

STATE OF NORTH CAROLINA

UNIVERSITY OF NORTH CAROLINA AT WILMINGTON

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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, 2011

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
University of North Carolina 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 unit, as of and for the year ended June 30, 2011, 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.

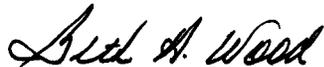
In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of North Carolina at Wilmington and its discretely presented component unit as of June 30, 2011, 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)

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 59, *Financial Instruments Omnibus* during the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2011 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.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

November 7, 2011

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

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, 2011. 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

The fiscal year ended June 30, 2011, was a continuum of fiscal year ended June 30, 2010, with State budget reductions, mandated appropriation reversions, and unanticipated allotment reversions in June 2011, necessitating the remaining outstanding obligations being carried over to fiscal year ended June 30, 2012.

For fiscal year ended June 30, 2011, the legislature imposed a permanent budget reduction of 4.25% (\$4.2 million), however, the University did receive State funding for enrollment

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

growth (\$3.6 million), operations of new buildings (\$1.6 million), and need-based financial aid (\$470,556) received as part of Campus Initiated Tuition Increase. There were no State appropriations for repair and renovations for University buildings in fiscal year ended June 30, 2011.

During fiscal year ended June 30, 2011, the State imposed a \$3.5 million one-time reversion. On June 2, 2011, due to cash flow issues at the State level, the University received a state allotment restriction covering only payroll and minimum operating costs, resulting in a cash shortage (\$1.5 million) for fiscal year 2011. As a designated Special Responsibility Constituent Institution (SRCI) pursuant to G.S. 116-30-1, the University may carry forward up to 2.5% of the credit balance remaining in the General Fund appropriation to the next fiscal year to be used for one-time expenditures. No SRCI carry forward was approved by the North Carolina Office of State Budget and Management for fiscal year ended June 30, 2012 to help defray the outstanding obligations at June 30, 2011.

To help the University protect the quality of a UNC education, the 2010 NC General Assembly authorized each UNC campus to implement a supplemental tuition increase to help offset the impact of State budget cuts. The amount collected was to be used to protect academic quality and provide need-based financial aid. The University implemented an annual tuition increase of approximately \$412 to offset the impact of budget cuts in fiscal year 2011. These tuition increases helped preserve the quality of the academic learning experience for students.

During fiscal year ended June 30, 2011, University employees did not receive a pay increase. This is the third consecutive year with no raises for State employees.

The University brought two buildings on line during the fiscal year: McNeill Hall, (Nursing building occupied in August 2010) and the CMS Oyster Research Hatchery, (Capital Grant from Department of Environment & Natural Resources (DENR) Division of Marine Fisheries). Other building projects currently underway during 2011 were the Student Recreation Center expansion, the CMS MARBIONC facility and the Teaching Laboratory Building, which are in various stages of construction.

The University issued a \$15.8 million bond issue for the construction of the CMS MARBIONC facility at the Center for Marine Science campus. These bond proceeds provided the University's matching funds for a \$15 million matching grant from the National Institute of Standards and Technology. An additional bond issue totaling \$9 million was issued for infrastructure upgrades to Schwartz Hall/University Suites (\$5 million) and the renovation of Wagoner Dining Hall (\$4 million).

On June 30, 2011, the University endowment total net assets were valued at \$62.8 million, reflecting an increase of \$10.8 million from 2010. This net increase is comprised of gift contributions of \$4.2 million, investment net earnings of \$7.5 million, and other University additions of \$533,645 and is offset by endowment income distributions of \$1.4 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, 2011. 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.

Condensed Statement of Net Assets				
June 30, as Indicated				
	2011	2010	Change	%
				Change
Assets				
Current Assets	\$ 95,702,802	\$ 89,987,511	\$ 5,715,291	6.4%
Noncurrent Assets	116,014,710	98,170,667	17,844,043	18.2%
Capital Assets, Net	448,098,690	425,635,893	22,462,797	5.3%
Total Assets	659,816,202	613,794,071	46,022,131	7.5%
Liabilities				
Current Liabilities	27,935,412	21,099,092	6,836,320	32.4%
Noncurrent Liabilities	260,896,812	241,655,576	19,241,236	8.0%
Total Liabilities	288,832,224	262,754,668	26,077,556	9.9%
Net Assets				
Invested in Capital Assets, Net	247,002,288	229,927,613	17,074,675	7.4%
Restricted Nonexpendable	55,771,543	45,056,161	10,715,382	23.8%
Restricted Expendable	15,518,651	22,801,543	(7,282,892)	-31.9%
Unrestricted	52,691,496	53,254,086	(562,590)	-1.1%
Total Net Assets	\$ 370,983,978	\$ 351,039,403	\$ 19,944,575	5.7%

