UNCW CORPORATION II
TABLE OF CONTENTS
Year Ended June 30, 2013

Page(s)

Report of Independent Auditors ................................................................. 1-2

Management's Discussion and Analysis .................................................... 3-6

Audited Financial Statements

Statement of Net Position ................................................................. 7

Statement of Activities and Changes in Net Position ................................ 8

Statement of Cash Flows ..................................................................... 9

Notes to Financial Statements ............................................................ 10-14
Report of Independent Auditors

To the Board of Directors
UNCW Corporation II
Wilmington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of UNCW Corporation II (the "Corporation"), a component unit of the University of North Carolina at Wilmington, which comprise the statement of net position as of June 30, 2013 and the related statements of activities and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of UNCW Corporation II as of June 30, 2013, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 2 to the financial statements, the Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective June 30, 2013.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

[Signature]

Durham, North Carolina
September 5, 2013
Financial Analysis

The UNCW Corporation II (the "Corporation") provides the following Management’s Discussion and Analysis ("MD&A") as an overview of the financial activities for the fiscal year ended June 30, 2013. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the previous year is presented to provide a better understanding of the financial information.

Using the Financial Statements

The Corporation’s financial report includes three basic comprehensive financial statements that depict the financial activity and fiscal condition of the Corporation for the current year: the Statement of Net Position; the Statement of Activities and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental 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 Position includes all the Corporation's assets and liabilities. The Corporation’s net position (the monetary difference between total assets and total liabilities) is one indicator of the Corporation’s financial viability. Over time, changes in net position provide information on the improvement or erosion of the Corporation’s financial condition when considered with non-financial facts.

The Statement Activities and Changes in Net Position presents the revenues earned and expenses incurred during the fiscal year. Financial activities are reported as either operating or non-operating.

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

Financial Highlights

The Corporation includes the activities of the single member entities, UNCW Corporation Oleander One, LLC ("Oleander"), UNCW Corporation College Station, LLC ("College Station"), and UNCW Corporation Pepys One, LLC ("Pepys") in support of its charitable, scientific and educational purposes.
UNCW CORPORATION II
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Overall, the activities resulted in an increase in net position of $487,508. The increase primarily relates to the sale of the Pepys property and related decrease in operating losses incurred in the prior year. The gain on sale of property was $102,726.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net assets (total assets minus total liabilities) of the Corporation. This statement provides a fiscal snapshot of the Corporation’s financial position as of June 30, 2013. The data provides readers of this statement with information on assets available to continue operations, amounts due to vendors, and the net assets available for expenditure by the Corporation.

Condensed Statement of Net Position
June 30, as indicated

<table>
<thead>
<tr>
<th>Assets</th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$2,850</td>
<td>$60,449</td>
<td>$(57,599)</td>
<td>-95.29%</td>
</tr>
<tr>
<td>Direct finance leases</td>
<td>816,146</td>
<td>4,340,555</td>
<td>(3,524,409)</td>
<td>-81.20%</td>
</tr>
<tr>
<td>Land</td>
<td>3,005,088</td>
<td>3,005,088</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Other assets</td>
<td>7,858</td>
<td>10,846</td>
<td>(2,988)</td>
<td>-27.55%</td>
</tr>
<tr>
<td>Total assets</td>
<td>$3,831,942</td>
<td>$7,416,938</td>
<td>(3,584,996)</td>
<td>-48.34%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable</td>
<td>3,666,502</td>
<td>7,372,728</td>
<td>(3,706,226)</td>
<td>-50.27%</td>
</tr>
<tr>
<td>Amounts due to related party</td>
<td>279,611</td>
<td>595,899</td>
<td>(316,288)</td>
<td>-53.08%</td>
</tr>
<tr>
<td>Other payables</td>
<td>7,860</td>
<td>57,850</td>
<td>(49,990)</td>
<td>-86.41%</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>3,953,973</td>
<td>8,026,477</td>
<td>(4,072,504)</td>
<td>-50.74%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net position</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment in capital assets</td>
<td>3,005,088</td>
<td>3,005,088</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>(3,127,119)</td>
<td>(3,614,627)</td>
<td>(487,508)</td>
<td>13.49%</td>
</tr>
<tr>
<td>Total net position</td>
<td>$ (122,031)</td>
<td>$ (609,539)</td>
<td>$ 487,508</td>
<td>79.98%</td>
</tr>
</tbody>
</table>

At June 30, 2013, the Corporation’s net position increased (the deficit was reduced) by $487,508 primarily from the sale of the Pepys property which also reduced the operating losses incurred during the current year. The sale resulted in a decrease in notes payable and direct financing leases which accounts for $3,297,273 of the total decrease in each respective balance.
UNCW CORPORATION II
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Statement of Activities and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position section are based on the activity reported in the Statement of Activities and Changes in Net Position. The purpose of this statement is to present the revenues received by the Corporation and the expenses paid by the Corporation.

