STATE OF NORTH CAROLINA

UNIVERSITY OF NORTH CAROLINA WILMINGTON

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Constituent Institution of the University of North Carolina System and a Component Unit of the State of North Carolina
UNIVERSITY OF NORTH CAROLINA WILMINGTON

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

THOMAS W. ROSS, PRESIDENT

BOARD OF TRUSTEES

MS. WENDY F. MURPHY, CHAIR

ADMINISTRATIVE OFFICERS

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CHARLES MAIMONE, VICE CHANCELLOR FOR BUSINESS AFFAIRS
The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, University of North Carolina Wilmington

We have completed a financial statement audit of the University of North Carolina Wilmington for the year ended June 30, 2013, 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.

Beth A. Wood, CPA
State Auditor
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INDEPENDENT AUDITOR’S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the University of North Carolina Wilmington, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the UNCW Corporation, Inc., which represent 18 percent and 2 percent, respectively, of the assets and revenues of the University. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity, is based solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University’s preparation and fair presentation of the
INDEPENDENT AUDITOR’S REPORT (CONTINUED)

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina Wilmington, as of June 30, 2013, and the changes in financial position and cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2013 on our consideration of the University’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on
INDEPENDENT AUDITOR’S REPORT (CONCLUDED)

compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University’s internal control over financial reporting and compliance.

Beth A. Wood, CPA
State Auditor
Raleigh, North Carolina
December 6, 2013
Financial Analysis

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

Using the Financial Statements

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

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

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

The University reevaluated the presentation of its component unit, the UNCW Corporation, Inc. (Corporation) and determined the blending method is the preferred presentation. The University reported the Corporation as a discretely presented component unit in the prior year. As a result of this reevaluation, the financial statements of the Corporation have been blended with those of the University as of July 1, 2012, the effect being no impact to the University's overall net position.

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

For the fiscal year ended June 30, 2013, the North Carolina General Assembly (General Assembly) imposed a permanent budget reduction ($141,000), however, the University did receive state appropriations funding for enrollment growth ($1.4 million), operations funding for new buildings ($434,000), and need-based student financial aid ($1.6 million) as part of the campus-initiated tuition increases. Fiscal year 2013 state appropriations for repair and renovations for university buildings were temporarily held by the Governor to meet the State’s obligations to Medicaid. Eventually, the University did receive state appropriated funds for repair and renovations of $1.8 million during the year that were previously appropriated in fiscal years 2011 and 2012.

During the fiscal year ended June 30, 2013, University employees received a 1.2% “across-the-board” salary increase and five days of bonus leave that had to be taken by June 30, 2013.

The new Teaching Laboratory building and the Wagoner Dining Hall renovation projects received certificates of occupancy in August 2012 and were put into service beginning with the fall semester of 2012. The Student Recreation Center expansion received a certificate of occupancy in April 2013 and was immediately occupied. The University’s only significant capital construction project in progress at June 30, 2013 was the CMS MARBIONC facility at the Center for Marine Science campus.

On June 30, 2013, the University’s endowment total net position was valued at $73.8 million, reflecting an increase of $7.9 million from 2012 and a rate of return of 12.9%. The portfolio’s increase was comprised primarily of additions to the endowment of $1.7 million, net investment earnings of $8 million, and distributions of $2.2 million.

During fiscal year ended June 30, 2013, the Endowment Board invested $2 million in building improvements which will house the UNCW Center for Innovation & Entrepreneurship (CIE). Designed to foster growth and serve as a catalyst for economic development, the CIE will identify and nurture the growth and development of businesses to accelerate the entrepreneurial ecosystem in Wilmington and the southeastern region of North Carolina. The Endowment Board will have no day-to-day operating responsibilities or liability associated with the CIE, as a contractual operating agreement will be put in place with the UNCW Research Foundation or its designee, the UNCW Entrepreneurship Center LLC, for management and operation of the CIE.


