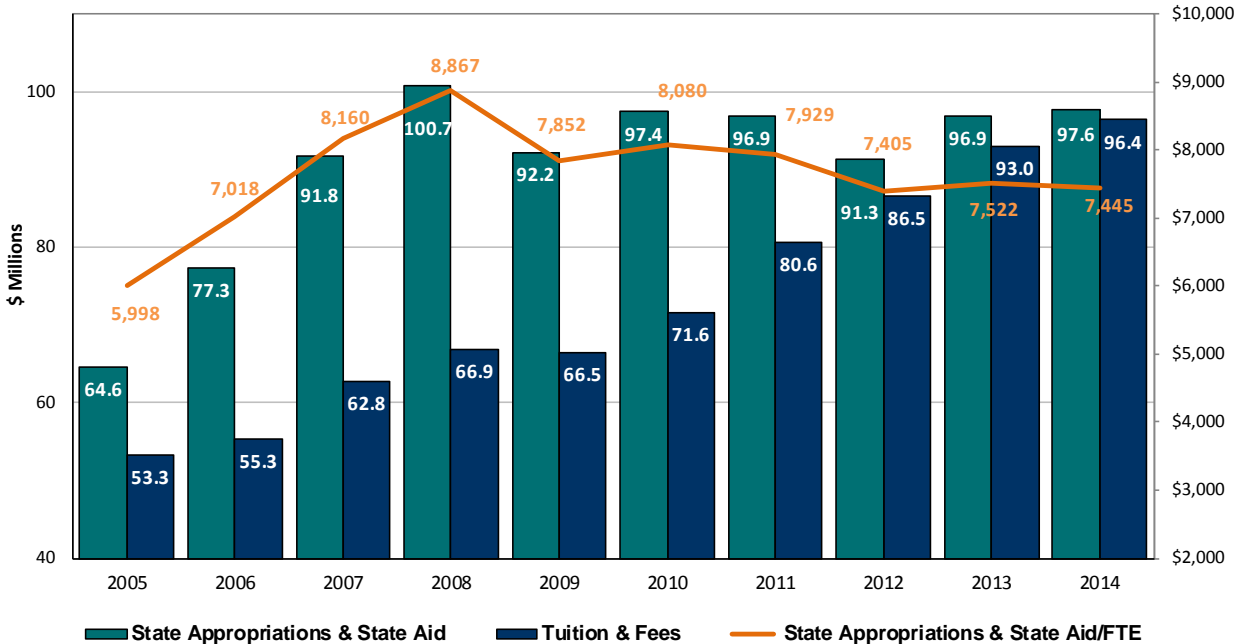
Financial Highlights

For the fiscal year ended June 30, 2014, the North Carolina General Assembly (General Assembly) imposed a permanent budget reduction of \$218 thousand, however, the University

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

did receive state appropriations funding for enrollment growth of \$4.8 million, operations funding for new buildings of \$347 thousand, and need-based student financial aid of \$800 thousand as part of the campus-initiated tuition increases. In addition, the University received funding of \$200 thousand for a predictive analytics request as part of the President’s Strategic Initiatives Allocation from the General Assembly and the Board of Governors five year strategic plan (2013-2018). The University-led predictive analytics project includes design and construction of a predictive model that supports strategic planning and management activities in a scalable form adaptable for use by other UNC campuses. Subsequent to receiving the predictive analytics funding the State called for a one-time reversion of expenditures for the entire UNC system. The University reversion allotment of \$1.3 million included the predictive analytics funding of \$200 thousand.

State Appropriations & State Aid, Tuition & Fees and State Appropriations & State Aid per FTE 2005-2014



While tuition and fee revenue has continued to rise over the last ten years, state appropriations and state aid have held relatively steady the last five years. With student enrollment steadily increasing each year, state appropriation and state aid per student full-time equivalent have decreased as appropriations have not increased at the same rate.

During the fiscal year ended June 30, 2014, the State did not appropriate salary increases for University employees but did allocate five days of bonus leave that had to be taken by June 30, 2014.

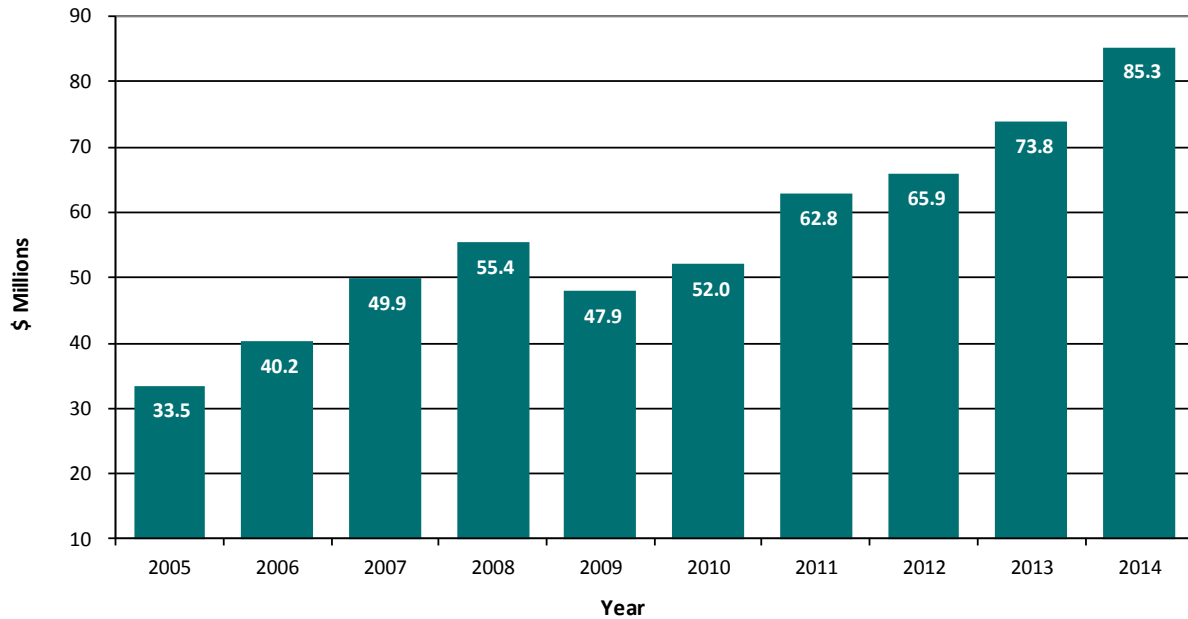
The University’s endowment fund investment rate of return of 14.6% exceeded the fund’s primary return objective of 6.6% for the fiscal year ended June 30, 2014. The endowment has been successful in achieving its long-term objective with a ten year annualized return of 8.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

and an annualized return since inception of 7.8%. Both returns surpass the long-term objective of 4.5% plus inflation. This ten year annualized return ranks in the top quartile of the BNY Mellon Endowment and Foundation Universe and, more importantly, exceeds the return objective of the endowment by 2.0%.

Endowment investments total net position increased 15% during 2013-14 to \$85.3 million at June 30, 2014. The endowment received additions of \$4.1 million, primarily from new gifts of \$3.9 million. The endowment's net earnings, after investment expenses and administrative fees, approximated \$9.7 million. Scholarships and university programs received \$2.3 million from those earnings.

Market Value Endowment Assets 2005-2014



During this fiscal year, the endowment purchased real estate property from The Foundation of UNCW, Inc. for \$2.0 million with unrestricted quasi endowment funds. The property is used for student parking for the University.

Construction in progress decreased \$30.4 million when the Center for Marine Science MARBIONC facility (MARBIONC) received a certificate of occupancy and was put into service in November 2013.