Operating revenues are received for providing goods and services to the various customers. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenue, and to carry out the mission of the Corporation.

Condensed Statement of Activities and Changes in Net Position
For the Year Ended June 30, as indicated

<table>
<thead>
<tr>
<th>Revenue</th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct financing lease income</td>
<td>$ 982,833</td>
<td>$ 193,756</td>
<td>$ 789,077</td>
<td>407.25%</td>
</tr>
<tr>
<td>Other revenues</td>
<td>221,818</td>
<td>160,837</td>
<td>60,981</td>
<td>37.91%</td>
</tr>
<tr>
<td>Total revenue</td>
<td>1,204,651</td>
<td>354,593</td>
<td>850,058</td>
<td>70.56%</td>
</tr>
</tbody>
</table>

Expenses

<table>
<thead>
<tr>
<th>Expense</th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense</td>
<td>149,290</td>
<td>193,799</td>
<td>(44,509)</td>
<td>-22.97%</td>
</tr>
<tr>
<td>Other expenses</td>
<td>567,853</td>
<td>278,357</td>
<td>289,496</td>
<td>104.00%</td>
</tr>
<tr>
<td>Total expenses</td>
<td>717,143</td>
<td>472,156</td>
<td>244,987</td>
<td>34.16%</td>
</tr>
</tbody>
</table>

Changes in net position

Net position, beginning of year  
(609,539)  
(491,976)  
(117,563)

Net position, end of year
$ (122,031)  
$ (609,539)  
$ 487,508

During the fiscal year ended June 30, 2013, the overall increase in net position of $487,508 was primarily a direct result of the sale of the Pepys property. This reduced the operating loss incurred for the year and provided a gain on sale of $102,726.
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 Corporation’s:

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

<table>
<thead>
<tr>
<th>Condensed Statement of Cash Flows</th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts from users</td>
<td>$1,434,775</td>
<td>$492,210</td>
<td>942,565</td>
<td>191.50%</td>
</tr>
<tr>
<td>Payments to suppliers</td>
<td>(934,131)</td>
<td>(31,840)</td>
<td>(902,291)</td>
<td>2833.83%</td>
</tr>
<tr>
<td>Debt service payments</td>
<td>(558,243)</td>
<td>(440,684)</td>
<td>(117,559)</td>
<td>26.68%</td>
</tr>
<tr>
<td>Net change in cash and cash equivalents</td>
<td>(57,599)</td>
<td>19,686</td>
<td>(77,285)</td>
<td>-392.59%</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>60,449</td>
<td>40,763</td>
<td>19,686</td>
<td>48.29%</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$2,850</td>
<td>$60,449</td>
<td>(57,599)</td>
<td>-95.29%</td>
</tr>
</tbody>
</table>

During fiscal year ended June 30, 2012, the notes payable of the corporation were refinanced. This refinancing required principal payments that resulted in an increase in debt service payments for 2013 as well as the increase in receipts from users and payments to suppliers.

Contacting the Corporation’s Financial Management

This financial report is designed to provide a general overview of the Corporation’s finances and demonstrate accountability of all funds. Additional financial information may be obtained by contacting the Associated Entities Office at (910) 962-3139.
## Assets

**Current assets**
- Cash $2,850
- Net investment in direct financing leases, current (note 3) 53,554

**Total current assets** 56,404

**Long-term assets**
- Net investment in direct financing leases, non-current (note 3) 762,592
- Other receivables 7,858
- Land (note 4) 3,005,088

**Total long term assets** 3,775,538

**Total assets** 3,831,942

## Liabilities

**Current liabilities**
- Accounts payable and accrued expenses 7,860
- Due to related organization (note 5) 279,611
- Long-term debt, current (note 6) 242,793

