



# STATE OF NORTH CAROLINA

**UNIVERSITY OF NORTH CAROLINA AT WILMINGTON**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**UNIVERSITY OF NORTH CAROLINA AT WILMINGTON**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

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**THE UNIVERSITY OF NORTH CAROLINA**

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

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. Perdue, Governor  
The General Assembly of North Carolina  
Board of Trustees, University of North Carolina at Wilmington

We have completed a financial statement audit of the University of North Carolina at Wilmington for the year ended June 30, 2012, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA  
State Auditor

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**Beth A. Wood, CPA**  
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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the University of North Carolina at Wilmington, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the UNCW Corporation, Inc., the University's discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that entity, are based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the UNCW Corporation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinions.

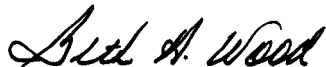
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of North Carolina at Wilmington and its discretely presented component unit as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 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 the audit of the basic financial statements. However, 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.



Beth A. Wood, CPA  
State Auditor

November 21, 2012

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

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### **Financial Analysis**

The University of North Carolina at Wilmington (the University) provides the following Management's Discussion and Analysis (MD&A) as an overview of the financial activities for the fiscal year ending June 30, 2012. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the previous year is presented to provide a better understanding of the financial information.

### **Using the Financial Statements**

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

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

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

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

### **Financial Highlights**

During fiscal year ended June 30, 2012, the State legislature imposed a permanent budget reduction of 15.7% (\$16.6 million), however, the University did receive state funding for enrollment growth (\$3.9 million), operating funds for new buildings (\$114 thousand), and need-based student financial aid (\$1.2 million) as part of the Campus Initiated Tuition increases. State appropriations for repair and renovations for university buildings were temporarily held by the Governor to meet the State's obligations to Medicaid.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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As part of the reduction in state appropriations in fiscal year 2012, the University eliminated 140 FTE positions (478 headcount), which included a reduction in force, elimination of vacant positions, and reassignment of fourteen various State supported positions to non-state funds in an effort to minimize the impact. State appropriations were approved (\$1.27 million) to cover increases in retirement and health plan employer benefit rates. During fiscal year ended June 30, 2012, University employees did not receive a pay increase. This is the fourth consecutive year with no raises for state employees.

The State approved University funding of \$837,000 for enrollment growth, \$182,000 for operation of the new Teaching Laboratory building, and \$2.43 million in repair and renovations for building maintenance for fiscal year 2012. In order to preserve the quality of education and to help offset the impact of the permanent reduction in state appropriations, the General Assembly authorized a tuition increase of 6.5% for fiscal year 2012.

The University construction projects in progress at June 30 were the Student Recreation Center expansion, the CMS MARBIONC facility at the Center for Marine Science campus and the Teaching Laboratory building, all of which are in various stages of completion. The Teaching Laboratory building received a certificate of occupancy in August 2012 and was occupied for the 2012 fall semester. Other construction projects that were completed during fiscal year 2012 were the infrastructure upgrades to Schwartz Hall/University Suites and the guaranteed energy savings contract upgrades to several buildings on campus.

On June 30, 2012, the University endowment total net assets were valued at \$65.9 million, reflecting an increase of \$3.1 million from 2011. This net increase is comprised of gift contributions of \$2.7 million, investment net earnings of \$2.0 million, and is offset by endowment income distributions of \$1.6 million.

The University continues to manage its endowment investments through the UNC Management Corporation, The Investment Fund for Foundations (TIFF), GMO US Quality Equity Fund, GMO US Equity Allocation Fund, and the North Carolina Short-Term Investment Fund (STIF).

### **Statement of Net Assets**

The Statement of Net Assets presents the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (total assets minus total liabilities) of the University. This statement provides a fiscal snapshot of the University's financial position as of June 30, 2012. The data provides readers of this statement information on assets available to continue operations; amounts due vendors, investors, and lending institutions; and the net assets available for expenditure by the University.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2012	2011	Change	% Change
<b>Assets</b>				
Current Assets	\$ 101,201,390	\$ 95,702,802	\$ 5,498,588	5.7%
Noncurrent Assets	99,165,805	116,014,710	(16,848,905)	-14.5%
Capital Assets, Net	491,734,627	448,098,690	43,635,937	9.7%
<b>Total Assets</b>	<b>692,101,822</b>	<b>659,816,202</b>	<b>32,285,620</b>	<b>4.9%</b>
<b>Liabilities</b>				
Current Liabilities	24,850,227	27,935,412	(3,085,185)	-11.0%
Noncurrent Liabilities	260,520,836	260,896,812	(375,976)	-0.1%
<b>Total Liabilities</b>	<b>285,371,063</b>	<b>288,832,224</b>	<b>(3,461,161)</b>	<b>-1.2%</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net	274,385,221	247,002,288	27,382,933	11.1%
Restricted Nonexpendable	57,539,964	55,771,543	1,768,421	3.2%
Restricted Expendable	14,841,593	15,518,651	(677,058)	-4.4%
Unrestricted	59,963,981	52,691,496	7,272,485	13.8%
<b>Total Net Assets</b>	<b>\$ 406,730,759</b>	<b>\$ 370,983,978</b>	<b>\$ 35,746,781</b>	<b>9.6%</b>

On June 30, 2012, total University assets were \$692.1 million. The largest asset categories included the University's investment in capital assets (\$491.7 million), cash and cash equivalents (\$126.3 million) and endowment investments (\$60.7 million). The decrease in noncurrent assets (\$16.8 million) was attributed to the spending of cash proceeds from the bond series for the Student Recreation Center expansion, CMS MARBIONC facility construction and Wagoner Dining Hall renovation.

The increase in capital assets was due to several large capital construction projects in progress: the Teaching Lab building (\$22.4 million) and Student Recreation Center expansion (\$15.8 million).

Current liabilities decreased (\$3.1 million) primarily from a reclassification of capital leases payable from current to noncurrent due to a change in financing of Associated Entities debt offset by the normalization of accrued payables.