Statement of Net Position

The Statement of Net Position presents the 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, 2014. The data provides readers of this statement information on assets available to continue

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Condensed Statement of Net Position June 30, as Indicated

	2014	2013 (Restated)	Change	% Change
Assets				
Current Assets	\$ 119,562,617	\$ 103,188,733	\$ 16,373,884	15.9%
Noncurrent Assets	98,916,624	92,076,524	6,840,100	7.4%
Capital Assets, Net	488,086,725	499,581,996	(11,495,271)	-2.3%
Total Assets	706,565,966	694,847,253	11,718,713	1.7%
Deferred Outflows of Resources				
Deferred Loss on Refunding	2,174,373	2,369,732	(195,359)	-8.2%
Liabilities				
Current Liabilities	19,368,069	18,023,465	1,344,604	7.5%
Noncurrent Liabilities	244,223,266	252,835,335	(8,612,069)	-3.4%
Total Liabilities	263,591,335	270,858,800	(7,267,465)	-2.7%
Deferred Inflows of Resources				
Deferred Gain on Refunding	0	0	0	0.0%
Net Position				
Net Investment in Capital Assets	260,491,504	272,003,692	(11,512,188)	-4.2%
Restricted Nonexpendable	45,850,210	43,670,715	2,179,495	5.0%
Restricted Expendable	38,085,095	27,596,752	10,488,343	38.0%
Unrestricted	100,722,195	83,087,026	17,635,169	21.2%
Total Net Position	\$ 445,149,004	\$ 426,358,185	\$ 18,790,819	4.4%

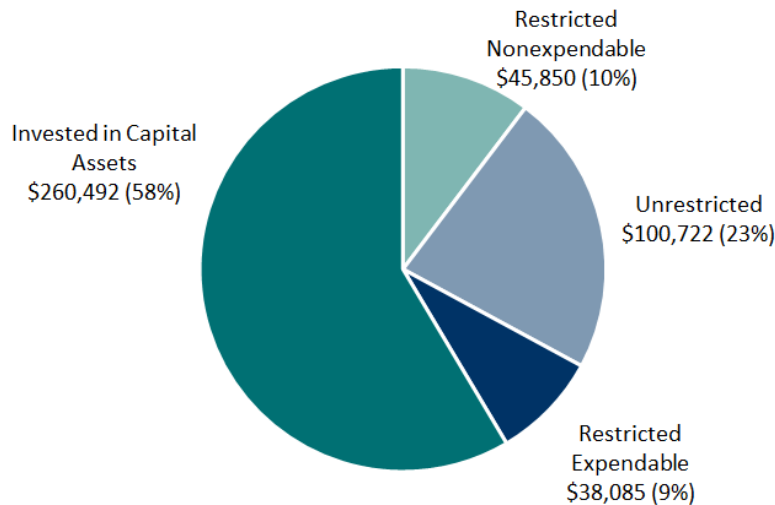
On June 30, 2014, total University assets were \$706.6 million. The largest asset categories were the University's cash and cash equivalents of \$129.7 million, endowment investments of \$80.2 million, and capital assets, net, of \$488.1 million.

Carryforwards of \$9.6 million were the largest driver in the 15.9% increase in current assets. The Office of Housing and Residence Life's increase to unrestricted net position of \$6.7 million was the biggest contributor to the \$17.6 million change in unrestricted net position.

The \$11.5 million decrease in capital assets, net, and net investment in capital assets, was the result of increased depreciation on newly capitalized buildings, including MARBIONC, and significantly less spending on large capital projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

2014 Net Position \$445,149
(\$ Thousands)



Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position section are based on the activity reported in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, both operating and nonoperating, as well as any other revenues, expenses, gains and losses received or expended by the University.

Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided; e.g., state appropriations, noncapital gifts and grants, and investment income. Nonoperating expenses include interest and fees on debt, loss on sale of assets, and other miscellaneous expenses; i.e., expenses not involved in the normal operations of the University.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

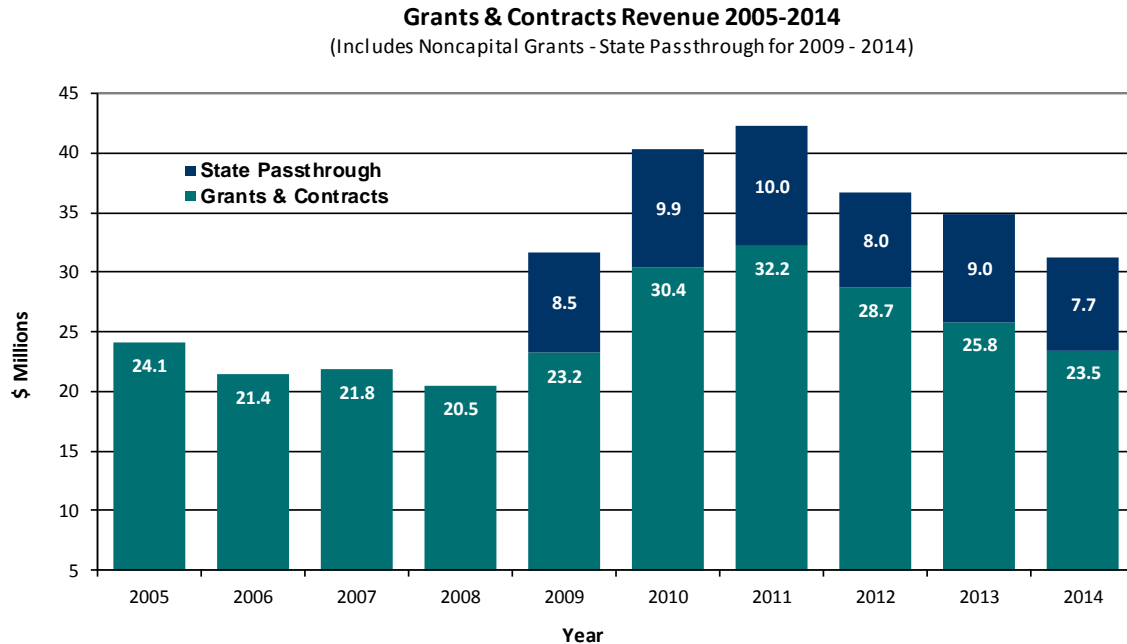
	2014	2013 (Restated)	Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 96,421,397	\$ 93,042,367	\$ 3,379,030	3.6%
Sales and Service, Net	47,969,874	44,252,719	3,717,155	8.4%
Grants and Contracts	7,880,202	10,503,238	(2,623,036)	-25.0%
Other Operating Revenues	5,816,180	6,242,816	(426,636)	-6.8%
Total Operating Revenues	<u>158,087,653</u>	<u>154,041,140</u>	<u>4,046,513</u>	2.6%
Operating Expenses				
Salaries and Benefits	159,921,608	156,785,894	3,135,714	2.0%
Supplies and Materials	19,863,947	21,320,365	(1,456,418)	-6.8%
Services	50,936,497	50,215,453	721,044	1.4%
Scholarships and Fellowships	18,327,034	17,661,241	665,793	3.8%
Utilities	7,783,473	7,344,665	438,808	6.0%
Depreciation	16,194,951	14,585,939	1,609,012	11.0%
Total Operating Expenses	<u>273,027,510</u>	<u>267,913,557</u>	<u>5,113,953</u>	1.9%
Operating Loss	<u>(114,939,857)</u>	<u>(113,872,417)</u>	<u>(1,067,440)</u>	0.9%
Nonoperating Revenues (Expenses)				
State Appropriation	97,601,950	96,878,528	723,422	0.7%
Noncapital Gifts and Grants	26,698,543	27,501,468	(802,925)	-2.9%
Investment Income, Net	10,842,857	8,560,744	2,282,113	26.7%
Interest and Fees on Debt	(11,482,010)	(10,889,530)	(592,480)	5.4%
Federal Interest Subsidy on Debt	822,120	621,946	200,174	32.2%
Other Nonoperating (Expenses) Revenues	(9,157)	213,938	(223,095)	-104.3%
Other Revenues				
Capital Appropriations	3,146,783		3,146,783	100.0%
Capital Grants	2,173,028	17,457,010	(15,283,982)	-87.6%
Additions to Endowments	3,936,562	1,749,544	2,187,018	125.0%
Total Net Nonoperating and Other Revenues	<u>133,730,676</u>	<u>142,093,648</u>	<u>(8,362,972)</u>	-5.9%
Increase in Net Position	18,790,819	28,221,231	(9,430,412)	-33.4%
Net Position - Beginning of Year	<u>426,358,185</u>	<u>398,136,954</u>	<u>28,221,231</u>	7.1%
Net Position - End of Year	<u>\$ 445,149,004</u>	<u>\$ 426,358,185</u>	<u>\$ 18,790,819</u>	4.4%
Reconciliation of Change in Net Position				
Total Revenues	303,309,496	307,024,318	(3,714,822)	-1.2%
Less: Total Expenses	<u>284,518,677</u>	<u>278,803,087</u>	<u>5,715,590</u>	2.1%
Increase in Net Position	<u>\$ 18,790,819</u>	<u>\$ 28,221,231</u>	<u>\$ (9,430,412)</u>	-33.4%

Student tuition and fees of \$96.4 million and sales and services from auxiliary enterprises of \$48.0 million accounted for 91.3% of the University's operating revenues.