**Total current liabilities** 530,264

**Long-term liabilities**
- Long-term debt, less current (note 6) 3,423,709

**Total long-term liabilities** 3,423,709

**Total liabilities** 3,953,973

## Net position

- Net investment in capital assets 3,005,088
- Unrestricted (3,127,119)

**Total net position** $ (122,031)

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The accompanying notes are an integral part of the financial statements.
<table>
<thead>
<tr>
<th>Revenue</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental income</td>
<td>$49,911</td>
</tr>
<tr>
<td>Direct financing lease income</td>
<td>982,833</td>
</tr>
<tr>
<td>Other revenues</td>
<td>171,907</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td><strong>1,204,651</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracted services</td>
<td>31,336</td>
</tr>
<tr>
<td>Interest expense</td>
<td>149,290</td>
</tr>
<tr>
<td>Other expenses</td>
<td>536,517</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>717,143</strong></td>
</tr>
</tbody>
</table>

Change in net position       487,508

Net position, beginning of year (609,539)

Net position, end of year    $ (122,031)

The accompanying notes are an integral part of the financial statements.
### UNCW CORPORATION II
### STATEMENT OF CASH FLOWS
### Year Ended June 30, 2013

#### Cash flows from operating activities
- Receipts from users $1,434,775
- Payments to suppliers $(934,131)
- Net cash provided by operating activities $500,644

#### Cash flows from capital and related financing activities
- Principal payments on debt $(3,706,226)
- Proceeds from sale of property $3,297,273
- Interest payments on debt $(149,290)
- Net cash used by capital and related financing activities $(558,243)

#### Net change in cash and cash equivalents $(57,599)
#### Cash and cash equivalents, beginning of year $60,449
#### Cash and cash equivalents, end of year $2,850

#### Reconciliation of change in net position to net cash provided by operating activities:
- Change in net position $487,508
  - Adjustments to reconcile change in net position to net cash provided by operating activities:
    - Donated services revenue $(31,336)
    - Donated services expense $31,336
    - Interest payments on debt $149,290
  - Changes in assets and liabilities:
    - Decrease in receivables $230,124
    - Decrease in accounts payable and accrued expenses $(49,990)
    - Decrease in due to related organization $(316,288)
- Net cash provided by operating activities $500,644

The accompanying notes are an integral part of the financial statements.
Note 1 - Organization and other matters

UNCW Corporation II (the "Corporation") was organized as a North Carolina nonprofit corporation on March 20, 2008, for charitable, scientific, and educational purposes including, for such purposes, the making of distributions to organizations. Although legally separate from the University of North Carolina at Wilmington (the "University"), the Corporation is considered a component unit of the University because the University's governing body appoints the Corporation's Board of Directors. Therefore the Corporation's financial statements are presented with those of the University.

Blended component units –
UNCW Corporation Oleander One, LLC ("Oleander") was organized as a North Carolina nonprofit corporation on December 1, 2005. Oleander is the owner of certain premises located on Oleander Drive in Wilmington, NC and offers this property for the use and benefit of the University.

UNCW Corporation Pepys One, LLC ("Pepys") was organized as a North Carolina nonprofit corporation on December 1, 2005. Pepys is the owner of certain premises located on Pepys Lane in Wilmington, NC used as auxiliary support, off-campus parking, or other agreed upon activities for the use and benefit of the University. This property was sold on April 15, 2013.

UNCW Corporation College Station, LLC ("College Station") was organized as a North Carolina nonprofit corporation on December 1, 2005. College Station is the owner of certain premises located on South College Road in Wilmington, NC used as auxiliary support, off-campus parking, or other agreed upon activities for the use and benefit of the University.

The Corporation's financial statements include Oleander, Pepys, and College Station as related organizations of the Corporation, who established these entities and is the LLCs' sole member.

Note 2 - Summary of significant accounting policies

Basis of accounting - The financial statements of the Corporation have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Principles of reporting – The financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. The full scope of the Corporation's activities is considered to be a single business-type activity ("BTA") and, accordingly, is reported within a single column in the basic financial statements.

Direct financing leases – Under the direct financing method of accounting for leases, the total rentals receivable under the lease contracts, net of unearned income are recorded as net investment in direct financing leases, and the unearned income on each lease is recognized at a constant periodic rate of return on the unrecovered investment on each lease payment.
Note 2 - Summary of significant accounting policies (continued)

**Operating lease** – Under the operating method of accounting for leases, the cost of the land is recorded as an asset and rental income is recognized when lease rental payments are received.