Statement of Net Position

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

Condensed Statement of Net Position
June 30, as Indicated

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012 (Restated)</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>$103,164,866</td>
<td>$101,201,390</td>
<td>$1,963,476</td>
<td>1.9%</td>
</tr>
<tr>
<td>Noncurrent Assets</td>
<td>95,369,843</td>
<td>101,654,677</td>
<td>(6,284,834)</td>
<td>-6.2%</td>
</tr>
<tr>
<td>Capital Assets, Net</td>
<td>496,576,908</td>
<td>484,700,164</td>
<td>11,876,744</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$695,111,617</td>
<td>$687,556,231</td>
<td>$7,555,386</td>
<td>1.1%</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>17,787,096</td>
<td>24,850,227</td>
<td>(7,063,131)</td>
<td>-28.4%</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>250,097,384</td>
<td>263,009,708</td>
<td>(12,912,324)</td>
<td>-4.9%</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$267,884,480</td>
<td>$287,859,935</td>
<td>(19,975,455)</td>
<td>-6.9%</td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Investment in Capital Assets</td>
<td>272,634,426</td>
<td>267,350,758</td>
<td>5,283,668</td>
<td>2.0%</td>
</tr>
<tr>
<td>Restricted Nonexpendable</td>
<td>65,774,320</td>
<td>58,539,760</td>
<td>7,234,560</td>
<td>12.4%</td>
</tr>
<tr>
<td>Restricted Expendable</td>
<td>17,908,070</td>
<td>13,841,797</td>
<td>4,066,273</td>
<td>29.4%</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>70,910,321</td>
<td>59,963,981</td>
<td>10,946,340</td>
<td>18.3%</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>$427,227,137</td>
<td>$399,696,296</td>
<td>$27,530,841</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

On June 30, 2013, total University assets were $695.1 million. The largest asset categories included the University’s investment in capital assets ($496.6 million), cash and cash equivalents ($114.5 million), and endowment investments ($70.4 million).

The increase in capital assets was a result of the completion of large capital projects that had been ongoing in recent years including the Teaching Lab building and the Student Recreation Center expansion. The remaining capital project, CMS MARBIONC, received beneficial occupancy in early fiscal year 2014.

The 28.4% drop in current liabilities was due to a reduction in accounts payable accruals relating to the completed capital projects.

Along with the annual payment of principal on long-term debt, the decrease in noncurrent liabilities was a result of the termination of the capital lease for the Pepys Lane property sold by the University’s related party, the UNCW Corporation II.

Restricted nonexpendable net position increased $7.2 million due to a 12.9% increase in true endowment returns.

The increase in unrestricted net position was due to an increase in unrestricted trust funds and various auxiliary funds. In addition, the General Assembly allowed the reclassification of education and technology fees from general funds to trust funds which permits the University to carry forward remaining fees into the future periods.
Statement of Revenues, Expenses, and Changes in Net Position

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

Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided; 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 Position
For Year Ended June 30, as Indicated