Sales and Service increased 8.4% due to increased auxiliary enterprise revenue primarily from the areas of residential life, dining, and parking.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Grants and contracts revenue decreased 25.0% to \$7.9 million due to the federal government's delay in funding new federal awards in conjunction with the expiration of several large federal awards.



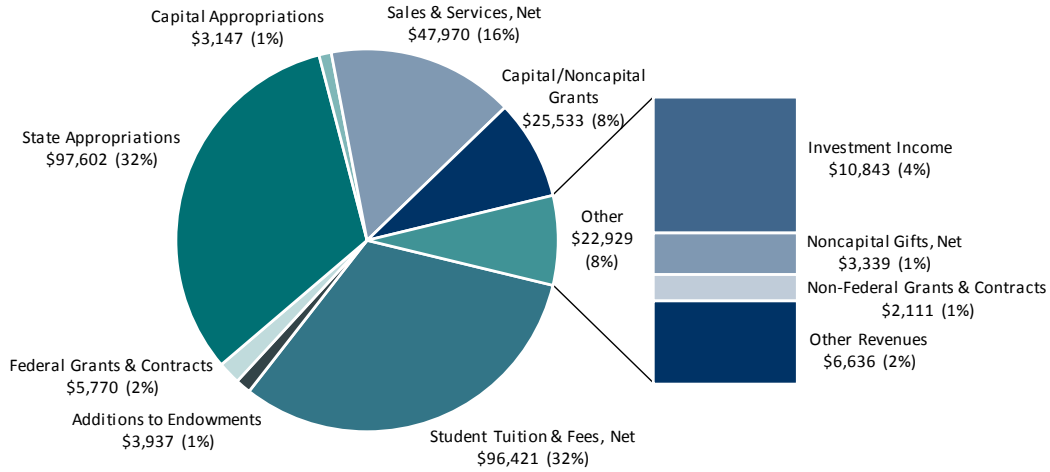
The University received \$3.1 million in state capital appropriations for repair and renovations during the fiscal year.

Capital grant revenue decreased 87.6% after funding was utilized from the federal NIST grant for the building of MARBIONC and state capital aid was expended for the completion of the Teaching Lab building.

The 26.7% increase in investment income, net, is primarily due to investment earnings of \$10.2 million generated in 2014 as compared to \$8.0 million in 2013. This increase was a result of a 14.6% return on investment versus 12.9% in the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

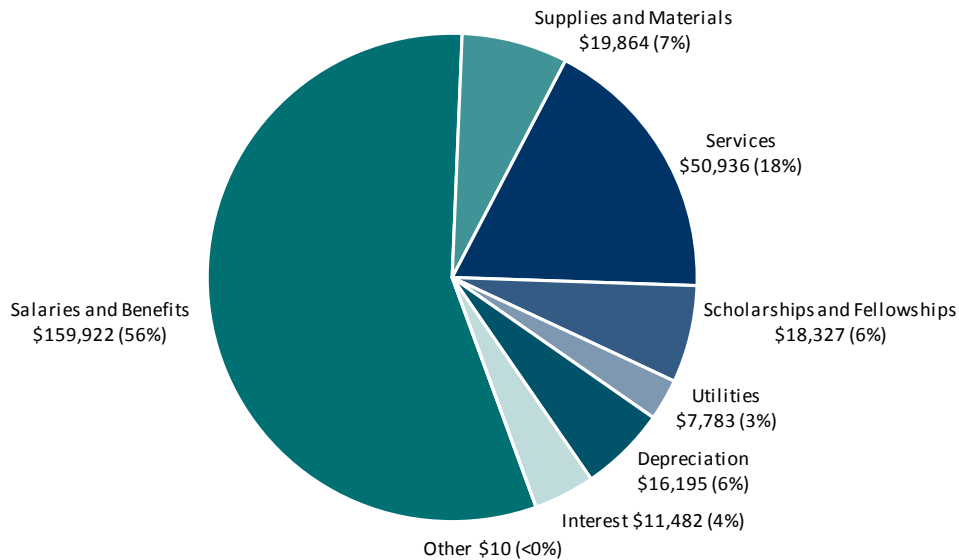
2014 Revenue by Source \$303,309
(\$ Thousands)



The decrease of \$1.5 million in supplies and materials expenses comes after a 16.4% increase in 2013 for new buildings. Occupancy in new buildings, such as MARBIONC, contributed to the increase of 6.0% in utilities expense.

The 11.0% increase in depreciation expense reflects the full year depreciation of assets acquired in 2013, including the Teaching Lab building and Student Recreation Center expansion, as well as MARBIONC, which was capitalized in 2014.

2014 Expense by Nature \$284,519
(\$ Thousands)



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Cash Flows

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

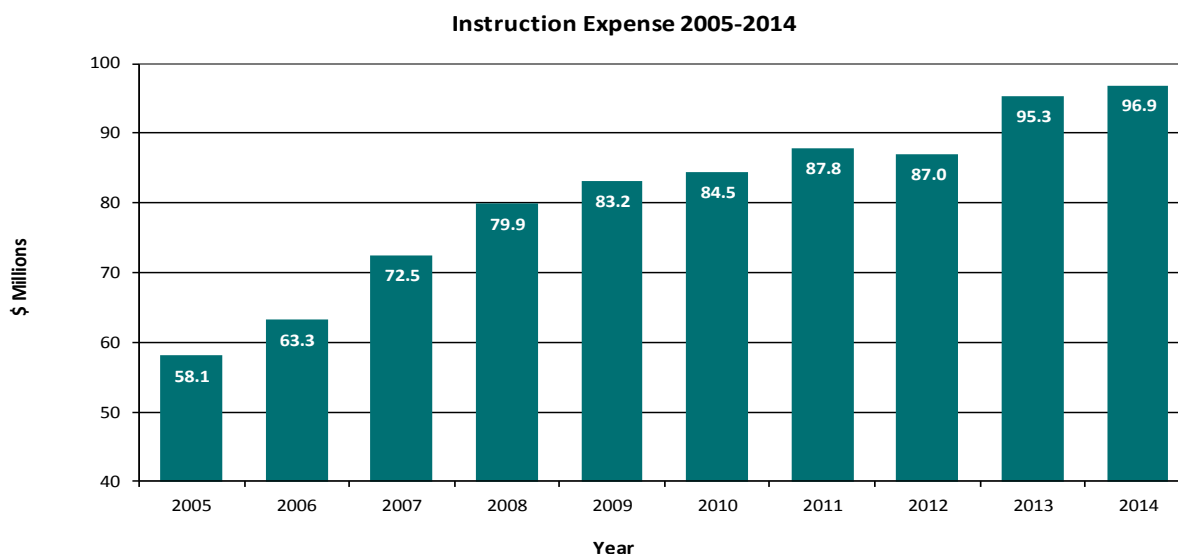
- Ability to generate future net cash flows;
- Ability to meet its obligations as they come due;
- Need for external financing.