The increase in investments in capital assets, net of related debt (\$27.4 million) was due to capital projects completed or in progress for the Teaching Lab building, Student Recreation expansion, CMS MARBIONC facility, and Wagoner Dining Hall renovation. The increase in unrestricted net assets was due to the increase in available funds from state appropriations, unrestricted trust funds and various auxiliary funds.

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

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

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

	2012	2011	Change	% Change
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 86,526,202	\$ 80,606,602	\$ 5,919,600	7.3%
Sales and Service, Net	41,194,644	39,431,360	1,763,284	4.5%
Grants and Contracts	13,971,365	17,093,901	(3,122,536)	-18.3%
Other Operating Revenues	3,960,466	2,896,038	1,064,428	36.8%
<b>Total Operating Revenues</b>	<u>145,652,677</u>	<u>140,027,901</u>	<u>5,624,776</u>	4.0%
<b>Operating Expenses</b>				
Salaries and Benefits	150,205,408	151,677,706	(1,472,298)	-1.0%
Supplies and Materials	11,232,731	15,699,970	(4,467,239)	-28.5%
Services	46,134,350	48,694,722	(2,560,372)	-5.3%
Scholarships and Fellowships	16,526,443	17,177,308	(650,865)	-3.8%
Utilities	6,770,663	7,547,034	(776,371)	-10.3%
Depreciation	14,120,071	13,811,118	308,953	2.2%
<b>Total Operating Expenses</b>	<u>244,989,666</u>	<u>254,607,858</u>	<u>(9,618,192)</u>	-3.8%
<b>Operating Loss</b>	<u>(99,336,989)</u>	<u>(114,579,957)</u>	<u>15,242,968</u>	-13.3%
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriation	91,313,397	89,349,941	1,963,456	2.2%
State Aid - Federal Recovery Funds		7,536,901	(7,536,901)	-100.0%
Noncapital Gifts and Grants	27,622,449	27,996,582	(374,133)	-1.3%
Investment Income, Net	2,862,924	8,710,806	(5,847,882)	-67.1%
Interest and Fees on Debt	(11,917,022)	(11,654,036)	(262,986)	2.3%
Federal Interest Subsidy on Debt	760,163	678,693	81,470	12.0%
Other Nonoperating Expenses	(3,443)	(46,388)	42,945	-92.6%
<b>Other Revenues</b>				
Capital Grants	21,726,855	7,759,598	13,967,257	180.0%
Additions to Endowments	2,718,447	4,192,435	(1,473,988)	-35.2%
<b>Total Nonoperating and Other Revenues</b>	<u>135,083,770</u>	<u>134,524,532</u>	<u>559,238</u>	0.4%
<b>Increase in Net Assets</b>	35,746,781	19,944,575	15,802,206	79.2%
<b>Net Assets - Beginning of Year</b>	<u>370,983,978</u>	<u>351,039,403</u>	<u>19,944,575</u>	5.7%
<b>Net Assets - End of Year</b>	<u>\$ 406,730,759</u>	<u>\$ 370,983,978</u>	<u>\$ 35,746,781</u>	9.6%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Student tuition and fees (\$86.5 million) and sales and services from auxiliary enterprises (\$41.2 million) accounted for 87.7% of the University's operating revenue. Tuition and fee revenue increased as a result of a 6.5% increase in student tuition and a 2.5% increase in student fees.

Grants and contracts revenue decreased 18.3% due to the expiration of ARRA funding and the decrease in spending of the twelve-year \$14.0 million National Institute of Environmental Health Services grant due to expire in June 2013.

The decrease (\$4.5 million) in supplies and materials expenditures is correlated to the decrease in available funds from reduced state appropriations and grant revenue along with a return to a normal level of expenditures after the start-up of new buildings. The \$650,865 decrease in scholarship spending resulted from a decrease in state appropriations available for financial aid to students. The continued decrease in utility expense reflects savings in energy costs as a result of the guaranteed energy project which is funding the debt service for the energy efficient infrastructure improvements.

Investment income decreased (\$5.8 million) primarily due to the decrease in market values of the endowment investments. The capital grants increase (\$14.0 million) resulted primarily from the certificates of participation issued by the state for the construction of the Teaching Lab building. The university experienced a decrease (\$1.5 million) in the additions to endowments in fiscal year 2012 after reaching its seven year goal of \$65 million in January 2012 for *The Campaign for UNCW – Soaring to Greatness*.

### Component Unit Reported Using Discrete Presentation

The University evaluated all of the associated entities to determine which entities should be presented as a component unit.

Currently the University has one component unit, the UNCW Corporation, which is reported discretely in the financial statements.

<b>UNCW Corporation, Inc.</b>			
<b>Total Net Assets</b>			
	<b>2012</b>	<b>2011</b>	<b>Change</b>
<b>Asset and Liabilities:</b>			
Total Assets	\$ 128,722,509	\$ 128,078,320	\$ 644,189
Total Liabilities	128,722,509	128,078,320	644,189
<b>Total Net Assets</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>

The increase in asset and liabilities is primarily a result of the \$1.5 million funding of the required maintenance and equipment reserve funds by the Corporation's main tenant. The reserve funds are required by the certificates of participation agreements and will be used to reimburse the tenant when major maintenance and equipment expenditures are made toward the related leased property. Offsetting this increase was the \$845,000 reduction in bond principal as a result of required debt service payments.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

UNCW Corporation, Inc. Changes in Net Assets	2012	2011	Change
Total Revenues	\$ 6,199,810	\$ 6,204,216	\$ (4,406)
Total Expenses	6,199,810	6,204,216	(4,406)
<b>Net Assets - End of Year</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

The decrease in revenues and expenses is a reduction in the accrued interest expense and accrued direct financing lease income.