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Tuition and Fees, Net</td>
<td>$93,042,367</td>
<td>$86,526,202</td>
<td>$6,516,165</td>
<td>7.5%</td>
</tr>
<tr>
<td>Sales and Service, Net</td>
<td>44,189,380</td>
<td>41,194,644</td>
<td>2,994,736</td>
<td>7.3%</td>
</tr>
<tr>
<td>Grants and Contracts</td>
<td>10,503,238</td>
<td>13,971,365</td>
<td>(3,468,127)</td>
<td>-24.8%</td>
</tr>
<tr>
<td>Other Operating Revenues</td>
<td>6,377,290</td>
<td>3,960,466</td>
<td>2,416,824</td>
<td>61.0%</td>
</tr>
<tr>
<td>Total Operating Revenues</td>
<td>154,112,275</td>
<td>145,652,677</td>
<td>8,459,598</td>
<td>5.8%</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Benefits</td>
<td>156,785,894</td>
<td>150,205,408</td>
<td>6,580,486</td>
<td>4.4%</td>
</tr>
<tr>
<td>Supplies and Materials</td>
<td>21,261,301</td>
<td>18,267,194</td>
<td>2,994,107</td>
<td>16.4%</td>
</tr>
<tr>
<td>Services</td>
<td>50,057,896</td>
<td>46,134,350</td>
<td>3,923,546</td>
<td>8.5%</td>
</tr>
<tr>
<td>Scholarships and Fellowships</td>
<td>17,661,241</td>
<td>16,526,443</td>
<td>1,134,798</td>
<td>6.9%</td>
</tr>
<tr>
<td>Utilities</td>
<td>7,297,733</td>
<td>6,770,663</td>
<td>527,070</td>
<td>7.8%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>14,585,939</td>
<td>14,120,071</td>
<td>465,868</td>
<td>3.3%</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>267,650,004</td>
<td>252,024,129</td>
<td>15,625,875</td>
<td>6.2%</td>
</tr>
<tr>
<td><strong>Operating Loss</strong></td>
<td>(113,537,729)</td>
<td>(106,371,452)</td>
<td>(7,166,277)</td>
<td>6.7%</td>
</tr>
<tr>
<td><strong>Nonoperating Revenues (Expenses)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Appropriation</td>
<td>96,878,528</td>
<td>91,313,397</td>
<td>5,565,131</td>
<td>6.1%</td>
</tr>
<tr>
<td>Noncapital Gifts and Grants</td>
<td>27,296,211</td>
<td>27,622,449</td>
<td>(326,238)</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Investment Income, Net</td>
<td>8,560,744</td>
<td>2,862,924</td>
<td>5,697,820</td>
<td>199.0%</td>
</tr>
<tr>
<td>Interest and Fees on Debt</td>
<td>(10,761,013)</td>
<td>(11,917,022)</td>
<td>1,156,009</td>
<td>-9.7%</td>
</tr>
<tr>
<td>Federal Interest Subsidy on Debt</td>
<td>621,946</td>
<td>760,163</td>
<td>(138,217)</td>
<td>-18.2%</td>
</tr>
<tr>
<td>Other Nonoperating Expenses</td>
<td>(734,400)</td>
<td>(3,443)</td>
<td>(730,957)</td>
<td>21230.2%</td>
</tr>
<tr>
<td>Total Nonoperating and Other Revenues</td>
<td>141,068,570</td>
<td>135,083,770</td>
<td>5,984,800</td>
<td>4.4%</td>
</tr>
<tr>
<td><strong>Increase in Net Position</strong></td>
<td>27,530,841</td>
<td>28,712,318</td>
<td>(1,181,477)</td>
<td>-4.1%</td>
</tr>
<tr>
<td><strong>Net Position - Beginning of Year</strong></td>
<td>399,696,296</td>
<td>370,983,978</td>
<td>28,712,318</td>
<td>7.7%</td>
</tr>
<tr>
<td><strong>Net Position - End of Year</strong></td>
<td>$427,227,137</td>
<td>$399,696,296</td>
<td>$27,530,841</td>
<td>6.9%</td>
</tr>
</tbody>
</table>
Student tuition and fees ($93.0 million) and sales and services from auxiliary enterprises ($44.2 million) accounted for 89% of the University’s operating revenues. Tuition revenue increased as a result of a 6.5% increase in student tuition rates.

Other operating revenues increased 61% due to the dissolution of the Public Service Division and the subsequent creation of multiple self-supporting operation centers in various university divisions.

Grants and contracts revenue decreased 24.8% due to the federal government’s delay in funding new federal awards due to Sequestration in conjunction with the expiration of several large federal awards.

Capital grant revenue decreased 19.7% as a direct result of the completion of a Certificate of Participation state funded capital project, the Teaching Lab building, early in the fiscal year.

The increase ($3 million) in supplies and materials expenditures were partially attributable to the one-time up fitting of the Teaching Lab building and the Student Recreation Center expansion as the buildings came online, as well as the availability of funds for special project expenditures.

Investment income increased ($5.7 million) primarily due to the increase in market values of the endowment investments. The decrease of additions to endowments ($968,903) was the result of the culmination of the Soaring to Greatness Campaign in January 2012.

The $730,957 increase in Other Nonoperating Expenses was largely twofold. Losses were recorded for the termination of the capital lease for the Pepys Lane property ($195,624) and the federally mandated transfer of capitalized equipment used in the grant funded Aquarius project to Florida International University ($419,837).