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

	2014	2013 (Restated)	Change	% Change
Cash Provided (Used) by:				
Operating Activities	\$ (93,315,115)	\$ (99,397,122)	\$ 6,082,007	-6.1%
Noncapital Financing Activities	126,341,817	122,935,017	3,406,800	2.8%
Capital Financing Activities	(18,905,410)	(35,799,240)	16,893,830	-47.2%
Investing Activities	1,094,517	(1,099,597)	2,194,114	-199.5%
Net Change In Cash	15,215,809	(13,360,942)	28,576,751	-213.9%
Cash Beginning of Year	114,499,295	127,860,237	(13,360,942)	-10.4%
Cash Ending of Year	<u>\$ 129,715,104</u>	<u>\$ 114,499,295</u>	<u>\$ 15,215,809</u>	13.3%

Operating Activities

Major cash sources were student tuition and fees of \$97.4 million, sales and services of \$47.9 million, and contracts and grants of \$8.1 million. Major cash uses were compensation to employees of \$159.8 million, of which \$87.2 million was related to instruction, payments to vendors and suppliers for goods and services of \$75.8 million, and disbursements to students for scholarships and awards of \$18.3 million.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Noncapital Financial Activities

The major cash inflow was state appropriations of \$97.6 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 \$30.1 million.

Capital Financing Activities

Cash provided included capital appropriations of \$3.1 million and capital grants of \$2.0 million. Cash used was primarily for the acquisition of capital assets of \$7.2 million and the repayment of principal and interest on capital debt of \$18.0 million.

Investing Activities

Cash provided included sales and maturities of investments of \$2.6 million and investment income of \$8.2 million. Cash used reflects the purchase of investments and related fees of \$9.8 million.

Capital Assets and Debt Administration

Capital Assets

The University had \$488.1 million invested in capital assets at June 30, 2014, as reported in the table below. This represents a decrease of \$11.5 million from 2013.

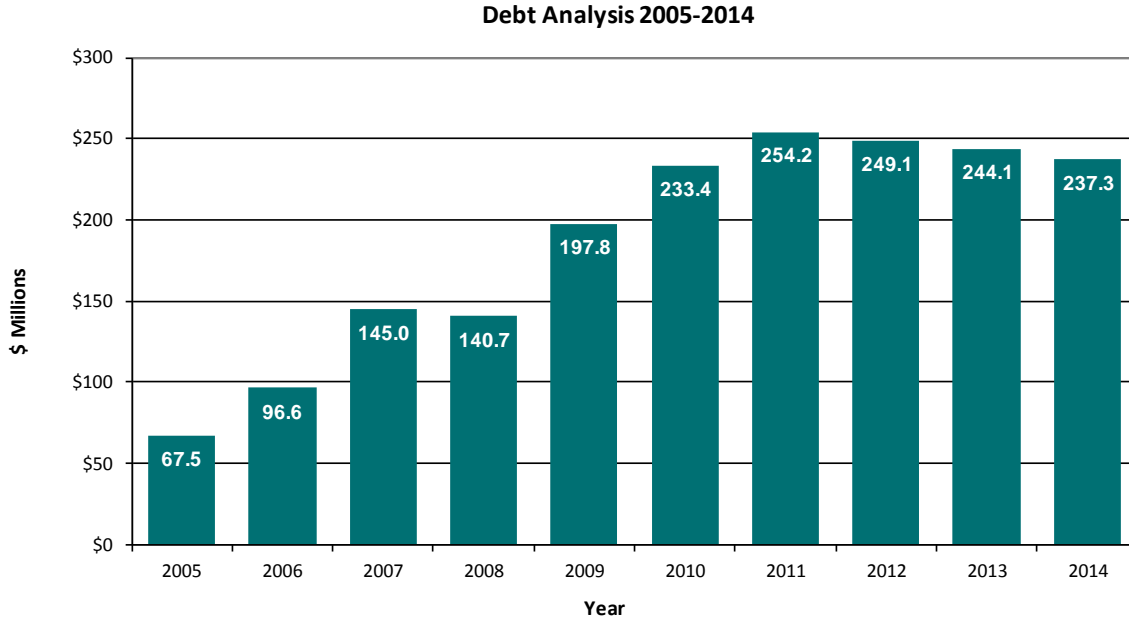
Capital Assets Net of Depreciation June 30, as Indicated	2014	2013 (Restated)	Change
Land	\$ 9,263,459	\$ 9,263,459	\$ 0
Art, Literature and Artifacts	1,681,375	1,673,320	8,055
Construction In Progress	1,634,724	30,512,848	(28,878,124)
Buildings, Net	431,781,485	413,804,348	17,977,137
Machinery and Equipment, Net	15,072,265	15,956,896	(884,631)
Infrastructure, Net	28,653,417	28,371,125	282,292
Total Capital Assets	\$ 488,086,725	\$ 499,581,996	\$ (11,495,271)

The net increase in buildings represents the completion and subsequent occupancy of the MARBIONC facility. Construction in Progress decreased as a result of the addition of the aforementioned building.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Debt

As of June 30, 2014, the University's \$237.3 million in long-term debt included outstanding revenue bonds payable of \$106.0 million, certificates of participation payable of \$123.6 million, and notes payable of \$7.7 million.



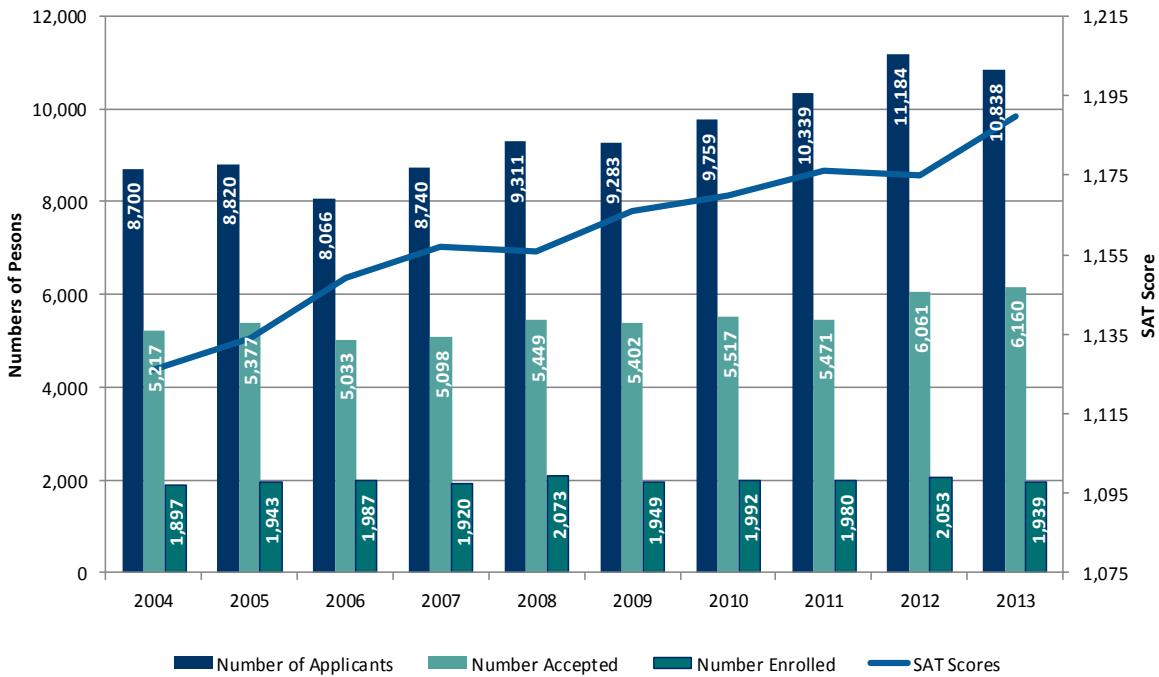
There have been no significant changes in credit ratings or debt limitations that will affect future financing for the University.

Economic Forecast

For fiscal year 2014-2015, the General Assembly approved funding for enrollment growth of \$6.0 million. Permanent reductions to state appropriations as approved by the General Assembly constitute \$1.1 million, or 1.2% of appropriations. The General Assembly provided a flat \$1,000 salary increase for SPA employees and a total of \$246 thousand for all EPA employees in fiscal year 2015. The university is planning to use the EPA allocation plus other university resources to match the \$1,000 SPA salary increase for faculty and non-faculty EPA employees. In addition, the General Assembly authorized five additional days of bonus leave which are eligible to be rolled over if unused at year end.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Freshman Fall Enrollment & SAT Scores 2004-2013



The University continues to face reductions to state appropriations, limited tuition increases, marginal performance funding, and reductions in federal funding. Efforts continue to protect the core academic and instruction service levels to our students with an emphasis on administrative efficiencies and cost elimination. A new forward-looking Unified Budget Planning process was implemented in fiscal year 2014 to strategically evaluate and plan core objectives and resource allocation across campus. A second guaranteed energy savings performance contract is under review. This is a continuation of the University's efforts to provide additional funding to further reduce energy consumption and related energy costs.