### 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

	2012	2011	Change	% Change
<b>Cash Provided (Used) by:</b>				
Operating Activities	\$ (85,501,457)	\$ (99,991,526)	\$ 14,490,069	-14.5%
Noncapital Financing Activities	122,740,913	129,602,216	(6,861,303)	-5.3%
Capital Financing Activities	(51,545,365)	(15,059,529)	(36,485,836)	242.3%
Investing Activities	437,592	(4,003,458)	4,441,050	-110.9%
<b>Net Change In Cash</b>	<b>(13,868,317)</b>	<b>10,547,703</b>	<b>(24,416,020)</b>	<b>-231.5%</b>
<b>Cash Beginning of Year</b>	<b>140,211,475</b>	<b>129,663,772</b>	<b>10,547,703</b>	<b>8.1%</b>
<b>Cash Ending of Year</b>	<b>\$ 126,343,158</b>	<b>\$ 140,211,475</b>	<b>\$ (13,868,317)</b>	<b>-9.9%</b>

### Operating Activities

Major cash sources were student tuition and fees (\$86.5 million), sales and services (\$41.2 million), and contracts and grants (\$14.0 million). Major cash uses were compensation to employees (\$150.3 million), payments to vendors and suppliers for goods and services (\$65.0 million), and disbursements to students for scholarships and awards (\$16.5 million).

### Noncapital Financial Activities

The major cash inflow was State appropriations (\$91.3 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 (\$27.1 million).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Capital Financing Activities

Cash provided included capital grants (\$22.0 million). Cash used was primarily for the acquisition of capital assets (\$54.8 million) and the repayment of principal and interest on capital debt (\$28.5 million).

### Investing Activities

Cash provided included sales and maturities of investments (\$867,248) and investment income (\$3.3 million). Cash used reflects the purchase of investments and related fees (\$3.8 million).

### **Capital Assets and Debt Administration**

#### **Capital Assets**

The University had \$491.7 million invested in capital assets at June 30, 2012, as reported in the table below. This represents an increase of \$43.6 million from 2011.

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

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Land	\$ 6,258,371	\$ 6,258,371	\$ 0
Art, Literature and Artifacts	1,673,320	1,851,904	(178,584)
Construction In Progress	65,604,622	27,237,821	38,366,801
Buildings, Net	374,601,121	368,817,285	5,783,836
Machinery and Equipment, Net	14,376,133	13,803,263	572,870
Infrastructure, Net	29,221,060	30,130,046	(908,986)
<b>Total Capital Assets</b>	<u>\$ 491,734,627</u>	<u>\$ 448,098,690</u>	<u>\$ 43,635,937</u>

The net increase in the construction in progress category was the result of the increased construction activity attributed to the Teaching Lab building (\$22.4 million), the Student Recreation Center expansion (\$15.8 million), and various other projects.

The increase in the building category was the result of the completion of guaranteed energy savings contract upgrades to several buildings on campus, additional improvements to McNeill Hall (Nursing building), and the renovations and improvements to Schwartz Hall and University Suites residence halls.

#### **Debt**

As of June 30, 2012, the University's \$248.3 million in long-term debt included outstanding bonds payable (\$113.5 million), notes payable (\$4.5 million), and capital leases payable (\$130.3 million). In April 2012, the University issued an \$11.8 million general revenue bond for the advance refunding of the 2003A Series originally issued for Union construction. This advance refunding was undertaken to reduce total debt service payments by \$2.2 million over the next fifteen years. At June 30, 2012, the outstanding balance was \$11.4 million for the defeased Series 2003A bonds.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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In May 2012, the University amended the installment financing for the Guaranteed Energy Savings Contract notes payable a second time for a reduced annual interest rate from 3.97% to 3.47% for a total debt service savings of \$255,458 over eighteen years.

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

More detailed information on the University's long-term obligations is presented in Note 7 to the financial statements.

### **Economic Forecast**

For fiscal year 2012-2013, the State legislature approved funding for enrollment growth (\$1.4 million), operations of the new Teaching Laboratory and Marine Biotechnology (MARBIONC) buildings, released the fiscal year 2011-2012 repair and renovations funds (\$1.3 million) and allocated the fiscal year 2012-2013 funding (\$0.5 million). Permanent reductions to State appropriations were approximately \$140,000. In addition, the State legislature reversed a four-year trend and provided appropriations for a very modest salary increase for state employees.

In order to protect the academic core and instruction service level to our students, emphasis has been focused on administrative efficiencies and cost elimination over the last four fiscal years. The guaranteed energy savings performance contract, which provides funding to replace inefficient infrastructure, has yielded reductions in energy consumption and related energy costs. However, the absence of repair and renovation funding from the State combined with reduced resources is creating an increasing backlog of deferred maintenance on campus buildings and related infrastructure. The restructuring of debt will reduce interest expense over the coming years. The University will continue its focus on capital markets and take advantage, when appropriate, of the continuing low cost of capital.

Federal funding for research is projected to remain flat over the next few years after a long period of sustained growth. This change will increase the competitiveness for federal funding and will challenge the University's opportunities for growth.

Unchanged from the prior year is the questionable state of the U.S. economy and global markets. Volatility continues as sovereign nations wrestle to solve their debt issues and budget deficits. In the U.S., unemployment continues to be high and economic recovery extremely slow. The political climate has been intensified by the forthcoming presidential election, and it remains unclear what impact the outcome of this election will have on reversing economic conditions in the near term. Given the prolonged weakened national economic conditions, the State projects it will continue to experience substantial budget shortfalls and tax revenues will be less than expected through fiscal year 2013 and beyond.

The University remains committed to providing the most powerful academic experience possible and the highest quality education possible for our students. The University remains focused on sustaining the quality of teaching, research, and service. The University will continue with ongoing efforts of prudent fund allocations, cost containment measures, implementation of efficiencies, and continual reassessment of the resources available to

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

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successfully meet our core mission and goals. The University is advancing its focus on enhancing innovation and entrepreneurial initiatives in order to develop new revenue streams to supplement reduced State funding and to support resource reallocations.

### **Contacting the University's Financial Management**

This financial report is designed to provide our students, citizens, investors, and creditors with a general overview of the University's finances and demonstrate accountability of all funds. Additional financial information may be obtained by contacting the Controller's Office at (910) 962-7086 or by accessing the Controller's Office web page [http://www.uncw.edu/controller/financial\\_reports.html](http://www.uncw.edu/controller/financial_reports.html).