On June 30, 2011, total University assets were \$659.8 million. The largest asset categories included the University's investment in capital assets (\$448.1 million), cash and cash equivalents (\$140.2 million) and endowment investments (\$57.8 million). The increase in cash and cash equivalents was attributed to the unspent cash proceeds from the issuance of two new bond series. The increase in capital assets was due to several large capital construction projects (\$19.7 million) and the new CMS Oyster Research Hatchery (\$4.3 million). Current liabilities increased as a result of the outstanding accounts payable (\$4.7 million) from the unpaid obligations at year end due to the unexpected State allotment reduction and unavailability of cash at June 30. The largest increase in noncurrent liabilities (\$18.9 million) resulted from the issuance of new debt for the MARBIONC construction project and two major renovation construction projects for Schwartz Hall/University Suites and Wagoner Dining Hall. The increase in investments in capital assets, net of related debt (\$17.1 million), was due to the transfer by the State to UNCW of the CMS Oyster Research

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Hatchery facility, the McNeill Hall (Nursing building), and various other completed construction projects reclassified from capital projects (restricted expendable).

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 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 incurred 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

	2011	2010	Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 80,606,602	\$ 71,613,363	\$ 8,993,239	12.6%
Sales and Service, Net	39,431,360	37,764,423	1,666,937	4.4%
Grants and Contracts	17,093,901	18,559,457	(1,465,556)	-7.9%
Other Operating Revenues	2,896,038	1,771,634	1,124,404	63.5%
Total Operating Revenues	<u>140,027,901</u>	<u>129,708,877</u>	<u>10,319,024</u>	<u>8.0%</u>
Operating Expenses				
Salaries and Benefits	151,677,706	145,706,677	5,971,029	4.1%
Supplies and Materials	15,699,970	18,883,395	(3,183,425)	-16.9%
Services	48,694,722	44,058,570	4,636,152	10.5%
Scholarships and Fellowships	17,177,308	15,695,692	1,481,616	9.4%
Utilities	7,547,034	8,667,368	(1,120,334)	-12.9%
Depreciation	13,811,118	13,612,147	198,971	1.5%
Total Operating Expenses	<u>254,607,858</u>	<u>246,623,849</u>	<u>7,984,009</u>	<u>3.2%</u>
Operating Loss	<u>(114,579,957)</u>	<u>(116,914,972)</u>	<u>2,335,015</u>	<u>-2.0%</u>
Nonoperating Revenues (Expenses)				
State Appropriation	89,349,941	90,220,051	(870,110)	-1.0%
State Aid - Federal Recovery Funds	7,536,901	7,228,518	308,383	4.3%
Noncapital Gifts and Grants	27,996,582	24,551,773	3,444,809	14.0%
Investment Income, Net	8,710,806	4,378,042	4,332,764	99.0%
Interest and Fees on Debt	(11,654,036)	(6,491,363)	(5,162,673)	79.5%
Federal Interest Subsidy on Debt	678,693		678,693	N/A
Other Nonoperating Expenses	(46,388)	(735,635)	689,247	-93.7%
Other Revenues				
Capital Gifts and Grants	7,759,598	2,805,894	4,953,704	176.5%
Additions to Endowments	4,192,435	2,085,107	2,107,328	101.1%
Total Nonoperating and Other Revenues	<u>134,524,532</u>	<u>124,042,387</u>	<u>10,482,145</u>	<u>8.5%</u>
Increase in Net Assets	19,944,575	7,127,415	12,817,160	179.8%
Net Assets - Beginning of Year	<u>351,039,403</u>	<u>343,911,988</u>	<u>7,127,415</u>	<u>2.1%</u>
Net Assets - End of Year	<u>\$ 370,983,978</u>	<u>\$ 351,039,403</u>	<u>\$ 19,944,575</u>	<u>5.7%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Student tuition and fees (\$80.6 million) and sales and services from auxiliary enterprises (\$39.4 million) accounted for 85.6% of the University's operating revenue. Tuition and fee revenue increased as a result of a 4.7% increase in student tuition and a 3% increase in student fees. Grants and contracts revenue decreased due to the expiration of ARRA funding.

The decrease in supplies and materials expenditures reflected a return to a normal level of expenditures and a reduction of available funding in June 2011 from the State. The \$1.5 million increase in scholarship spending resulted from an increase in State appropriations, specifically to increase financial aid to students. The decrease in utility expense reflects savings in energy costs as a result of the guaranteed energy project which funded the installation of energy efficient infrastructure improvements. The University received additional financial aid funding again this year which contributed to the \$3.3 million increase in noncapital grants-student financial aid.

Investment income increased (\$4.3 million) primarily due to the increase in market values of the endowment investments. The increase (\$5.2 million) in interest and fees on debt expense represents interest expense on bond indebtedness issued in late fiscal year 2010 that became due in fiscal year 2011. The capital grants increase resulted primarily from the State's transfer of ownership of the newly constructed CMS Oyster Research Hatchery (\$4.3 million) to UNCW. The Campaign for UNCW – Soaring to Greatness, yielded significant results in 2011. Additions to the Endowment in 2011 increased 101% over 2010.

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 must be reported discretely in the financial statements.