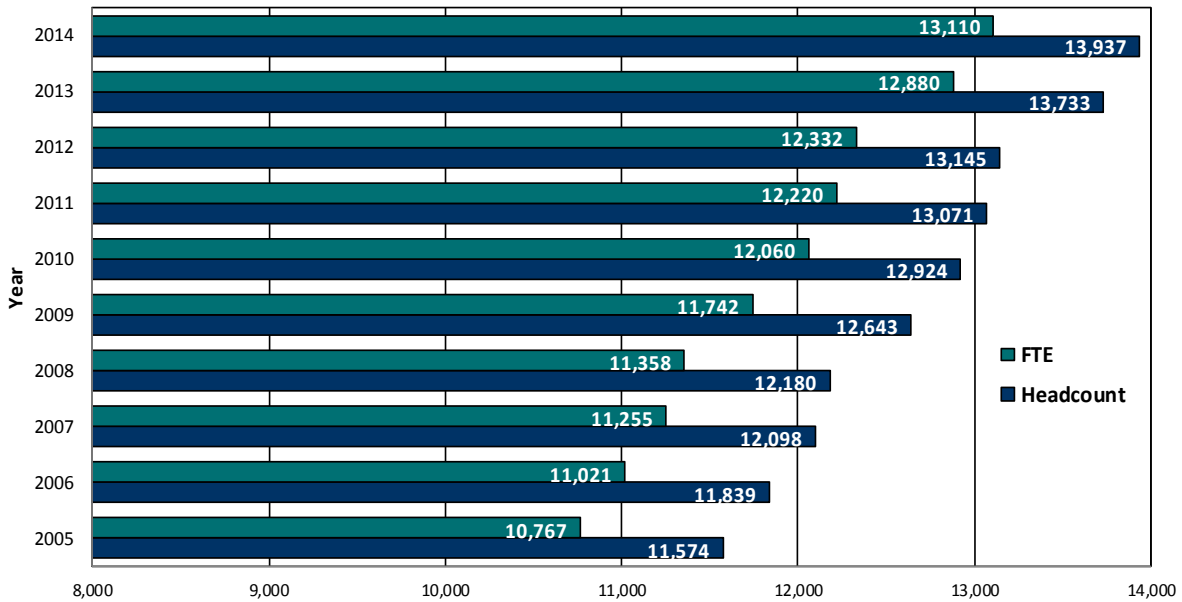
Federal funding for research and sponsored programs has either flattened or diminished given the results of the Sequester and delays in federal budget negotiations. While proposal submission is at an all-time high, this revenue source is projected to remain flat over the next few years after a long period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

As the nation ends its fifth year of economic expansion following the Great Recession, the rate of growth has been slow and is forecasted to continue at this pace. While deals on the federal budget and debt ceiling have removed some economic uncertainty, the U.S. Federal Reserve Bank has begun a slow process to normalize monetary policy and taper quantitative easing. Over the past year, both the U.S. and North Carolina unemployment rates have fallen.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Despite moderate economic growth, North Carolina's state budget remains tight with further pressure placed on public universities to limit in-state tuition increases and reduce operating budgets.

Student Headcount and FTE 2005-2014



The University is well positioned to continue to attract, retain and matriculate well-educated students by offering an excellent academic learning experience supported by quality teaching, research and service. The University is focused on enhancing and developing diverse revenue sources including distance education offerings, new academic programs, innovation and entrepreneurial activities, and auxiliary services to supplement continued contracting levels of state funding. The University will continue to emphasize prudent resource allocation, cost containment measures, implementation of efficiency initiatives and continuous assessment of processes to efficiently and effectively meet 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 accessing the Controller's Office web page http://www.uncw.edu/controller/financial_reports.html or contacting the Controller's Office at (910) 962-3144.

University North Carolina Wilmington
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 100,713,018
Restricted Cash and Cash Equivalents	14,401,915
Receivables, Net (Note 4)	3,444,957
Inventories	327,022
Prepaid Items	6,941
Notes Receivable, Net (Note 4)	668,764

Total Current Assets	119,562,617
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	14,600,171
Receivables, Net (Note 4)	211,572
Prepaid Items	1,195
Endowment Investments	80,159,221
Notes Receivable, Net (Note 4)	3,944,465
Capital Assets - Nondepreciable (Note 5)	12,579,558
Capital Assets - Depreciable, Net (Note 5)	475,507,167

Total Noncurrent Assets	587,003,349
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Total Assets	706,565,966
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	2,174,373
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	3,541,055
Due to Primary Government	1,365,193
Deposits Payable	5,921
Unearned Revenue	5,288,211
Interest Payable	2,133,921
Long-Term Liabilities - Current Portion (Note 7)	7,033,768

Total Current Liabilities	19,368,069
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Noncurrent Liabilities:

Accounts Payable (Note 6)	330,000
Funds Held for Others	791,607
U.S. Government Grants Refundable	4,325,528
Long-Term Liabilities, Net (Note 7)	238,776,131

Total Noncurrent Liabilities	244,223,266
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Total Liabilities	263,591,335
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DEFERRED INFLOWS OF RESOURCES

Deferred Gain on Refunding	0
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University North Carolina Wilmington
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	260,491,504
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	20,441,827
Research	1,827,040
Endowed Professorships	10,843,466
Departmental Uses	11,864,747
Loans	873,130
Expendable:	
Scholarships and Fellowships	13,223,393
Research	1,178,256
Endowed Professorships	6,668,731
Departmental Uses	7,782,985
Loans	648,184
Capital Projects	8,372,658
Debt Service	210,888
Unrestricted	100,722,195
Total Net Position	<u>\$ 445,149,004</u>

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

University North Carolina Wilmington
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2014

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 96,421,397
Federal Grants and Contracts	5,769,590
State and Local Grants and Contracts	1,006,363
Nongovernmental Grants and Contracts	1,104,249
Sales and Services, Net (Note 9)	47,969,874
Interest Earnings on Loans	6,100
Other Operating Revenues	5,810,080
	<hr/>
Total Operating Revenues	158,087,653

EXPENSES

Operating Expenses:

Salaries and Benefits	159,921,608
Supplies and Materials	19,863,947
Services	50,936,497
Scholarships and Fellowships	18,327,034
Utilities	7,783,473
Depreciation	16,194,951
	<hr/>
Total Operating Expenses	273,027,510

Operating Loss	<hr/> <u>(114,939,857)</u>
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	97,601,950
Noncapital Grants - Student Financial Aid	23,359,488
Noncapital Gifts, Net (Note 9)	3,339,055
Investment Income (Net of Investment Expense of \$207,717)	10,842,857
Interest and Fees on Debt	(11,482,010)
Federal Interest Subsidy on Debt	822,120
Other Nonoperating Expenses	(9,157)
	<hr/>

Net Nonoperating Revenues	124,474,303
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Income Before Other Revenues	9,534,446
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Capital Appropriations	3,146,783
Capital Grants	2,173,028
Additions to Endowments	3,936,562
	<hr/>

Increase in Net Position	18,790,819
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NET POSITION

Net Position - July 1, 2013, as Restated (Note 17)	<hr/> 426,358,185
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Net Position - June 30, 2014	<hr/> <u>\$ 445,149,004</u>
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The accompanying notes to the financial statements are an integral part of this statement.