**University of North Carolina at Wilmington**  
**Statement of Net Assets**  
**June 30, 2012**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 74,411,120
Restricted Cash and Cash Equivalents	21,871,785
Receivables, Net (Note 4)	3,861,541
Due from State of North Carolina Component Units	103,154
Inventories	394,183
Notes Receivable, Net (Note 4)	559,607
	<hr/>
Total Current Assets	101,201,390
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	30,060,253
Receivables, Net (Note 4)	1,652,652
Endowment Investments	60,749,814
Deferred Charges	1,049,637
Notes Receivable, Net (Note 4)	5,653,449
Capital Assets - Nondepreciable (Note 5)	73,536,313
Capital Assets - Depreciable, Net (Note 5)	418,198,314
	<hr/>
Total Noncurrent Assets	590,900,432
	<hr/>
Total Assets	692,101,822
	<hr/>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	10,837,251
Due to Primary Government	1,278,984
Deposits Payable	1,197
Unearned Revenue	4,391,126
Interest Payable	2,087,037
Long-Term Liabilities - Current Portion (Note 7)	6,254,632
	<hr/>
Total Current Liabilities	24,850,227
	<hr/>

Noncurrent Liabilities:

Funds Held for Others	5,781,136
U. S. Government Grants Refundable	4,392,778
Long-Term Liabilities (Note 7)	250,346,922
	<hr/>
Total Noncurrent Liabilities	260,520,836
	<hr/>
Total Liabilities	285,371,063
	<hr/>



**University of North Carolina at Wilmington**  
**Statement of Net Assets**  
**June 30, 2012**

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

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	274,385,221
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	23,576,111
Research	2,309,027
Endowed Professorships	12,724,767
Departmental Uses	17,820,314
Loans	1,109,745
Expendable:	
Scholarships and Fellowships	4,771,107
Research	41,382
Endowed Professorships	830,546
Departmental Uses	7,962,675
Loans	335,656
Debt Service	900,227
Unrestricted	59,963,981
Total Net Assets	<u>\$ 406,730,759</u>

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

**University of North Carolina at Wilmington**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2012**

**Exhibit A-2**

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 86,526,202
Federal Grants and Contracts	12,144,343
State and Local Grants and Contracts	1,035,091
Nongovernmental Grants and Contracts	791,931
Sales and Services, Net (Note 9)	41,194,644
Interest Earnings on Loans	73,678
Other Operating Revenues	3,886,788
	<hr/>
Total Operating Revenues	145,652,677
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	150,205,408
Supplies and Materials	11,232,731
Services	46,134,350
Scholarships and Fellowships	16,526,443
Utilities	6,770,663
Depreciation	14,120,071
	<hr/>
Total Operating Expenses	244,989,666
	<hr/>
Operating Loss	(99,336,989)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	91,313,397
Noncapital Grants - Student Financial Aid	22,728,974
Noncapital Gifts, Net (Note 9)	4,893,475
Investment Income (Net of Investment Expense of \$170,982)	2,862,924
Interest and Fees on Debt	(11,917,022)
Federal Interest Subsidy on Debt	760,163
Other Nonoperating Expenses	(3,443)
	<hr/>
Net Nonoperating Revenues	110,638,468
	<hr/>
Income Before Other Revenues	11,301,479
	<hr/>
Capital Grants	21,726,855
Additions to Endowments	2,718,447
	<hr/>
Increase in Net Assets	35,746,781

**NET ASSETS**

Net Assets - July 1, 2011	<hr/>
	370,983,978
Net Assets - June 30, 2012	<hr/>
	\$ 406,730,759
	<hr/>

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

**University of North Carolina at Wilmington**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2012**

**Exhibit A-3**

**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 142,202,977
Payments to Employees and Fringe Benefits	(150,259,639)
Payments to Vendors and Suppliers	(65,029,402)
Payments for Scholarships and Fellowships	(16,526,443)
Loans Issued	(718,651)
Collection of Loans	707,891
Interest Earned on Loans	61,138
Other Receipts	4,060,672
	<hr/>
Net Cash Used by Operating Activities	(85,501,457)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	91,313,397
Noncapital Grants - Student Financial Aid	22,728,974
Noncapital Gifts	4,348,435
Additions to Endowments	2,718,447
William D. Ford Direct Lending Receipts	63,393,366
William D. Ford Direct Lending Disbursements	(63,393,366)
Related Activity Agency Receipts	1,635,103
Other Payments	(3,443)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	122,740,913

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

Proceeds from Capital Debt	11,412,749
Capital Grants	21,998,287
Acquisition and Construction of Capital Assets	(54,825,784)
Principal Paid on Capital Debt and Leases	(17,187,690)
Interest and Fees Paid on Capital Debt and Leases	(12,058,024)
Federal Interest Subsidy on Debt Received	760,163
Other Payments	(1,645,066)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(51,545,365)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	867,248
Investment Income	3,344,866
Purchase of Investments and Related Fees	(3,774,522)
	<hr/>
Net Cash Provided by Investing Activities	437,592
	<hr/>
Net Decrease in Cash and Cash Equivalents	(13,868,317)
Cash and Cash Equivalents - July 1, 2011	140,211,475
	<hr/>
Cash and Cash Equivalents - June 30, 2012	\$ 126,343,158

**University of North Carolina at Wilmington**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2012**

**Exhibit A-3**

**Page 2 of 2**

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

Operating Loss	\$	(99,336,989)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		14,120,071
Nonoperating Other Income		656,083
Changes in Assets and Liabilities:		
Receivables (Net)		576,006
Due from State of North Carolina Component Units		165,133
Due from University Component Units		166,530
Inventories		14,261
Notes Receivable (Net)		(10,760)
Accounts Payable and Accrued Liabilities		(1,963,647)
Due to Primary Government		100,545
Unearned Revenue		47,589
Compensated Absences		(37,476)
Deposits Payable		1,197
		<hr/>
Net Cash Used by Operating Activities	\$	<u>(85,501,457)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:		
Cash and Cash Equivalents	\$	74,411,120
Restricted Cash and Cash Equivalents		21,871,785
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		30,060,253
		<hr/>
Total Cash and Cash Equivalents - June 30, 2012	\$	<u>126,343,158</u>

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

Assets Acquired through the Assumption of a Liability	\$	9,418,688
Change in Fair Value of Investments		(334,733)
Loss on Disposal of Capital Assets		(180,601)