UNCW Corporation, Inc.			
Total Net Assets			
	<u>2011</u>	<u>2010</u>	<u>Change</u>
Asset and Liabilities:			
Total Assets	\$ 128,078,320	\$ 128,560,646	\$ (482,326)
Total Liabilities	<u>128,078,320</u>	<u>128,560,646</u>	<u>(482,326)</u>
Total Net Assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The decrease in asset and liabilities is a result of construction expenditures on remaining bond funds and payments applied toward the principal of the bond debt.

UNCW Corporation, Inc.			
Changes in Net Assets			
	<u>2011</u>	<u>2010</u>	<u>Change</u>
Total Revenues	\$ 6,204,216	\$ 5,265,640	\$ 938,576
Total Expenses	<u>6,204,216</u>	<u>5,265,640</u>	<u>938,576</u>
Net Assets - End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The offsetting increase in revenues and expenses is primarily a result of the debt service requirements for the UNCW Corporation's third housing project. In fiscal year 2011, two semi-annual debt service payments were received and expensed. In contrast, only one semi-annual debt service payment was received and expensed in fiscal year 2010, as the other payment was funded from capitalized interest included in the bond proceeds.

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

	2011	2010	Change	% Change
Cash Provided (Used) by:				
Operating Activities	\$ (99,991,526)	\$ (105,346,975)	\$ 5,355,449	-5.1%
Noncapital Financing Activities	129,602,216	125,363,397	4,238,819	3.4%
Capital Financing Activities	(15,059,529)	3,185,821	(18,245,350)	-572.7%
Investing Activities	(4,003,458)	3,761,529	(7,764,987)	-206.4%
Net Change In Cash	10,547,703	26,963,772	(16,416,069)	-60.9%
Cash Beginning of Year	129,663,772	102,700,000	26,963,772	26.3%
Cash Ending of Year	<u>\$ 140,211,475</u>	<u>\$ 129,663,772</u>	<u>\$ 10,547,703</u>	8.1%

Operating Activities

Major cash sources were student tuition and fees (\$80.6 million), sales and services (\$39.4 million), and contracts and grants (\$17.1 million). Major cash uses were compensation to employees (\$151.9 million), payments to vendors and suppliers for goods and services (\$70.9 million), and disbursements to students for scholarships and awards (\$17.2 million).

Noncapital Financial Activities

The major cash inflow was State appropriations (\$89.3 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 (\$28.2 million).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Financing Activities

Cash provided included State capital grants (\$7.9 million). Cash used was primarily for the acquisition of capital assets (\$33 million) and the repayment of principal and interest on capital debt (\$15.4 million).

Investing Activities

Cash provided included sales and maturities of investments (\$2.3 million) and investment income (\$3.1 million). Cash used reflects the purchase of investments and related fees (\$9.4 million).

Capital Assets and Debt Administration

Capital Assets

The University had \$448.1 million invested in capital assets at June 30, 2011, as reported in the table below. This represents an increase of \$22.5 million from 2010.

Capital Assets Net of Depreciation June 30, as Indicated

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Land	\$ 6,258,371	\$ 6,258,371	\$ 0
Art, Literature and Artifacts	1,851,904	1,796,372	55,532
Construction In Progress	27,237,821	33,949,649	(6,711,828)
Building, Net	368,817,285	340,360,201	28,457,084
Machinery and Equipment, Net	13,803,263	12,588,729	1,214,534
Infrastructure, Net	30,130,046	30,682,571	(552,525)
Total Capital Assets	\$ 448,098,690	\$ 425,635,893	\$ 22,462,797

The net decrease in the construction in progress category was the result of the completion and subsequent occupancy of McNeill Hall (Nursing building) as well as the completion of the new sprinkler systems in Belk, Graham, and Hewlett Halls.

The increase in the building category was the result of the occupancy of McNeill Hall (Nursing building) and the transfer of ownership from the Department of Environment & Natural Resources (DENR), Division of Marine Fisheries, to the University of the Oyster Research Hatchery facility at the Center for Marine Science.

Debt

As of June 30, 2011, the University's \$254.2 million in long-term debt included outstanding bonds payable (\$118.3 million), notes payable (\$4.5 million), and capital leases payable (\$131.3 million). In September 2010, the University amended the installment financing for the Guaranteed Energy Savings Contract notes payable for a reduced annual interest rate from 4.97% to 3.97% for a total debt service savings of \$582,492 over 20 years. In October 2010, the University issued a \$15.8 million general revenue bond issue for the construction of the MARBIONC facility at the Center for Marine Science campus. These bond proceeds provided the University's matching funds for a \$15 million matching grant from the National

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Institute of Standards and Technology. In March 2011, bonds payable increased an additional \$9 million when the University issued general revenue bonds for the Schwartz Hall/University Suites Sprinkler & HVAC Project (\$5 million) and the Wagoner Dining Hall Project (\$4 million).

On September 23, 2010, Moody's Investors Service (Moody's) assigned an A-1 rating to the University Series 2010A and 2010B General Revenue Bonds and affirmed the A-1 ratings on the University general revenue bonds. Moody's also revised the rating outlook to stable from positive on the general revenue bonds given the increase in debt for the University with pro forma debt equating to 1.08 times FY2009 operating revenue as well as the reduced State funding environment.