**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

<table>
<thead>
<tr>
<th>Cash Provided (Used) by:</th>
<th>2013</th>
<th>2012 (Restated)</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Activities</td>
<td>$(99,109,446)</td>
<td>$(92,535,920)</td>
<td>$(6,573,526)</td>
<td>7.1%</td>
</tr>
<tr>
<td>Noncapital Financing Activities</td>
<td>122,182,866</td>
<td>122,674,145</td>
<td>$(491,279)</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Capital Financing Activities</td>
<td>(35,334,765)</td>
<td>(42,927,055)</td>
<td>7,592,290</td>
<td>-17.7%</td>
</tr>
<tr>
<td>Investing Activities</td>
<td>(1,099,597)</td>
<td>437,592</td>
<td>(1,537,189)</td>
<td>-351.3%</td>
</tr>
<tr>
<td>Net Change In Cash</td>
<td>(13,360,942)</td>
<td>(12,351,238)</td>
<td>(1,009,704)</td>
<td>8.2%</td>
</tr>
<tr>
<td>Cash Beginning of Year</td>
<td>127,860,237</td>
<td>140,211,475</td>
<td>(12,351,238)</td>
<td>-8.8%</td>
</tr>
<tr>
<td>Cash Ending of Year</td>
<td>$ 114,499,295</td>
<td>$ 127,860,237</td>
<td>$(13,360,942)</td>
<td>-10.4%</td>
</tr>
</tbody>
</table>

Operating Activities
Major cash sources were student tuition and fees ($92.8 million), sales and services ($44.1 million), and contracts and grants ($11 million). Major cash uses were compensation to employees ($156.2 million), payments to vendors and suppliers for goods and services ($79.6 million), and disbursements to students for scholarships and awards ($17.7 million).

Noncapital Financial Activities
The major cash inflow was state appropriations ($96.9 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 ($28.9 million).

Capital Financing Activities
Cash provided included capital grants ($17.6 million). Cash used was primarily for the acquisition of capital assets ($36.9 million) and the repayment of principal and interest on capital debt ($16 million).

Investing Activities
Cash provided included sales and maturities of investments ($79,678) and investment income ($4.6 million). Cash used reflects the purchase of investments and related fees ($5.8 million).
Capital Assets and Debt Administration

Capital Assets

The University had $496.6 million invested in capital assets at June 30, 2013, as reported in the table below. This represents an increase of $11.9 million from 2012.

<table>
<thead>
<tr>
<th>Capital Assets Net of Depreciation</th>
<th>2013</th>
<th>2012 (Restated)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$6,258,371</td>
<td>$6,258,371</td>
<td>$0</td>
</tr>
<tr>
<td>Art, Literature and Artifacts</td>
<td>1,673,320</td>
<td>1,673,320</td>
<td></td>
</tr>
<tr>
<td>Construction In Progress</td>
<td>30,512,848</td>
<td>58,570,158</td>
<td>(28,057,310)</td>
</tr>
<tr>
<td>Buildings, Net</td>
<td>413,804,348</td>
<td>374,601,121</td>
<td>39,203,227</td>
</tr>
<tr>
<td>Machinery and Equipment, Net</td>
<td>15,956,896</td>
<td>14,376,133</td>
<td>1,580,763</td>
</tr>
<tr>
<td>Infrastructure, Net</td>
<td>28,371,125</td>
<td>29,221,060</td>
<td>(849,935)</td>
</tr>
<tr>
<td><strong>Total Capital Assets</strong></td>
<td>$496,576,908</td>
<td>$484,700,163</td>
<td>$11,876,745</td>
</tr>
</tbody>
</table>

The net increase in buildings represents the completion and subsequent occupancy of various construction projects including the Teaching Lab building and the Student Recreation Center expansion. Construction in Progress decreased as a result of the addition of the aforementioned buildings.

Debt

As of June 30, 2013, the University’s $239.6 million in long-term debt included outstanding revenue bonds payable ($108.8 million), certificates of participation payable ($125.6 million), notes payable ($4.4 million), and capital leases payable ($0.8 million).

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

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

Economic Forecast

For fiscal year 2013-2014, the General Assembly approved funding for enrollment growth ($3.6 million), annualized building operations for the Marine Biotechnology (MARBIONC) building, and approved the release of repair and renovation funds ($2.6 million). Permanent reductions to state appropriations as approved by the General Assembly constitute $3.9 million, or 4.1% of appropriations. The General Assembly provided no salary increases for state employees in fiscal year 2014, but did authorize five additional days of bonus leave that must be taken by June 30, 2014.

The University continues to face reductions to state appropriations, limited tuition increases, marginal performance funding, and reductions in federal funding. Efforts continue to protect the core academic and instruction service levels to our students with an emphasis on
administrative efficiencies and cost elimination. The implementation of new forward-looking Unified Budget Planning process is underway along with an evaluation of shared service models to achieve further administration efficiencies while maintaining service levels. A second guaranteed energy savings performance contract is underway to determine its feasibility. This is a continuation of the University’s efforts to provide additional funding to replace inefficient infrastructure and to further reduce energy consumption and related energy costs.