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

***UNCW Corporation, Inc.***  
***Statement of Net Assets***  
***June 30, 2012***

***Exhibit B-1***

**ASSETS**

Assets Limited to Use, Restricted	\$	2,386,503
Other Receivables		3,092
Net Investment in Direct Financing Leases, Current		1,583,689
Net Investment in Direct Financing Leases, Noncurrent		122,260,353
Debt Issuance Cost, Net		<u>2,488,872</u>
Total Assets		<u>128,722,509</u>

**LIABILITIES**

Accounts Payable and Accrued Expenses		504,589
Funds Held for Others		1,517,079
Certificates of Participation Payable, Current		1,080,000
Certificates of Participation Payable, Noncurrent		<u>125,620,841</u>
Total Liabilities		<u>128,722,509</u>

**NET ASSETS**

Total Net Assets	\$	<u><u>0</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**UNCW Corporation, Inc.**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Assets**  
**June 30, 2012**

**Exhibit B-2**

**REVENUES**

Direct Financing Lease Income	\$	6,081,145
Other Revenues		118,665
		<hr/>
Total Revenues		6,199,810
		<hr/>

**EXPENSES**

Contracted Services		109,475
Interest Expense		6,081,145
Other Expenses		9,190
		<hr/>
Total Expenses		6,199,810
		<hr/>

Change in Net Assets 0

**NET ASSETS**

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

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

**UNIVERSITY OF NORTH CAROLINA AT WILMINGTON**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are either blended or discretely presented in the University's financial statements. The blended component unit, although legally separate, is, in substance, part of the University's operations and therefore, is reported as if it was part of the University. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize their legal separateness.

**Blended Component Unit** - Although legally separate, The Donald R. Watson Foundation, Inc. (Watson Foundation) is a component unit of the University, and is reported as if it was part of the University.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Separate financial statements for the Watson Foundation may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC 28403-5952, or by calling (910) 962-3139. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

**Discretely Presented Component Unit** - The UNCW Corporation, Inc. (Corporation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University. The Corporation was organized to enhance the University of North Carolina at Wilmington's educational mission, including overseeing and assisting in the acquisition and financing of capital assets for the University.

The Corporation is a private not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements.

During the year ended June 30, 2012, the Corporation did not distribute funds to the University. Complete financial statements for the Corporation may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC, or by calling (910) 962-3139.

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

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University does not apply FASB pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Real estate not held by a governmental external investment pool and other asset holdings are reported at cost, if purchased or at fair value or appraised value at date of gift, if donated.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, related nonprofit foundations associated with the University, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out method.
- H. Deferred Charges** - Deferred charges are comprised of prepayments of bond issuance and underwriter's fees to be written off in future periods.
- I. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 30 to 50 years for general infrastructure, 15 to 50 years for buildings, and 4 to 50 years for equipment.

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

- J. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- K. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, notes payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

**Unrestricted Net Assets** - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

**N. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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as copy centers, motor pool, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$125,022,031 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2012. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

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Cash on hand at June 30, 2012 was \$35,317. The carrying amount of the University's deposits not with the State Treasurer was \$1,285,810 and the bank balance was \$1,336,829. 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, 2012, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Bank	<u>\$ 219,614</u>
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**Component Unit** – At June 30, 2012, deposits in the amount of \$1,517,079 were established with a trustee for the University's discretely presented component unit, the UNCW Corporation, Inc. (Corporation). These restricted funds represent required maintenance reserves for each of the Corporation's three Certificates of Participation. The trustee will release funds when presented with approved requests for qualified expenditures from the university. Any remaining balances in the reserve accounts will be returned to the university when the debt is retired.

**B. Investments**

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment pools to manage investments and distribute investment income.

Investments are subject to the following risks:

*Interest Rate Risk:* Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University does not have a formal policy that addresses interest rate risk.

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy that addresses credit risk.

**Long-Term Investment Pool** - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unitized method. Under this method, each participating fund's investment balance is determined on the current market value per unit multiplied by the number of units purchased. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2012, for the Long-Term Investment Pool.

### *Long-Term Investment Pool*

<b>Investment Type</b>	<u>Fair Value</u>
UNC Investment Fund	\$ 33,107,912
Equity Mutual Funds	25,974,933
Investments in Real Estate	294,766
<b>Total Long-Term Investment Pool</b>	<u><u>\$ 59,377,611</u></u>

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

**UNC Investment Fund, LLC** - At June 30, 2012, the University's investments include \$33,107,912 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

**Non-Pooled Investments** - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2012, for the University's non-pooled investments.

*Non-Pooled Investments*

	Fair Value	Investment Maturities 1 to 5 Years
<b>Investment Type</b>		
Debt Securities		
Debt Mutual Funds	\$ 413,094	\$ 413,094
Other Securities		
Equity Mutual Funds	938,506	
Domestic Stocks	7,002	
Other - Life Insurance	13,601	
<b>Total Non-Pooled Investments</b>	<b>\$ 1,372,203</b>	

At June 30, 2012, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	\$ 413,094	\$ 103,738	\$ 177,394	54,297	\$ 52,066	\$ 22,319	\$ 3,280

Rating Agency: Standard & Poor's



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

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**Total Investments** - The following table presents the fair value of the total investments at June 30, 2012:

<b>Investment Type</b>	<u>Fair Value</u>
Debt Securities	
Debt Mutual Funds	\$ 413,094
Other Securities	
UNC Investment Fund	33,107,912
Equity Mutual Funds	26,913,439
Investments in Real Estate	294,766
Domestic Stocks	7,002
Other - Life Insurance	13,601
<b>Total Investments</b>	<u><u>\$ 60,749,814</u></u>

**Component Unit** - Investments of the University's discretely presented component unit, the UNCW Corporation, Inc. (Corporation) 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 are restricted under the bond indentures to construction. When construction needs have been fulfilled, the funds may be applied to principal and interest payments that come due. At June 30, 2012, the Corporation has invested proceeds from bond issuance in the amount of \$869,424. The Corporation's investments were maintained in a money market account. This investment is professionally managed by a fiscal agent.