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

Economic Forecast

For fiscal year 2011-12, permanent State appropriations for University operations were reduced by \$16.6 million. As part of the reduction in State appropriations, the University eliminated 140 FTE positions (478 headcount) which included a reduction in force, elimination of vacant positions, and reassignment of various state supported positions (14) to non-state funds in an effort to minimize the impact on employees. State appropriations were approved (\$1.27 million) to cover increases in retirement and health plan employer benefit rates. However, no State appropriations were approved for employee salary increases for the fourth year in a row.

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.

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.

The uncertainty of sovereign nations' debt and deficits coupled with high unemployment, depressed housing markets, questionable state of the US economy and global markets, makes the economic outlook extremely volatile. The cumulative impact of the long economic recession and the State's ability to provide funding for education has changed the focus of the State's universities.

The University is dedicated to provide the most powerful academic experience possible and the highest quality of education possible for our students. The University's focus remains on sustaining the quality of teaching, research, and service. As a result, the administrative and support service areas within the University are absorbing a higher percentage of the overall fiscal year 2011-12 budget reductions; however, instruction and instructional support services are being negatively affected by this year's reductions. The University continues its ongoing efforts of prudent fund allocations, cost containment measures, implementation of efficiencies

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

and continual reassessment of the resources available to successfully meet our core mission and goals. The University is focusing its priorities 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/ba/finance/Controller/financial_reports.html.

University of North Carolina at Wilmington
Statement of Net Assets
June 30, 2011

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 65,347,125
Restricted Cash and Cash Equivalents	24,042,407
Receivables, Net (Note 4)	4,586,704
Due from State of North Carolina Component Units	268,287
Inventories	408,444
Notes Receivable, Net (Note 4)	1,049,835

Total Current Assets	95,702,802
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	50,821,943
Receivables, Net (Note 4)	244,668
Restricted Due from Primary Government	271,432
Endowment Investments	57,827,677
Other Investments	349,596
Deferred Outflow of Resources	1,180,403
Notes Receivable, Net (Note 4)	5,318,991
Capital Assets - Nondepreciable (Note 5)	35,348,096
Capital Assets - Depreciable, Net (Note 5)	412,750,594

Total Noncurrent Assets	564,113,400
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Total Assets	659,816,202
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	9,836,745
Due to Primary Government	1,178,439
Unearned Revenue	4,343,537
Interest Payable	2,358,805
Long-Term Liabilities - Current Portion (Note 7)	10,217,886

Total Current Liabilities	27,935,412
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Noncurrent Liabilities:

Accounts Payable and Accrued Liabilities	411
Funds Held for Others	4,146,033
U. S. Government Grants Refundable	4,426,296
Long-Term Liabilities (Note 7)	252,324,072

Total Noncurrent Liabilities	260,896,812
------------------------------	-------------

Total Liabilities	288,832,224
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University of North Carolina at Wilmington
Statement of Net Assets
June 30, 2011

Exhibit A-1
Page 2 of 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	247,002,288
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	22,869,812
Research	1,988,605
Endowed Professorships	12,689,408
Departmental Uses	17,216,533
Loans	1,007,185
Expendable:	
Scholarships and Fellowships	5,244,833
Research	34,179
Endowed Professorships	795,371
Departmental Uses	6,917,016
Loans	317,947
Capital Projects	1,912,289
Debt Service	297,016
Unrestricted	<u>52,691,496</u>
Total Net Assets	<u><u>\$ 370,983,978</u></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, 2011

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 80,606,602
Federal Grants and Contracts	14,570,287
State and Local Grants and Contracts	1,290,821
Nongovernmental Grants and Contracts	1,232,793
Sales and Services, Net (Note 9)	39,431,360
Interest Earnings on Loans	69,153
Other Operating Revenues	2,826,885
	<hr/>
Total Operating Revenues	140,027,901

EXPENSES

Operating Expenses:

Salaries and Benefits	151,677,706
Supplies and Materials	15,699,970
Services	48,694,722
Scholarships and Fellowships	17,177,308
Utilities	7,547,034
Depreciation	13,811,118
	<hr/>
Total Operating Expenses	254,607,858

Operating Loss	<hr/> <u>(114,579,957)</u>
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	89,349,941
State Aid - Federal Recovery Funds	7,536,901
Noncapital Grants - Student Financial Aid	25,079,443
Noncapital Gifts, Net (Note 9)	2,917,139
Investment Income (Net of Investment Expense of \$267,687)	8,710,806
Interest and Fees on Debt	(11,654,036)
Federal Interest Subsidy on Debt	678,693
Other Nonoperating Expenses	(46,388)
	<hr/>
Net Nonoperating Revenues	122,572,499

Income Before Other Revenues	7,992,542
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Capital Grants	7,759,598
Additions to Endowments	4,192,435
	<hr/>

Increase in Net Assets	19,944,575
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NET ASSETS

Net Assets - July 1, 2010	<hr/> 351,039,403
Net Assets - June 30, 2011	<hr/> <u>\$ 370,983,978</u>