University North Carolina Wilmington
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 153,425,544
Payments to Employees and Fringe Benefits	(159,825,499)
Payments to Vendors and Suppliers	(75,826,051)
Payments for Scholarships and Fellowships	(18,327,034)
Loans Issued	(700,854)
Collection of Loans	844,711
Interest Earned on Loans	15,847
Other Receipts	7,078,221
	<hr/>
Net Cash Used by Operating Activities	(93,315,115)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	97,601,950
Noncapital Grants - Student Financial Aid	23,383,942
Noncapital Gifts	2,803,132
Additions to Endowments	3,936,562
William D. Ford Direct Lending Receipts	70,229,155
William D. Ford Direct Lending Disbursements	(70,229,155)
Related Activity Agency Disbursements	(1,485,161)
Other Receipts	101,392
	<hr/>
Net Cash Provided by Noncapital Financing Activities	126,341,817

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

State Capital Appropriations	3,146,783
Capital Grants	2,048,633
Proceeds from Sale of Capital Assets	226,787
Acquisition and Construction of Capital Assets	(7,158,822)
Principal Paid on Capital Debt and Leases	(6,597,179)
Interest and Fees Paid on Capital Debt and Leases	(11,393,732)
Federal Interest Subsidy on Debt Received	822,120
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(18,905,410)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	2,646,005
Investment Income	8,212,936
Purchase of Investments and Related Fees	(9,764,424)
	<hr/>
Net Cash Provided by Investing Activities	1,094,517
	<hr/>
Net Increase in Cash and Cash Equivalents	15,215,809
Cash and Cash Equivalents - July 1, 2013	114,499,295
	<hr/>
Cash and Cash Equivalents - June 30, 2014	\$ 129,715,104

University North Carolina Wilmington
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (114,939,857)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	16,194,951
Allowances and Write-Offs	24,490
Nonoperating Other Income	450,402
Changes in Assets and Liabilities:	
Receivables, Net	350,279
Due from State of North Carolina Component Units	63,283
Due from University Component Units	1,278,445
Inventories	(16,532)
Prepaid Items	(6,941)
Notes Receivable, Net	143,857
Accounts Payable and Accrued Liabilities	1,269,483
Due to Primary Government	1,365,193
Unearned Revenue	770,274
Compensated Absences	(268,363)
Deposits Payable	5,921
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (93,315,115)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 100,713,018
Restricted Cash and Cash Equivalents	14,401,915
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	14,600,171
	<hr/>
Total Cash and Cash Equivalents - June 30, 2014	<u>\$ 129,715,104</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 1,170,170
Assets Acquired through a Gift	450,402
Change in Fair Value of Investments	2,690,776
Loss on Disposal of Capital Assets	(110,549)
Amortization of Bond Premiums and Deferred Loss on Refunding	(206,087)

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

UNIVERSITY OF NORTH CAROLINA WILMINGTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are blended in the University's financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Corporation includes the activities of the single member entities, UNCW Corporation Housing I, LLC, and UNCW Corporation Housing II, LLC. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 28403-5952, or by calling (910) 962-3139. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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

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

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

- C. Basis of Accounting** - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, charges for auxiliary enterprises' sales and services, and interest receivable for student loans. 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 the first-in, first-out method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for general infrastructure, 10 to 50 years for buildings, and 4 to 50 years for equipment.

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

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted 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.

- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, certificates of participation, notes payable, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums. The University amortizes bond premiums 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.

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

L. Net 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net 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.

N. Revenue and Expense Recognition - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net 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.

O. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as copy centers, motor pool, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$126,459,048 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2014. 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, 2014 was \$36,214. The carrying amount of the University's deposits not with the State Treasurer was \$3,219,842 and the bank balance was \$3,219,842. 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, 2014, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ <u>2,469,785</u>
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, for the Long-Term Investment Pool.

Long-Term Investment Pool

	<u>Fair Value</u>
Investment Type	
UNC Investment Fund	\$ 41,510,931
Equity Mutual Funds	32,498,003
Investments in Real Estate	<u>294,766</u>
Total Long-Term Investment Pool	<u>\$ 74,303,700</u>

UNC Investment Fund, LLC - At June 30, 2014, the University's investments include \$41,510,931 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2014, for the University's non-pooled investments.

Non-Pooled Investments

	Fair Value	Investment Maturities 1 to 5 Years
Investment Type		
Debt Securities		
Debt Mutual Funds	\$ 390,538	\$ 390,538
Other Securities		
Equity Mutual Funds	1,186,043	
Investments in Real Estate	4,251,198	
Domestic Stocks	13,157	
Other: Life Insurance	14,585	
	\$ 5,855,521	
Total Non-Pooled Investments		

At June 30, 2014, 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	and below	Unrated
Debt Mutual Funds	\$ 390,538	\$ 187,148	\$ 53,000	\$ 45,898	\$ 62,776	\$ 35,863	\$ 5,853

Rating Agency: Standard & Poor's

Total Investments - The following table presents the fair value of the total investments at June 30, 2014:

	Fair Value
Investment Type	
Debt Securities	
Debt Mutual Funds	\$ 390,538
Other Securities	
UNC Investment Fund	41,510,931
Equity Mutual Funds	33,684,046
Investments in Real Estate	4,545,964
Domestic Stocks	13,157
Other: Life Insurance	14,585
	\$ 80,159,221
Total Investments	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2014, is as follows:

Cash on Hand	\$	36,214
Amount of Deposits with Private Financial Institutions		3,219,842
Deposits in the Short-Term Investment Fund		126,459,048
Long-Term Investment Pool		74,303,700
Non-Pooled Investments		5,855,521
Total Deposits and Investments	\$	209,874,325
Deposits		
Current:		
Cash and Cash Equivalents	\$	100,713,018
Restricted Cash and Cash Equivalents		14,401,915
Noncurrent:		
Restricted Cash and Cash Equivalents		14,600,171
Total Deposits		129,715,104
Investments		
Noncurrent:		
Endowment Investments		80,159,221
Total Investments		80,159,221
Total Deposits and Investments	\$	209,874,325

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

balances to make up the difference. At June 30, 2014, net appreciation of \$28,410,205 was available in the University's endowment funds of which \$25,152,151 was classified in net position as restricted for specific purposes (e.g. 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, 2014, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 1,851,891	\$ 186,248	\$ 1,665,643
Accounts	1,362,234		1,362,234
Intergovernmental	45,241		45,241
Pledges	223,960	11,198	212,762
Interest on Loans	108,743		108,743
Other	50,334		50,334
Total Current Receivables	<u>\$ 3,642,403</u>	<u>\$ 197,446</u>	<u>\$ 3,444,957</u>
Noncurrent Receivables:			
Pledges	<u>\$ 237,876</u>	<u>\$ 26,304</u>	<u>\$ 211,572</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 556,362	\$ 50,934	\$ 505,428
Institutional Student Loan Programs	<u>163,336</u>		<u>163,336</u>
Total Notes Receivable - Current	<u>\$ 719,698</u>	<u>\$ 50,934</u>	<u>\$ 668,764</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 4,342,716	\$ 434,272	\$ 3,908,444
Institutional Student Loan Programs	<u>36,021</u>		<u>36,021</u>
Total Notes Receivable - Noncurrent	<u>\$ 4,378,737</u>	<u>\$ 434,272</u>	<u>\$ 3,944,465</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013 (as restated)	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 9,263,459	\$ 0	\$ 0	\$ 9,263,459
Art, Literature, and Artifacts	1,673,320	8,055		1,681,375
Construction in Progress	30,512,848	1,571,167	30,449,291	1,634,724
Total Capital Assets, Nondepreciable	41,449,627	1,579,222	30,449,291	12,579,558
Capital Assets, Depreciable:				
Buildings	536,211,674	30,507,656		566,719,330
Machinery and Equipment	40,229,409	1,995,849	3,324,344	38,900,914
General Infrastructure	41,862,852	1,262,194		43,125,046
Total Capital Assets, Depreciable	618,303,935	33,765,699	3,324,344	648,745,290
Less Accumulated Depreciation for:				
Buildings	122,407,326	12,530,519		134,937,845
Machinery and Equipment	24,272,513	2,684,530	3,128,394	23,828,649
General Infrastructure	13,491,727	979,902		14,471,629
Total Accumulated Depreciation	160,171,566	16,194,951	3,128,394	173,238,123
Total Capital Assets, Depreciable, Net	458,132,369	17,570,748	195,950	475,507,167
Capital Assets, Net	\$ 499,581,996	\$ 19,149,970	\$ 30,645,241	\$ 488,086,725