## 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, 2012, is as follows:

Cash on Hand	\$	35,317
Amount of Deposits with Private Financial Institutions		1,285,810
Deposits in the Short-Term Investment Fund		125,022,031
Long-Term Investment Pool		59,377,611
Non-Pooled Investments		1,372,203
		<u>187,092,972</u>
<b>Total Deposits and Investments</b>	<b>\$</b>	<b><u>187,092,972</u></b>
Deposits		
Current:		
Cash and Cash Equivalents	\$	74,411,120
Restricted Cash and Cash Equivalents		21,871,785
Noncurrent:		
Restricted Cash and Cash Equivalents		30,060,253
		<u>126,343,158</u>
<b>Total Deposits</b>		<b><u>126,343,158</u></b>
Investments		
Noncurrent:		
Endowment Investments	\$	60,749,814
		<u>60,749,814</u>
<b>Total Investments</b>		<b><u>60,749,814</u></b>
		<u>187,092,972</u>
<b>Total Deposits and Investments</b>	<b>\$</b>	<b><u>187,092,972</u></b>

### NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on the adopted spending policy for 2012, which limits spending to 4.5% of the average market value of the endowment at the end of the previous three years. To the extent that the total return for the current year exceeds the payout, the excess is reinvested with the principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012, endowment net assets of \$17,213,811 were available to be spent, of which \$13,473,818 was restricted to specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 1,830,239	\$ 183,086	\$ 1,647,153
Accounts	1,103,306		1,103,306
Intergovernmental	779,199		779,199
Pledges	181,693	9,084	172,609
Interest on Loans	124,345		124,345
Other	34,929		34,929
<b>Total Current Receivables</b>	<b>\$ 4,053,711</b>	<b>\$ 192,170</b>	<b>\$ 3,861,541</b>
<b>Noncurrent Receivables:</b>			
Pledges	\$ 142,708	\$ 7,135	\$ 135,573
Due From UNCW Corporation	1,517,079		1,517,079
<b>Total Noncurrent Receivables</b>	<b>1,659,787</b>	<b>7,135</b>	<b>1,652,652</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 477,416	\$ 43,989	\$ 433,427
Institutional Student Loan Programs	126,180		126,180
<b>Total Notes Receivable - Current</b>	<b>\$ 603,596</b>	<b>\$ 43,989</b>	<b>\$ 559,607</b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 4,482,176	\$ 448,217	\$ 4,033,959
Due From UNCW Foundation	1,583,470		1,583,470
Institutional Student Loan Programs	36,020		36,020
<b>Total Notes Receivable - Noncurrent</b>	<b>\$ 6,101,666</b>	<b>\$ 448,217</b>	<b>\$ 5,653,449</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 6,258,371	\$ 0	\$ 0	\$ 6,258,371
Art, Literature, and Artifacts	1,851,904	28,991	207,575	1,673,320
Construction in Progress	27,237,821	55,330,239	16,963,438	65,604,622
<b>Total Capital Assets, Nondepreciable</b>	<b>35,348,096</b>	<b>55,359,230</b>	<b>17,171,013</b>	<b>73,536,313</b>
Capital Assets, Depreciable:				
Buildings	469,102,941	16,870,100		485,973,041
Machinery and Equipment	40,371,090	2,801,727	3,347,337	39,825,480
General Infrastructure	41,675,299	76,565		41,751,864
Total Capital Assets, Depreciable	551,149,330	19,748,392	3,347,337	567,550,385
Less Accumulated Depreciation for:				
Buildings	100,285,656	11,086,264		111,371,920
Machinery and Equipment	26,567,827	2,048,256	3,166,736	25,449,347
General Infrastructure	11,545,253	985,551		12,530,804
Total Accumulated Depreciation	138,398,736	14,120,071	3,166,736	149,352,071
<b>Total Capital Assets, Depreciable, Net</b>	<b>412,750,594</b>	<b>5,628,321</b>	<b>180,601</b>	<b>418,198,314</b>
<b>Capital Assets, Net</b>	<b>\$ 448,098,690</b>	<b>\$ 60,987,551</b>	<b>\$ 17,351,614</b>	<b>\$ 491,734,627</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Current accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 7,865,315
Accrued Payroll	573,867
Contract Retainage	2,398,069
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 10,837,251</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

#### UNIVERSITY

#### A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Revenue Bonds Payable	\$ 116,335,000	\$ 11,755,000	\$ 15,953,456	\$ 112,136,544	\$ 4,753,860
Add Premium	4,341,321		367,429	3,973,892	
Deduct Deferred Charge on Refunding	(2,418,200)	(342,251)	(195,359)	(2,565,092)	
<b>Total Revenue Bonds Payable</b>	<b>118,258,121</b>	<b>11,412,749</b>	<b>16,125,526</b>	<b>113,545,344</b>	<b>4,753,860</b>
Notes Payable	4,542,387		74,276	4,468,111	83,822
Arbitrage Rebate Payable	127,987		127,987		
Capital Leases Payable	131,278,443		987,888	130,290,555	1,336,986
Compensated Absences	8,335,020	542,516	579,992	8,297,544	79,964
<b>Total Long-Term Liabilities</b>	<b>\$ 262,541,958</b>	<b>\$ 11,955,265</b>	<b>\$ 17,895,669</b>	<b>\$ 256,601,554</b>	<b>\$ 6,254,632</b>