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, 2011

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 136,858,124
Payments to Employees and Fringe Benefits	(151,871,142)
Payments to Vendors and Suppliers	(70,853,027)
Payments for Scholarships and Fellowships	(17,177,308)
Loans Issued	(498,266)
Collection of Loans	669,802
Interest Earned on Loans	95,689
Other Receipts	2,784,602
	<hr/>
Net Cash Used by Operating Activities	(99,991,526)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	89,349,941
Federal Appropriations	7,536,901
Noncapital Grants - Student Financial Aid	25,079,443
Noncapital Gifts	3,087,682
Additions to Endowments	4,192,435
William D. Ford Direct Lending Receipts	58,304,204
William D. Ford Direct Lending Disbursements	(58,304,204)
Related Activity Agency Receipts	402,202
Other Payments	(46,388)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	129,602,216

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	24,750,000
Capital Grants	3,594,464
Acquisition and Construction of Capital Assets	(28,727,747)
Principal Paid on Capital Debt and Leases	(3,941,796)
Interest and Fees Paid on Capital Debt and Leases	(11,413,143)
Federal Interest Subsidy on Debt Received	678,693
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(15,059,529)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	2,267,200
Investment Income	3,135,965
Purchase of Investments and Related Fees	(9,406,623)
	<hr/>
Net Cash Used by Investing Activities	(4,003,458)
	<hr/>
Net Increase in Cash and Cash Equivalents	10,547,703
Cash and Cash Equivalents - July 1, 2010	129,663,772
	<hr/>
Cash and Cash Equivalents - June 30, 2011	\$ 140,211,475

University of North Carolina at Wilmington
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$	(114,579,957)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		13,811,118
Nonoperating Other Expenses		(253,272)
Changes in Assets and Liabilities:		
Receivables (Net)		(645,358)
Due from State of North Carolina Component Units		120,713
Inventories		(67,597)
Notes Receivable (Net)		191,941
Accounts Payable and Accrued Liabilities		1,442,408
Due to Primary Government		(51,751)
Unearned Revenue		54,892
Deposits Payable		(14,663)
		<u>(14,663)</u>
Net Cash Used by Operating Activities	\$	<u>(99,991,526)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	65,347,125
Restricted Cash and Cash Equivalents		24,042,407
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>50,821,943</u>
Total Cash and Cash Equivalents - June 30, 2011	\$	<u>140,211,475</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$	6,488,545
Assets Acquired through a Capital Grant		4,264,606
Change in Fair Value of Investments		5,710,125

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

UNCW Corporation, Inc.
Statement of Net Assets
June 30, 2011

Exhibit B-1

ASSETS

Assets Limited as to Use, Restricted	\$	899,963
Net Investment in Direct Financing Leases, Current		1,344,882
Net Investment in Direct Financing Lease, Noncurrent		123,248,198
Debt Issuance Cost, Net		<u>2,585,277</u>
Total Assets		<u>128,078,320</u>

LIABILITIES

Accounts Payable and Accrued Expenses		502,842
Certificates of Participation Payable, Current		845,000
Certificates of Participation Payable, Noncurrent		<u>126,730,478</u>
Total Liabilities		<u>128,078,320</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
For the Fiscal Year Ended June 30, 2011

Exhibit B-2

REVENUES

Direct Financing Lease Income	6,085,515
Other Revenues	<u>118,701</u>
Total Unrestricted Revenues and Gains	<u>6,204,216</u>

EXPENSES

Contracted Services	108,825
Interest Expense	6,085,515
Other Expenses	<u>9,876</u>
Total Expenses	<u>6,204,216</u>
Change in Net Assets	<u>0</u>

NET ASSETS

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

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, 2011

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 to emphasize its 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)

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 Standards Board (GASB) Statements.

During the year ended June 30, 2011, 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 Governmental Accounting Standards Board (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 Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange includes 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

include amounts due from the federal government, State and local governments, related nonprofit foundations associated with the University, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Bonds payable are reported net of unamortized premiums and deferred losses on refunds. The University amortizes bond premiums over the life of the bonds using the straight-line method. The deferred losses on refunds are amortized over the life of the new debt using the straight-line method. Issuance costs are amortized over the life of the bonds using the straight-line method.

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

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

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

- L. Net 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

- M. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net 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.
- N. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as copy centers, motor pool, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if 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. In addition, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, the University may voluntarily deposit 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, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$139,226,615 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 1.9 years as of June 30, 2011. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2011 was \$29,997. The carrying amount of the University's deposits not with the State Treasurer was \$954,863 and the bank balance was \$1,431,353. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2011, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Bank	\$ <u>478,528</u>
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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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Investments of the University's 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, 2011, for the Long-Term Investment Pool.