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

Unchanged from the prior year is the questionable state of the U.S. economy and global markets. The Federal Reserve Bank’s statements regarding future plans to slow quantitative easing has created a new volatility in the stock and bond markets. The divide between the executive and legislative branches of government creates a significant challenge for speeding up economic recovery in the near term. Given the prolonged weakened national economic condition, the State’s recovery is expected to advance at a very modest pace. Uncertainty persists both globally and nationally, thus making innovation and efficiency in operations even more critical.

The University remains focused on sustaining a quality education through excellent teaching, research, and service. The University remains confident in our ability to provide the most powerful academic learning experience possible for our students. The University is focused on enhancing innovation and entrepreneurial activities to develop new revenue sources to supplement reduced state funding and to support resource reallocations. With continued emphasis on prudent resource allocations, cost containment measures, implementation of efficiency initiatives, and continuous assessment of processes to efficiently and effectively meet our mission, goals, and objectives.

**Contacting the University’s Financial Management**

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

**Statement of Net Position**

**June 30, 2013**

## ASSETS

### Current Assets:
- Cash and Cash Equivalents: $82,182,448
- Restricted Cash and Cash Equivalents: $16,166,802
- Receivables, Net (Note 4): $3,828,157
- Due from State of North Carolina Component Units: $75,681
- Inventories: $310,490
- Notes Receivable, Net (Note 4): $601,288

**Total Current Assets**: $103,164,866

### Noncurrent Assets:
- Restricted Cash and Cash Equivalents: $16,150,045
- Receivables, Net (Note 4): $13,713
- Endowment Investments: $70,350,026
- Deferred Charges: $3,397,326
- Notes Receivable, Net (Note 4): $5,458,733
- Capital Assets - Nondepreciable (Note 5): $38,444,539
- Capital Assets - Depreciable, Net (Note 5): $458,132,369

**Total Noncurrent Assets**: $591,946,751

**Total Assets**: $695,111,617

## LIABILITIES

### Current Liabilities:
- Accounts Payable and Accrued Liabilities (Note 6): $4,643,641
- Unearned Revenue: $4,613,346
- Interest Payable: $2,044,448
- Long-Term Liabilities - Current Portion (Note 7): $6,485,661

**Total Current Liabilities**: $17,787,096

### Noncurrent Liabilities:
- Accounts Payable and Accrued Liabilities (Note 6): 6,662
- Funds Held for Others: $3,848,462
- U. S. Government Grants Refundable: $4,356,005
- Long-Term Liabilities (Note 7): 241,886,255

**Total Noncurrent Liabilities**: $250,097,384

**Total Liabilities**: $267,884,480
### NET POSITION

Net Investment in Capital Assets 272,634,426

Restricted for:

- **Nonexpendable:**
  - Scholarships and Fellowships 28,056,507
  - Research 2,590,320
  - Endowed Professorships 14,682,090
  - Departmental Uses 19,328,878
  - Loans 1,116,525

- **Expendable:**
  - Scholarships and Fellowships 3,803,402
  - Research 44,782
  - Endowed Professorships 919,630
  - Departmental Uses 8,319,880
  - Loans 350,958
  - Capital Projects 3,154,183
  - Debt Service 1,315,235

Unrestricted 70,910,321

Total Net Position $427,227,137

The accompanying notes to the financial statements are an integral part of this statement.
University of North Carolina Wilmington  
Statement of Revenues, Expenses, and  
Changes in Net Position  
For the Fiscal Year Ended June 30, 2013  