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2012	Principal Outstanding June 30, 2012
<b>Revenue Bonds Payable</b>						
<b>UNCW General Revenue Bonds</b>						
Construct Dorm	2002A	3.0 - 5.0	01/01/2023	\$ 11,500,000	\$ 11,500,000	\$ 0
Construct New Union	2003A	2.5 - 5.25	01/01/2028	30,000,000	29,015,000	985,000
Construct MARBIONC Facility	2010	1.38 - 5.97 *	01/01/2040	15,750,000	370,000	15,380,000
Schwartz/Suites & Wagoner Renovation Projects	2011	3.64	03/01/2026	9,000,000	473,456	8,526,544
Refund 2003A Union	2012	2.84	01/01/2028	11,755,000		11,755,000
<b>Total UNCW General Revenue Bonds</b>				<b>78,005,000</b>	<b>41,358,456</b>	<b>36,646,544</b>
<b>The University of North Carolina System Pool Revenue Bonds</b>						
Westside, Parking, Apartments (2002B)	(A)	4.0 - 5.0	04/30/2022	6,735,000	6,735,000	
Refund Series J and Recreation (2005A)	(B)	4.0 - 5.25	04/01/2019	12,630,000	5,305,000	7,325,000
Union Addition & Parking (2006A)	(C)	4.0 - 5.0	10/01/2033	19,400,000	3,435,000	15,965,000
Refund Series 2002A & 2003A; Rec Ctr Exp (2010C)	(D)	2.5 - 5.0	10/01/2026	32,170,000	630,000	31,540,000
Recreation Center Expansion (2010D)	(E)	6.627 - 6.727 *	10/01/2039	20,660,000		20,660,000
<b>Total The University of North Carolina System Pool Revenue Bonds</b>				<b>91,595,000</b>	<b>16,105,000</b>	<b>75,490,000</b>
<b>Total Revenue Bonds Payable (principal only)</b>				<b>\$ 169,600,000</b>	<b>\$ 57,463,456</b>	<b>112,136,544</b>
Less: Unamortized Loss on Refunding						(2,565,092)
Plus: Unamortized Premium						3,973,892
<b>Total Revenue Bonds Payable</b>						<b>\$ 113,545,344</b>

(A) The University of North Carolina System Pool Revenue Bonds, Series 2002A

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

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

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

(E) The University of North Carolina System Pool Revenue Bonds, Series 2010D

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2012, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 4,753,860	\$ 5,243,922	\$ 83,822	\$ 160,332
2014	5,001,291	5,163,140	99,754	151,270
2015	5,184,355	4,960,667	110,947	147,711
2016	5,423,078	4,719,865	128,852	143,706
2017	5,677,482	4,471,999	141,896	139,121
2018-2022	26,619,111	18,544,795	998,303	606,167
2023-2027	23,507,367	13,380,150	1,584,000	389,741
2028-2032	14,490,000	8,976,597	1,320,537	82,600
2033-2037	13,175,000	4,844,526		
2038-2040	8,305,000	898,981		
<b>Total Requirements</b>	<b>\$ 112,136,544</b>	<b>\$ 71,204,642</b>	<b>\$ 4,468,111</b>	<b>\$ 1,820,648</b>

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

**Current Year Advance Refunding** - On April 27, 2012, the University issued \$11,755,000 in General Revenue Refunding Bonds, Series 2012 refunding bonds with an average interest rate of 2.84%. The bonds were issued to advance refund \$11,370,000 of outstanding Series 2003A bonds with an average interest rate of 4.59%. The net proceeds of the refunding bonds along with other resources were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by \$2,208,133 over the next fifteen years and resulted in an economic gain of \$1,777,889. At June 30, 2012, the outstanding balance was \$11,370,000 for the defeased Series 2003A bonds.

**Prior Year Defeasances** - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2012, the outstanding balance of prior year defeased bonds was \$14,680,000.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2012	Principal Outstanding June 30, 2012
Guaranteed Energy Savings Contract	BB&T	3.47%	* 03/01/2030	\$ 4,542,387	\$ 74,276	\$ 4,468,111

\* Interest rate amended from 3.97% to 3.47% in fiscal year 2012

### COMPONENT UNIT

In fiscal 2005, the UNCW Corporation, Inc. (Corporation) issued \$28,710,000 of debt, at a premium of \$630,913, in Series 2005 Certificates of Participation (COPs) to finance the construction and acquisition of a 524-bed apartment-style student housing facility and its related parking and recreational facilities on the campus of the University. The COPs include coupon rates of 4.00% to 5.25%, a final maturity of June 1, 2036, and are secured by a Leasehold Deed to Trust on the mortgaged property and an assignment of future lease income earned from the property.

In fiscal 2006, the Corporation issued \$38,290,000 of debt, at a premium of \$772,838, in Series 2006 COPs to finance the construction and acquisition of a 609-bed apartment-style student housing facility and its related parking and recreational facilities on the campus of the University. The COPs include coupon rates of 4.00% to 5.00%, a final maturity of June 1, 2037, and are secured by a Leasehold Deed to Trust on the mortgaged property and an assignment of future lease income earned from the property.

In fiscal 2008, the Corporation issued \$61,460,000 of debt, at a discount of \$426,913, in Series 2008 COPs to finance the construction and acquisition of a 662-bed apartment-style student housing facility and its related parking and recreational facilities on the campus of the University. The COPs include coupon rates of 3.50% to 5.00%, a final maturity of June 1, 2038, and are secured by a Leasehold Deed to Trust on the mortgaged property and an assignment of future lease income earned from the property.

COPs payable activity for the year ended June 30, 2012 is as follows:

	Balance July 1, 2011	Reductions	Balance June 30, 2012
Certificates of Participation	\$ 126,795,000	\$ 845,000	\$ 125,950,000
Add Premium on Debt	1,164,700	43,867	1,120,833
Deduct Discount on Debt	(384,222)	(14,230)	(369,992)
	<u>\$ 127,575,478</u>	<u>\$ 874,637</u>	<u>\$ 126,700,841</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Future debt principal maturities and interest expense for the Series 2005, 2006, and 2008 COPs are as follows:

Fiscal Year Ending June 30,	Annual Requirements	
	Certificates of Participation	
	Principal	Interest
2013	\$ 1,080,000	\$ 6,044,263
2014	1,265,000	6,003,588
2015	1,400,000	5,950,901
2016	1,840,000	5,892,088
2017	2,055,000	5,817,801
2018-2022	17,290,000	27,292,815
2023-2027	25,530,000	22,219,565
2028-2032	32,400,000	15,340,927
2033-2038	43,090,000	6,832,717
<b>Total Requirements</b>	<b>\$ 125,950,000</b>	<b>\$ 101,394,665</b>

### NOTE 8 - LEASE OBLIGATIONS

**A. Capital Lease Obligations** - Capital lease obligations relating to buildings and a parking deck are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2012:

Fiscal Year	Amount
2013	\$ 7,478,182
2014	7,622,507
2015	7,704,819
2016	8,086,007
2017	8,226,719
2018-2022	46,352,408
2023-2027	49,312,649
2028-2032	47,740,927
2033-2038	49,922,716
Total Minimum Lease Payments	232,446,934
Amount Representing Interest (2.3-5.25% Rate of Interest)	102,156,379
<b>Present Value of Future Lease Payments</b>	<b>\$ 130,290,555</b>

Buildings and a parking deck acquired under capital lease amounted to \$132,968,561 at June 30, 2012.