	Fair Value
Investment Type	
UNC Investment Fund	\$ 32,531,861
Equity Mutual Funds	23,830,649
Investments in Real Estate	334,766
Total Long-Term Investment Pool	<u>\$ 56,697,276</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

UNC Investment Fund, LLC - At June 30, 2011, the University's investments include \$32,531,861 which represents the University's equity position in the UNC Investment Fund, LLC (System Fund). The System 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 System Fund are determined on a market unit valuation basis each month. Investment risks associated with the System 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, 2011, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	<u>Fair Value</u>	<u>Investment Maturities 1 to 5 Years</u>
Debt Securities		
Debt Mutual Funds	\$ 427,647	<u>\$ 427,647</u>
Other Securities		
Equity Mutual Funds	1,028,138	
Domestic Stocks	9,382	
Other-Life Insurance	<u>14,830</u>	
Total Non-Pooled Investments	<u>\$ 1,479,997</u>	

At June 30, 2011, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	<u>Fair Value</u>	<u>AAA Aaa</u>	<u>AA Aa</u>	<u>A</u>	<u>BBB Baa</u>	<u>BB/Ba and below</u>	<u>Unrated</u>
Debt Mutual Funds	\$ 427,647	\$ 259,705	\$ 24,146	\$ 51,937	\$ 51,150	\$ 34,304	\$ 6,405

Rating Agency: Standard & Poor's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total Investments - The following table presents the fair value of the total investments at June 30, 2011:

Investment Type	<u>Fair Value</u>
Debt Securities	
Debt Mutual Funds	\$ 427,647
Other Securities	
UNC Investment Fund	32,531,861
Equity Mutual Funds	24,858,787
Investments in Real Estate	334,766
Domestic Stocks	9,382
Other - Life Insurance	<u>14,830</u>
Total Investments	<u>\$ 58,177,273</u>

COMPONENT UNIT - Investments of the University's discretely presented component unit, the UNCW Corporation, Inc. (Corporation) is 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, 2011, the Corporation has invested proceeds from a bond issuance in the amount of \$899,963. The Corporation's investments were maintained in a money market account. This investment is professionally managed by a fiscal agent.

C. Reconciliation of Deposits and Investment – A reconciliation of deposits and investments for the University at June 30, 2011, is as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash on Hand	\$	29,997
Amount of Deposits with Private Financial Institutions		954,863
Deposits in the Short-Term Investment Fund		139,226,615
Long-Term Investment Pool		56,697,276
Non-pooled Investments		<u>1,479,997</u>
Total Deposits and Investments	\$	<u><u>198,388,748</u></u>
Deposits		
Current:		
Cash and Cash Equivalents	\$	65,347,125
Restricted Cash and Cash Equivalents		24,042,407
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>50,821,943</u>
Total Deposits		<u><u>140,211,475</u></u>
Investments		
Noncurrent:		
Endowment Investments		57,827,677
Other Investments		<u>349,596</u>
Total Investments		<u><u>58,177,273</u></u>
Total Deposits and Investments	\$	<u><u>198,388,748</u></u>

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 2011, which limits spending to 3.5% 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 added to 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 June 30, 2011,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

endowment net assets of \$16,778,574 were available to be spent, of which \$13,055,117 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 1,639,637	\$ 163,883	\$ 1,475,754
Accounts	1,643,871		1,643,871
Intergovernmental	990,500		990,500
Pledges	183,744	9,187	174,557
Investment Earnings	147,934		147,934
Interest on Loans	111,805		111,805
Other	42,283		42,283
Total Current Receivables	<u>\$ 4,759,774</u>	<u>\$ 173,070</u>	<u>\$ 4,586,704</u>
Noncurrent Receivables:			
Pledges	<u>\$ 257,545</u>	<u>\$ 12,877</u>	<u>\$ 244,668</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 1,029,061	\$ 98,899	\$ 930,162
Institutional Student Loan Programs	119,673		119,673
Total Notes Receivable - Current	<u>\$ 1,148,734</u>	<u>\$ 98,899</u>	<u>\$ 1,049,835</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 3,925,523	\$ 392,552	\$ 3,532,971
Due From UNCW Foundation	1,750,000		1,750,000
Institutional Student Loan Programs	36,020		36,020
Total Notes Receivable - Noncurrent	<u>\$ 5,711,543</u>	<u>\$ 392,552</u>	<u>\$ 5,318,991</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 6,258,371	\$ 0	\$ 0	\$ 6,258,371
Art, Literature, and Artifacts	1,796,372	55,532		1,851,904
Construction in Progress	33,949,649	28,499,140	35,210,968	27,237,821
Total Capital Assets, Nondepreciable	<u>42,004,392</u>	<u>28,554,672</u>	<u>35,210,968</u>	<u>35,348,096</u>
Capital Assets, Depreciable:				
Buildings	430,050,107	39,052,834		469,102,941
Machinery and Equipment	37,158,596	3,462,956	250,462	40,371,090
General Infrastructure	41,238,711	445,768	9,180	41,675,299
Total Capital Assets, Depreciable	<u>508,447,414</u>	<u>42,961,558</u>	<u>259,642</u>	<u>551,149,330</u>
Less Accumulated Depreciation for:				
Buildings	89,689,906	10,595,750		100,285,656
Machinery and Equipment	24,569,867	2,217,075	219,115	26,567,827
General Infrastructure	10,556,140	998,293	9,180	11,545,253
Total Accumulated Depreciation	<u>124,815,913</u>	<u>13,811,118</u>	<u>228,295</u>	<u>138,398,736</u>
Total Capital Assets, Depreciable, Net	<u>383,631,501</u>	<u>29,150,440</u>	<u>31,347</u>	<u>412,750,594</u>
Capital Assets, Net	<u>\$ 425,635,893</u>	<u>\$ 57,705,112</u>	<u>\$ 35,242,315</u>	<u>\$ 448,098,690</u>