During the year ended June 30, 2014, the University incurred \$11,449,993 in interest costs related to the acquisition and construction of capital assets. Of this total, \$11,381,786 was charged in interest expense, and \$68,207 was capitalized.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,730,663
Accrued Payroll	677,338
Contract Retainage	1,108,600
Intergovernmental Payables	24,454
Total Current Accounts Payable and Accrued Liabilities	\$ 3,541,055
Noncurrent Accounts Payable	
Accounts Payable	\$ 330,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013 (as restated)	Additions	Reductions	Balance June 30, 2014	Current Portion
Revenue Bonds Payable	\$ 107,382,684	\$ 0	\$ 5,001,290	\$ 102,381,394	\$ 5,184,356
Certificates of Participation	124,870,000		1,265,000	123,605,000	1,400,000
Plus: Unamortized Premium	3,789,261		184,631	3,604,630	
Total Revenue Bonds and Certificates of Participation Payable, Net	<u>236,041,945</u>		<u>6,450,921</u>	<u>229,591,024</u>	<u>6,584,356</u>
Notes Payable	8,050,791		341,617	7,709,174	359,815
Compensated Absences	8,778,064	655,197	923,560	8,509,701	89,597
Total Long-Term Liabilities	<u>\$ 252,870,800</u>	<u>\$ 655,197</u>	<u>\$ 7,716,098</u>	<u>\$ 245,809,899</u>	<u>\$ 7,033,768</u>

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

July 1, 2013 has been restated to blend the financial statements of the UNCW Corporation II and the UNCW Research Foundation with those of the University. Additional information regarding net position restatements is included in Note 17.

B. Revenue Bonds Payable and Certificates of Participation - The University was indebted for revenue bonds payable and certificates of participation for the purposes shown in the following table:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Principal Outstanding June 30, 2014
Revenue Bonds Payable						
UNCW General Revenue Bonds						
Construct MARBIONC Facility	2010	2.45 - 5.97 *	01/01/2040	15,750,000	1,115,000	14,635,000
Schwartz/Suites & Wagoner Renovation Projects	2011	3.64	03/01/2026	9,000,000	1,448,606	7,551,394
Refund 2003A Union	2012	2.84	01/01/2028	11,755,000	50,000	11,705,000
Total UNCW General Revenue Bonds				36,505,000	2,613,606	33,891,394
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	7,300,000	5,330,000
Union Addition & Parking (2006A)	(B)	4.0 - 5.0	10/01/2033	19,400,000	4,985,000	14,415,000
Refund Series 2002A & 2003A; Rec Ctr Exp (2010C)	(C)	3.0 - 5.0	10/01/2026	32,170,000	4,085,000	28,085,000
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	16,370,000	68,490,000
Certificates of Participation						
Student Housing-Seahawk Village	2005	4.0 - 5.25	06/01/2036	28,710,000	1,350,000	27,360,000
Student Housing-Seahawk Landing	2006	4.125 - 5.0	06/01/2037	38,290,000	1,040,000	37,250,000
Student Housing-Seahawk Crossing & Parking Deck	2008	3.75 - 5.0	06/01/2038	61,460,000	2,465,000	58,995,000
Total Certificates of Participation				128,460,000	4,855,000	123,605,000
Total Revenue Bonds Payable and Certificates of Participation (principal only)				\$ 249,825,000	\$ 23,838,606	225,986,394
Plus: Unamortized Premium						3,604,630
Total Revenue Bonds Payable and Certificates of Participation, Net						\$ 229,591,024

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

* The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 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, 2014, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Certificates of Participation		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest *
2015	\$ 5,184,356	\$ 4,960,667	\$ 1,400,000	\$ 5,950,901	\$ 359,815	\$ 220,587
2016	5,423,078	4,719,865	1,840,000	5,892,088	383,254	211,048
2017	5,677,482	4,471,999	2,055,000	5,817,801	3,063,266	165,519
2018	5,742,592	4,201,235	2,465,000	5,733,425	161,999	134,023
2019	5,488,435	3,923,518	3,130,000	5,622,663	177,121	128,271
2020-2024	25,122,350	16,316,076	21,180,000	25,551,102	1,212,391	531,542
2025-2029	20,388,101	11,557,526	28,080,000	19,663,640	1,874,809	272,271
2030-2034	13,720,000	7,334,757	35,645,000	12,093,700	476,519	12,401
2035-2039	12,745,000	3,192,577	27,810,000	3,021,494		
2040	2,890,000	119,360				
Total Requirements	\$ 102,381,394	\$ 60,797,580	\$ 123,605,000	\$ 89,346,814	\$ 7,709,174	\$ 1,675,662

*The interest rate on \$3.4m of Notes Payable for UNCW Corporation II is based on Libor + 2.05%, calculated at 2.201% at June 30, 2014.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

<u>Purpose</u>	<u>Financial Institution</u>	<u>Interest Rate/Ranges</u>	<u>Final Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Principal Paid Through June 30, 2014</u>	<u>Principal Outstanding June 30, 2014</u>
Guaranteed Energy Savings Contract	BB&T	3.47%	03/01/2030	\$ 4,542,387	\$ 257,852	\$ 4,284,535
Oleander One, LLC	BB&T	2.20%	11/05/2016	1,394,730	216,024	1,178,706
College Station, LLC	BB&T	2.20%	11/05/2016	2,638,698	392,765	2,245,933
Total Notes Payable				<u>\$ 8,575,815</u>	<u>\$ 866,641</u>	<u>\$ 7,709,174</u>

NOTE 8 - LEASE OBLIGATIONS

Operating Lease Obligations - The University entered into operating leases for \$1,831,104 for an aquaculture facility, land, boat slips, an IT server, and a Printing Services printer. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 223,616
2016	170,216
2017	170,216
2018	147,056
2019	40,000
2020-2024	200,000
2025-2029	200,000
2030-2034	200,000
2035-2039	200,000
2040-2044	200,000
2045-2046	80,000
Total Minimum Lease Payments	<u><u>\$ 1,831,104</u></u>

Rental expense for all operating leases during the year was \$226,276.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles *	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 112,870,765	\$ 0	\$ 16,439,024	\$ 10,344	\$ 96,421,397
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 25,050,681	\$ 0	\$ 3,680,910	\$ 8,427	\$ 21,361,344
Dining	14,491,925		1,741,085	7,183	12,743,657
Physical Plant	3,544,617	3,515,580			29,037
Parking	3,296,238		145,088	1,334	3,149,816
Communications	3,048,339	3,045,868			2,471
Athletics	2,433,830			21,150	2,412,680
Printing and Duplicating	1,227,512	1,099,174			128,338
Bookstore	855,804				855,804
Postal Services	475,978	223,534		395	252,049
Other	2,907,678	251,764		18,597	2,637,317
Sales and Services of Education and Related Activities	4,397,361				4,397,361
Total Sales and Services	\$ 61,729,963	\$ 8,135,920	\$ 5,567,083	\$ 57,086	\$ 47,969,874
Nonoperating - Noncapital Gifts	\$ 3,345,039	\$ 0	\$ 0	\$ 5,984	\$ 3,339,055

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	\$ 87,219,816	\$ 3,286,238	\$ 6,136,262	\$ 219,839	\$ 439	\$ 0	\$ 96,862,594
Research	6,194,894	1,123,736	2,252,179	50,630			9,621,439
Public Service	1,713,287	189,590	1,212,574	224,058			3,339,509
Academic Support	10,544,485	4,773,086	2,919,321	10,526	249		18,247,667
Student Services	7,868,148	1,121,245	2,167,236	17,845	130		11,174,604
Institutional Support	17,898,464	1,039,366	3,950,663	16,000	9,858		22,914,351
Facilities	13,424,831	3,279,650	3,443,328		5,537,050		25,684,859
Student Financial Aid	40,299		41,998	17,077,014			17,159,311
Auxiliary Enterprises	15,017,384	5,051,036	28,812,936	711,122	2,235,747		51,828,225
Depreciation						16,194,951	16,194,951
Total Operating Expenses	\$ 159,921,608	\$ 19,863,947	\$ 50,936,497	\$ 18,327,034	\$ 7,783,473	\$ 16,194,951	\$ 273,027,510

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - PENSION PLANS

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

The Teachers' and State Employees' Retirement System (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$128,046,912, of which \$52,894,845 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$4,596,562 and \$3,173,691, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$4,596,562, \$4,649,814, and \$4,220,585, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, 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 \$128,046,912, of which \$57,253,018 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$3,916,106 and \$3,435,181, respectively.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$5,947,985, \$5,809,294, and \$5,322,845, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2014, the University made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$484,651, \$482,281, and \$553,576, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - RISK MANAGEMENT

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

NOTE 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 \$14,911,065 and on other purchases were \$1,464,061 at June 30, 2014.
- 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	\$ 2,645,670

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 totaled \$1,002,678 for the year ended June 30, 2014.