**Use of estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Income tax status** – The Corporation is exempt from federal income tax under the Internal Revenue Code ("IRC") Section 501(c)(3).

It is the Corporation’s policy to evaluate all tax positions to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a “more-likely-than-not” threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the financial statements. No material uncertain tax positions were identified for 2013. Currently, the statute of limitations remains open subsequent to and including 2009; however, no examinations are in process or anticipated.

**Change in accounting principles** – The Corporation implemented Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position ("GASB 63") in the fiscal year ended June 30, 2013. GASB 63 provides for separate financial statement elements, *Deferred Outflows of Resources* and *Deferred Inflows of Resources*, which represent, respectively, a consumption of net position that applies to a future period and so will not be recognized as an expense until then or an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Corporation has no items that meet these criteria. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position.

**Capital assets** – Capital assets are stated at cost at date of acquisition.

**Note 3 – Investment in direct financing leases**

The Corporation's leasing operations consist principally of the leasing of various types of property. Except for land leases associated with College Station and Oleander, all of the Corporation's leases are classified as direct financing leases.
Note 3 – Investment in direct financing leases (continued)

The composition of the net investment in direct financing leases at June 30, 2013, is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total minimum lease payments receivable</td>
<td>$871,887</td>
</tr>
<tr>
<td>Less unearned lease income</td>
<td>$55,741</td>
</tr>
<tr>
<td>Net investment in direct financing leases</td>
<td>$816,146</td>
</tr>
<tr>
<td>Less current portion</td>
<td>$53,554</td>
</tr>
<tr>
<td>Long term portion</td>
<td>$762,592</td>
</tr>
</tbody>
</table>

At June 30, 2013, the minimum future lease payments due under the direct financing leases are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year Ending June 30</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$71,353</td>
</tr>
<tr>
<td>2015</td>
<td>71,316</td>
</tr>
<tr>
<td>2016</td>
<td>71,316</td>
</tr>
<tr>
<td>2017</td>
<td>657,902</td>
</tr>
<tr>
<td></td>
<td>$871,887</td>
</tr>
</tbody>
</table>

The minimum future lease payments table above is prepared under the assumption that the University will payoff the short-term notes associated with the property at their expiration dates.

Note 4 – Capital assets

Capital assets activity for the year ended June 30, 2013 was as follows:

<table>
<thead>
<tr>
<th>Capital assets, not being depreciated:</th>
<th>Beginning Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$3,005,088</td>
<td>-</td>
<td>-</td>
<td>$3,005,088</td>
</tr>
</tbody>
</table>

Note 5 – Due to related organization

At June 30, 2013, the Corporation has an outstanding balance to a related organization for operating expenses which exceeded the Corporation’s available cash in previous periods.
Note 6 – Risks and uncertainties

All of the Corporation's deposits are either insured or collateralized by using one of the following methods. Substantially all deposits held directly with financial institutions in the United States are insured up to $250,000 with the Federal Deposit Insurance Corporation. The Corporation’s accounts held with financial institutions from time to time may have amounts on deposit in excess of the insured limits. For deposits held within pooled funds of the University ("Pooled Method"), all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the University, these deposits are considered to be held by the agent in the entity’s name.

The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Corporation or with the University. Because of the inability to measure the exact amount of collateral pledged for the Corporation under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Corporation has no policy regarding custodial credit risk for deposits.

Note 7 – Notes payable

The Corporation has two outstanding bank loans of $2,401,732 and $1,264,770, in connection with its purchase of two separate real estate properties and related buildings that were located close to the University. All notes are due with monthly payments of $17,365 and $9,516, respectively, including interest at the bank's LIBOR rate plus 2.05% (2.24% at June 30, 2013), and are due in full November 2016.

All notes payable are collateralized by the underlying properties and the assignment of the related agreements with the University and unrelated lessee and rental income from the respective properties.