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Current accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 8,555,725
Accrued Payroll	590,211
Contract Retainage	690,809
Total Current Accounts Payable and Accrued Liabilities	<u>\$ 9,836,745</u>

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, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Revenue Bonds Payable	\$ 95,055,000	\$ 24,750,000	\$ 3,470,000	\$ 116,335,000	\$ 4,583,456
Add Premium	4,537,377		196,056	4,341,321	
Deduct Deferred Charge on Refunding	(2,593,427)		(175,227)	(2,418,200)	
Total Revenue Bonds Payable	96,998,950	24,750,000	3,490,829	118,258,121	4,583,456
Notes Payable	4,542,387			4,542,387	74,276
Arbitrage Rebate Payable	127,987			127,987	127,987
Capital Leases Payable	131,729,410		450,967	131,278,443	5,328,443
Compensated Absences	8,575,714	329,041	569,735	8,335,020	103,724
Total Long-Term Liabilities	\$ 241,974,448	\$ 25,079,041	\$ 4,511,531	\$ 262,541,958	\$ 10,217,886

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, 2011	Principal Outstanding June 30, 2011
General Revenue						
Construct Dorm	2002A	3.0 - 5.0	01/01/2023	\$ 11,500,000	\$ 10,985,000	\$ 515,000
Construct New Union	2003A	2.5 - 5.25	01/01/2028	30,000,000	16,695,000	13,305,000
Construct MARBIONC Facility	2010	1.38 - 5.97 *	01/01/2040	15,750,000		15,750,000
Schwartz/Suites & Wagoner Renovation Projects	2011	3.64	03/01/2026	9,000,000		9,000,000
Total General Revenue				66,250,000	27,680,000	38,570,000
The University of North Carolina System Pool Revenue Bonds						
Westside, Parking, Apartments	2002B	4.0 - 5.0	04/30/2022	6,735,000	6,370,000	365,000
Refund Series J and Recreation	2005A	4.0 - 5.2	04/30/2019	12,630,000	4,380,000	8,250,000
Union Addition & Parking	2006A	4.0 - 5.0	10/01/2033	19,400,000	3,080,000	16,320,000
Refund Series 2002A & 2003A; Rec Ctr Exp	2010C	2.5 - 5.0	10/01/2026	32,170,000		32,170,000
Recreation Center Expansion	2010D	6.627 - 6.727 *	10/01/2039	20,660,000		20,660,000
Total The University of North Carolina System Pool Revenue Bonds				91,595,000	13,830,000	77,765,000
Total Revenue Bonds Payable (principal only)				\$ 157,845,000	\$ 41,510,000	116,335,000
Less: Unamortized Loss on Refunding						(2,418,200)
Plus: Unamortized Premium						4,341,321
Total Revenue Bonds Payable						\$ 118,258,121

* 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, 2011, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2012	\$ 4,583,456	\$ 5,713,030	\$ 74,276	\$ 179,596
2013	4,753,860	5,539,027	83,822	176,552
2014	4,951,290	5,350,673	99,754	173,066
2015	5,134,355	5,149,620	110,947	168,995
2016	5,373,078	4,910,238	128,852	164,413
2017-2021	26,665,968	20,739,923	897,808	730,152
2022-2026	24,492,993	15,130,881	1,454,738	504,935
2027-2031	16,160,000	9,927,087	1,692,190	157,993
2032-2036	13,370,000	5,673,802		
2037-2041	10,850,000	1,544,523		
Total Requirements	\$ 116,335,000	\$ 79,678,804	\$ 4,542,387	\$ 2,255,702

D. Bond Defeasance - 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, 2011, the outstanding balance of prior year defeased bonds was \$22,180,000.

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, 2011	Principal Outstanding June 30, 2011
Guaranteed Energy Savings Contract	BB&T	3.97%	03/01/2030	\$ 4,542,387	\$ 0	\$ 4,542,387

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 3.50% to 5.25%, a final maturity of June 1, 2036, and are secured by a Leasehold Deed

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

to Trust on the mortgage 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 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, 2011 are as follows:

	Beginning Balance	Reductions	Ending Balance
Certificates of Participation	\$ 127,235,000	\$ 440,000	\$ 126,795,000
Premium on Debt	1,208,567	43,867	1,164,700
Discount on Debt	(398,452)	(14,230)	(384,222)
	<u>\$ 128,045,115</u>	<u>\$ 469,637</u>	<u>\$ 127,575,478</u>