Depreciation for the capital assets associated with capital leases is included in depreciation expense.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**B. Operating Lease Obligations** - The University entered into operating leases for \$408,710 for office space, an aquaculture facility, and boat slips. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 366,210
2014	42,500
<b>Total Minimum Lease Payments</b>	<b>\$ 408,710</b>

Rental expense for all operating leases during the year was \$682,620.

### NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Change in Allowance for Uncollectibles</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 97,209,493	\$ 0	\$ 10,664,088	\$ 19,203	\$ 86,526,202
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 23,262,989	\$ 0	\$ 3,413,955	\$ 17,893	\$ 19,831,141
Dining	13,185,384		1,868,066		11,317,318
Parking	3,824,197		135,839	1,181	3,687,177
Communications	3,123,616	3,116,868			6,748
Athletics	2,124,763		2,036,369	18,015	70,379
Physical Plant	2,078,790	2,008,602			70,188
Printing and Duplicating	1,175,942	1,092,970			82,972
Bookstore Commissions	572,211				572,211
Postal Services	421,585	246,394	161,009	364	13,818
Other	2,803,284	183,543	1,189,385	21,757	1,408,599
Sales and Services of Education and Related Activities	4,134,168			75	4,134,093
<b>Total Sales and Services</b>	<b>\$ 56,706,929</b>	<b>\$ 6,648,377</b>	<b>\$ 8,804,623</b>	<b>\$ 59,285</b>	<b>\$ 41,194,644</b>
<b>Nonoperating - Noncapital Gifts</b>	<b>\$ 4,887,630</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ (5,845)</b>	<b>\$ 4,893,475</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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	\$ 80,024,076	\$ 1,440,763	\$ 5,373,648	\$ 170,150	\$ 185	\$ 0	\$ 87,008,822
Research	8,932,412	1,216,304	3,401,041	84,988	24,196		13,658,941
Public Service	1,488,299	210,632	1,172,494	(126,215)			2,745,210
Academic Support	10,105,779	3,289,783	1,747,643	11,881			15,155,086
Student Services	7,203,696	752,492	1,832,946	17,823			9,806,957
Institutional Support	18,407,365	1,006,889	3,224,417	250	14,727		22,653,648
Facilities	12,051,542	(40,600)	2,966,697		4,580,344		19,557,983
Student Financial Aid	20,708	674	106,333	15,715,413			15,843,128
Auxiliary Enterprises	11,971,531	3,355,794	26,309,131	652,153	2,151,211		44,439,820
Depreciation						14,120,071	14,120,071
<b>Total Operating Expenses</b>	<b>\$ 150,205,408</b>	<b>\$ 11,232,731</b>	<b>\$ 46,134,350</b>	<b>\$ 16,526,443</b>	<b>\$ 6,770,663</b>	<b>\$ 14,120,071</b>	<b>\$ 244,989,666</b>

### NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$121,932,837, of which \$56,728,297 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$4,220,585 and \$3,403,698, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$4,220,585, \$2,874,128, and \$2,073,920, 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 Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee 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, 2012, 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 \$121,932,837, of which \$49,728,609 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$3,401,437 and \$2,983,717, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$250,489 for the year ended June 30, 2012.

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the University except for a 5% employer contribution for the University's law responsibility of the Plan participants. No costs are incurred by the enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2012, were \$73,805. The voluntary contributions by employees amounted to \$585,734 for the year ended June 30, 2012.

Internal Revenue Code Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. The plan administrators are TIAA-CREF and Fidelity Investments. No costs are incurred by the University. The voluntary contributions by employees amounted to \$1,489,023 for the year ended June 30, 2012.

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the University contributed 5.0% 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, 2011, and 2010, were 4.9% and 4.5%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$5,322,845, \$5,329,549, and \$4,820,988, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2012, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2011, and 2010, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$553,576, \$565,585, and \$557,092, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

### NOTE 13 - RISK MANAGEMENT

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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purchases. Outstanding commitments on construction contracts were \$31,355,921 and on other purchases were \$7,074,575 at June 30, 2012.

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

Purpose	Amount
Endowment Pledges	\$ 3,198,307

### NOTE 15 - RELATED PARTIES

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

The Foundation of the University of North Carolina at Wilmington and the University of North Carolina at Wilmington Student Aid Association serve as the primary fundraising arms of the University. It is through these foundations that individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. This support approximated \$2,617,678 for the year ended June 30, 2012.

In addition to this support, on August 19, 2010, the Board of Trustees for the University's Endowment Fund (Endowment) approved a loan modification of the December 12, 2008 note in the amount of \$1,750,000 to the Foundation of the University of North Carolina at Wilmington (Foundation). The loan modification included the payment of accrued interest by the Foundation to the Endowment. This loan is evidenced by a new promissory note, dated September 17, 2010 at a fixed rate of 2.5% annum for three years and includes two one year optional renewal periods. For the year ended June 30, 2012, the



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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Foundation has paid all accrued note interest and has made principal payments of \$166,530 towards this loan. The current loan balance has been reduced from \$1,750,000 to \$1,583,470. The purpose of the loan was to provide financing for the acquisition of property by the Foundation for investment purposes.

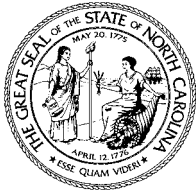
The University of North Carolina at Wilmington Alumni Association serves to connect and involve alumni, students and friends in the promotion and advancement of the University.

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

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

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.

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**Office of the State Auditor**

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

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

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

We have audited the financial statements of the University of North Carolina at Wilmington, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 21, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

The University's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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

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

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA  
State Auditor

November 21, 2012

## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647

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This audit required 904 audit hours at an approximate cost of \$65,088. The cost represents .009% of the University's total assets and .025% of total expenses subjected to audit.