In connection with the Corporation's notes payable to the bank, the Corporation has agreed to comply with certain loan covenants concerning, among other things, the submission of audited financial statements within 120 days of financial year-end.
Note 7 – Notes payable (continued)

Maturities of long-term debt during the years subsequent to June 30, 2013 are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year Ending June 30</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$242,793</td>
</tr>
<tr>
<td>2015</td>
<td>248,142</td>
</tr>
<tr>
<td>2016</td>
<td>253,778</td>
</tr>
<tr>
<td>2017</td>
<td>2,921,789</td>
</tr>
<tr>
<td></td>
<td>$3,666,502</td>
</tr>
<tr>
<td>Less current portion</td>
<td>(242,793)</td>
</tr>
<tr>
<td>Noncurrent portion</td>
<td>$3,423,709</td>
</tr>
</tbody>
</table>

Note 8 – Related party transactions

The University entered into Management Service Agreements with the Corporation for the Oleander, College Station, and Pepys properties. Under these agreements, the University is allowed to use the properties as intended in Note 1 and agrees to pay the Corporation all amounts which may become due and payable from time to time under the Note and the Security Documents (said amounts to be paid are collectively called the "Usage Fee"). The Usage Fee shall include all monthly payments of principal and interest, all late fees or charges, default interest, and any and all other amounts to become due and payable under the Note and the Security Documents. These Management Service Agreements are annual in duration and automatically renew.

For the year ended June 30, 2013, the Corporation's Pepys blended component unit contracted with a private company to perform management services on behalf of the Corporation. This relationship ended with the sale of the Pepys property. The University performs management services for Oleander and College Station properties.

The amounts shown as rental income reflect income that was obligated to payments required on the notes payable.

Note 9 – Commitments

In accordance with the amended and restated operating agreements of Oleander, Pepys, and College Station, the Corporation has agreed to contribute cash to Oleander, Pepys, and College Station of $25,000, $25,000, and $10,000, respectively. These contributions have not been made at June 30, 2013. Upon the sale of the Pepys property on April 15, 2013, the Corporation’s obligation on the $25,000 commitment related to that property ended.
This audit required approximately 105 hours to complete at a cost of $5,700.
September 5, 2013

To the Board of Directors
UNCW Corporation II
Wilmington, NC

This letter is intended to inform the Board of Directors of UNCW Corporation II ("the Corporation") about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Board of Directors.

In addition to our report on your financial statements dated September 5, 2013, we have issued a communication required under Statement on Auditing Standards AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit.* This Statement establishes standards and provides guidance on the auditor’s responsibilities for identifying, evaluating, and communicating matters related to an entity’s internal control over financial reporting identified in an audit of the financial statements.

The following summarizes various matters which must be communicated to you under auditing standards generally accepted in the United States of America.

**Our responsibilities under U.S. Generally Accepted Auditing Standards (GAAS)**

As stated in our engagement letter dated March 20, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Corporation. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Corporation’s compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Management Judgments and Accounting Estimate**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in Note 2 to the financial statements. As described in Note 2 to the financial statements, the Corporation adopted Governmental Accounting Standards (GASB Statement) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* in 2013. All significant transactions have been recognized in the financial statements in the proper period.
Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

Corrected misstatements - audit adjustments

Professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Corporation’s financial reporting process (that is, cause future financial statements to be materially misstated).

There were no audit adjustments made to the original trial balance presented to us to begin our audit.

Uncorrected misstatements – passed audit adjustments

There were no uncorrected misstatements (passed audit adjustments) for the year ended June 30, 2013.

Accounting Policies and Alternative Treatments

The Board of Directors has the ultimate responsibility for the appropriateness of the accounting policies used by the Corporation. Note 2 to the financial statements of the Corporation contain a summary of significant accounting policies.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents that contain the audited financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited financial statements of the Corporation.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.
Independence

We are familiar with Rule 101 of the AICPA’s Code of Conduct and its interpretations and rulings. Our Firm has been, for the year covered by the financial statements under report and thereafter to date, independent as contemplated by such Rule.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 5, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Corporation’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Closing

This information is intended solely for the use of the Board of Directors of UNCW Corporation II and is not intended to be, and should not be, used by anyone other than these specified parties.

[Signature]
Durham, North Carolina
September 5, 2013
To the Board of Directors  
UNCW Corporation II  
Wilmington, North Carolina

In planning and performing our audit of the financial statements of UNCW Corporation II (the "Corporation") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) 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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

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This communication is intended solely for the information and use of management, the Board of Directors, and others within the Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Thomas Gibbs, CCPA  
Durham, North Carolina  
September 5, 2013