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

Fiscal Year Ending June 30,	Principal Amount	Interest
2012	\$ 845,000	\$ 6,077,338
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
2017-2021	15,220,000	27,977,659
2022-2026	24,050,000	23,408,278
2027-2031	30,895,000	16,845,720
2032-2036	39,190,000	8,542,919
2037-2038	11,010,000	729,250
	<u>\$ 126,795,000</u>	<u>\$ 107,472,004</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 11,405,781
2013	7,124,263
2014	7,268,588
2015	7,350,901
2016	7,732,088
2017-2021	43,197,659
2022-2026	47,458,277
2027-2031	47,740,720
2032-2036	47,732,919
2037-2038	<u>11,739,250</u>
Total Minimum Lease Payments	238,750,446
Amount Representing Interest (0.25% - 5.25% Rate of Interest)	<u>107,472,003</u>
Present Value of Future Lease Payments	<u><u>\$ 131,278,443</u></u>

Buildings and a parking deck acquired under capital leases amounted to \$132,968,561 at June 30, 2011.

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

- B. Operating Lease Obligations** - The University entered into operating leases for office space, an aquaculture facility and boat slips. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 660,720
2013	301,410
2014	<u>42,500</u>
Total Minimum Lease Payments	<u><u>\$ 1,004,630</u></u>

Rental expense for all operating leases during the year was \$679,564.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 91,699,042	\$ 0	\$ 11,041,588	\$ 50,852	\$ 80,606,602
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 22,249,368	\$ 0	\$ 3,562,078	\$ 16,543	\$ 18,670,747
Dining	12,680,787		1,966,854	6,239	10,707,694
Communications	3,561,287	3,561,287			
Parking	2,944,593		138,110	1,196	2,805,287
Physical Plant	2,001,717	66,743			1,934,974
Printing and Duplicating	1,192,938	1,192,938			
Athletic	1,849,785		1,010,698	17,160	821,927
Other	4,028,355	1,454,426	2,095,542	15,867	462,520
Sales and Services of Education	4,028,211				4,028,211
Total Sales and Services	\$ 54,537,041	\$ 6,275,394	\$ 8,773,282	\$ 57,005	\$ 39,431,360
Nonoperating - Noncapital Gifts	\$ 2,939,203	\$ 0	\$ 0	\$ 22,064	\$ 2,917,139

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	\$ 79,398,473	\$ 2,843,102	\$ 5,286,918	\$ 265,085	\$ 865	\$ 0	\$ 87,794,443
Research	9,705,033	1,344,678	4,956,046	86,891	22,708		16,115,356
Public Service	1,701,718	265,910	1,262,924	9,250			3,239,802
Academic Support	10,020,072	4,547,799	1,992,806	8,383			16,569,060
Student Services	7,308,297	844,283	2,034,142	6,983			10,193,705
Institutional Support	18,979,252	1,278,468	3,787,619	12,485	14,123		24,071,947
Facilities	12,338,312	964,590	4,459,341		5,213,846		22,976,089
Student Financial Aid	10,725	2,589	148,192	16,174,977			16,336,483
Auxiliary Enterprises	12,215,824	3,608,551	24,766,734	613,254	2,295,492		43,499,855
Depreciation						13,811,118	13,811,118
Total Operating Expenses	\$ 151,677,706	\$ 15,699,970	\$ 48,694,722	\$ 17,177,308	\$ 7,547,034	\$ 13,811,118	\$ 254,607,858

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the time of employment; otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System 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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$123,722,042, of which \$58,298,735 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$2,874,128 and \$3,497,924, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$2,874,128, \$2,073,920, and \$1,970,758, 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011, 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 \$123,722,042, of which \$50,467,566 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$3,451,982 and \$3,028,054, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$389,376 for the year ended June 30, 2011.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2011, were \$79,711. The voluntary contributions by employees amounted to \$598,498 for the year ended June 30, 2011.

IRC 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. No costs are incurred by the University. The voluntary contributions by employees amounted to \$1,626,046 for the year ended June 30, 2011.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 General Assembly.

For the current fiscal year the University contributed 4.9% 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, 2010, and 2009, were 4.5% and 4.1%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$5,329,549, \$4,820,988, and \$4,403,466, 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.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$565,585, \$557,092, and \$558,488, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - RISK MANAGEMENT

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

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

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

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

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

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

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(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 purchases. Outstanding commitments on construction contracts were \$43,754,993 and on other purchases were \$7,990,532 at June 30, 2011.

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	\$ 1,019,055

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$1,001,766 for the year ended June 30, 2011.

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 interest rate of 2.5% annum for three years and includes two one year optional renewal periods. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2011, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 59, *Financial Instruments Omnibus*.

GASB Statement No. 59, updates the disclosure and reporting requirements for certain financial instruments and external investment pools.

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Beth A. Wood, CPA
State Auditor

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

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, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 7, 2011. Our report includes a reference to other auditors.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 59, *Financial Instruments Omnibus*, during the year ended June 30, 2011.

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 was not audited in accordance with *Government Auditing Standards*.

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.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
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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.

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 7, 2011

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at 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:

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