The Foundation assists the University by 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 \$103,921 for the year ended June 30, 2014.

In addition to this support, on October 25, 2013, the Board of Trustees for the University's Endowment Fund (Endowment) approved the purchase of the property at 632 Saint James Drive, known as College Road Cinema, from the Foundation. The property was being held by the Foundation for the sole benefit of the University, which utilizes its parking spaces for students. The acquisition was made for the amount of the outstanding balances on the two promissory notes held by the Foundation on the property, approximating \$2.0 million, and was paid in full by the Endowment using unrestricted quasi endowment funds.

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, and this support totaled \$3,500 for the year ended June 30, 2014.

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,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contribute to a UNCW academic scholarship fund. This support totaled \$12,499 for the year ended June 30, 2014.

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, 2014, is presented as follows:

Condensed Statement of Net Position
June 30, 2014

	University	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Eliminations	Total
ASSETS							
Current Assets	\$ 119,440,094	\$ 29,815	\$ 3,991,133	\$ 65,217	\$ 273,604	\$ (4,237,246)	\$ 119,562,617
Capital Assets	485,081,637			3,005,088			488,086,725
Other Noncurrent Assets	97,239,258	1,576,581	122,896,567	707,663	104,371	(123,607,816)	98,916,624
Total Assets	701,760,989	1,606,396	126,887,700	3,777,968	377,975	(127,845,062)	706,565,966
Deferred Outflows of Resources	2,174,373	0	0	0	0	0	2,174,373
LIABILITIES							
Current Liabilities	19,128,092		3,991,133	535,763	42,818	(4,329,737)	19,368,069
Noncurrent Liabilities	241,659,379		122,896,567	3,175,771	6,874	(123,515,325)	244,223,266
Total Liabilities	260,787,471	0	126,887,700	3,711,534	49,692	(127,845,062)	263,591,335
Deferred Inflows of Resources	0	0	0	0	0	0	0
NET POSITION							
Net Investment in Capital Assets	260,148,309			343,195			260,491,504
Restricted - Nonexpendable	44,850,414	999,796					45,850,210
Restricted - Expendable	37,407,925	606,600			70,570		38,085,095
Unrestricted	100,741,243			(276,761)	257,713		100,722,195
Total Net Position	\$ 443,147,891	\$ 1,606,396	\$ 0	\$ 66,434	\$ 328,283	\$ 0	\$ 445,149,004

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Condensed Statement of Revenues, Expenses, & Changes in Net Position For the Fiscal Year Ended June 30, 2014

	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	\$ 96,421,397	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 96,421,397
Federal Grants and Contracts	5,769,590						5,769,590
State and Local Grants and Contracts	1,006,363						1,006,363
Nongovernmental Grants & Contracts	1,161,714				85,000	(142,465)	1,104,249
Sales & Services	47,905,245		5,961,999		146,115	(6,043,485)	47,969,874
Interest Earnings on Loans	6,100						6,100
Other Operating Revenues	5,708,932		100,968	322,227	195,917	(517,964)	5,810,080
Total Operating Revenues	<u>157,979,341</u>	<u>0</u>	<u>6,062,967</u>	<u>322,227</u>	<u>427,032</u>	<u>(6,703,914)</u>	<u>158,087,653</u>
OPERATING EXPENSES							
Operating Expenses	256,891,178	89,034	100,968	54,043	383,420	(686,084)	256,832,559
Depreciation	16,194,951						16,194,951
Total Operating Expenses	<u>273,086,129</u>	<u>89,034</u>	<u>100,968</u>	<u>54,043</u>	<u>383,420</u>	<u>(686,084)</u>	<u>273,027,510</u>
Operating Income (Loss)	<u>(115,106,788)</u>	<u>(89,034)</u>	<u>5,961,999</u>	<u>268,184</u>	<u>43,612</u>	<u>(6,017,830)</u>	<u>(114,939,857)</u>
NONOPERATING REVENUES (EXPENSES)							
State Appropriations	97,601,950						97,601,950
Noncapital Grants - Student Financial Aid	23,359,488						23,359,488
Noncapital Gifts, Net	3,318,052				26,733	(5,730)	3,339,055
Investment Income	10,552,673	228,623				61,561	10,842,857
Interest & Fees on Debt	(11,402,289)		(5,961,999)	(79,721)		5,961,999	(11,482,010)
Federal Interest Subsidy on Debt	822,120						822,120
Other Nonoperating Expenses	(9,157)						(9,157)
Net Nonoperating Revenues (Expenses)	<u>124,242,837</u>	<u>228,623</u>	<u>(5,961,999)</u>	<u>(79,721)</u>	<u>26,733</u>	<u>6,017,830</u>	<u>124,474,303</u>
Capital Appropriations	3,146,783						3,146,783
Capital Grants	2,173,028						2,173,028
Additions to Endowments	3,936,562						3,936,562
Increase in Net Position	<u>18,392,422</u>	<u>139,589</u>	<u>0</u>	<u>188,463</u>	<u>70,345</u>	<u>0</u>	<u>18,790,819</u>
NET POSITION							
Net Position, July 1, 2013, as Restated	424,755,469	1,466,807		(122,029)	257,938		426,358,185
Net Position, June 30, 2014	<u>\$ 443,147,891</u>	<u>\$ 1,606,396</u>	<u>\$ 0</u>	<u>\$ 66,434</u>	<u>\$ 328,283</u>	<u>\$ 0</u>	<u>\$ 445,149,004</u>

Condensed Statement of Cash Flows June 30, 2014

	UNCW	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Total
Net Cash (Used) Provided by Operating Activities	\$ (100,814,932)	\$ (32,492)	\$ 7,231,345	\$ 321,584	\$ (20,620)	\$ (93,315,115)
Net Cash Provided by Noncapital Financial Activities	126,341,817					126,341,817
Net Cash Used by Capital and Related Financing Activities	(11,352,481)		(7,231,345)	(321,584)		(18,905,410)
Net Cash Provided by Investing Activities	1,067,327	27,190				1,094,517
Net Increase (Decrease) in Cash and Cash Equivalents	15,241,731	(5,302)	0	0	(20,620)	15,215,809
Cash and Cash Equivalents, July 1, 2013, as Restated	114,284,136	35,117		2,850	177,192	114,499,295
Cash and Cash Equivalents, June 30, 2014	<u>\$ 129,525,867</u>	<u>\$ 29,815</u>	<u>\$ 0</u>	<u>\$ 2,850</u>	<u>\$ 156,572</u>	<u>\$ 129,715,104</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 17 - NET POSITION RESTATEMENTS

As of July 1, 2013, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2013 Net Position as Previously Reported	\$ 427,227,137
Restatements:	
To blend activity of the UNCW Corporation II and the UNCW Research Foundation due to increased significance of these entities to the University.	135,907
Expense previously amortized bond issuance costs pursuant to GASB 65 requirements	<u>(1,004,859)</u>
July 1, 2013 Net Position as Restated	<u><u>\$ 426,358,185</u></u>

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

Board of Trustees
University of North Carolina 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, 2014, 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 21, 2014. 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, the Corporation, the 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

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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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 21, 2014

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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