<table>
<thead>
<tr>
<th>REVENUES</th>
<th>EXPENSES</th>
<th>NONOPERATING REVENUES (EXPENSES)</th>
<th>NET POSITION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues:</strong></td>
<td><strong>Operating Expenses:</strong></td>
<td></td>
<td><strong>Net Position - June 30, 2013</strong></td>
</tr>
<tr>
<td>Student Tuition and Fees, Net (Note 9)</td>
<td>Salaries and Benefits</td>
<td></td>
<td>$ 427,227,137</td>
</tr>
<tr>
<td>Federal Grants and Contracts</td>
<td>Supplies and Materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State and Local Grants and Contracts</td>
<td>Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nongovernmental Grants and Contracts</td>
<td>Scholarships and Fellowships</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and Services, Net (Note 9)</td>
<td>Utilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Earnings on Loans</td>
<td>Depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Operating Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td><strong>Total Operating Expenses</strong></td>
<td></td>
<td><strong>Increase in Net Position</strong></td>
</tr>
<tr>
<td><strong>REVENUES</strong></td>
<td><strong>EXPENSES</strong></td>
<td><strong>NONOPERATING REVENUES (EXPENSES)</strong></td>
<td><strong>NET POSITION</strong></td>
</tr>
<tr>
<td>$ 93,042,367</td>
<td>156,785,894</td>
<td>96,878,528</td>
<td><strong>399,696,296</strong></td>
</tr>
<tr>
<td>8,496,278</td>
<td>21,261,301</td>
<td>24,323,132</td>
<td><strong>17,457,010</strong></td>
</tr>
<tr>
<td>1,323,221</td>
<td>50,057,896</td>
<td>2,973,079</td>
<td><strong>1,749,544</strong></td>
</tr>
<tr>
<td>683,739</td>
<td>17,661,241</td>
<td>8,560,744</td>
<td><strong>27,530,841</strong></td>
</tr>
<tr>
<td>44,189,380</td>
<td>7,297,733</td>
<td>621,946</td>
<td><strong>399,696,296</strong></td>
</tr>
<tr>
<td>41,108</td>
<td>14,585,939</td>
<td>(10,761,013)</td>
<td><strong>17,457,010</strong></td>
</tr>
<tr>
<td>6,336,182</td>
<td></td>
<td>621,946</td>
<td><strong>1,749,544</strong></td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td></td>
<td></td>
<td><strong>Increase in Net Position</strong></td>
</tr>
<tr>
<td>154,112,275</td>
<td><strong>267,650,004</strong></td>
<td>(734,400)</td>
<td><strong>27,530,841</strong></td>
</tr>
</tbody>
</table>

The accompanying notes to the financial statements are an integral part of this statement.
### CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received from Customers</td>
<td>$147,876,005</td>
</tr>
<tr>
<td>Payments to Employees and Fringe Benefits</td>
<td>(156,236,375)</td>
</tr>
<tr>
<td>Payments to Vendors and Suppliers</td>
<td>(79,619,006)</td>
</tr>
<tr>
<td>Payments for Scholarships and Fellowships</td>
<td>(17,661,241)</td>
</tr>
<tr>
<td>Loans Issued</td>
<td>(904,125)</td>
</tr>
<tr>
<td>Collection of Loans</td>
<td>769,622</td>
</tr>
<tr>
<td>Interest Earned on Loans</td>
<td>29,443</td>
</tr>
<tr>
<td>Other Receipts</td>
<td>6,636,231</td>
</tr>
<tr>
<td><strong>Net Cash Used by Operating Activities</strong></td>
<td><strong>(99,109,446)</strong></td>
</tr>
</tbody>
</table>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Appropriations</td>
<td>96,878,528</td>
</tr>
<tr>
<td>Noncapital Grants - Student Financial Aid</td>
<td>24,323,132</td>
</tr>
<tr>
<td>Noncapital Gifts</td>
<td>2,811,465</td>
</tr>
<tr>
<td>Additions to Endowments</td>
<td>1,749,544</td>
</tr>
<tr>
<td>William D. Ford Direct Lending Receipts</td>
<td>65,171,547</td>
</tr>
<tr>
<td>Related Activity Agency Disbursements</td>
<td>(3,670,705)</td>
</tr>
<tr>
<td>Other Receipts</td>
<td>90,902</td>
</tr>
<tr>
<td><strong>Net Cash Provided by Noncapital Financing Activities</strong></td>
<td><strong>122,182,866</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Grants</td>
<td>17,581,405</td>
</tr>
<tr>
<td>Proceeds from Sale of Capital Assets</td>
<td>31,596</td>
</tr>
<tr>
<td>Acquisition and Construction of Capital Assets</td>
<td>(36,919,027)</td>
</tr>
<tr>
<td>Principal Paid on Capital Debt and Leases</td>
<td>(5,988,266)</td>
</tr>
<tr>
<td>Interest and Fees Paid on Capital Debt and Leases</td>
<td>(10,662,419)</td>
</tr>
<tr>
<td>Federal Interest Subsidy on Debt Received</td>
<td>621,946</td>
</tr>
<tr>
<td><strong>Net Cash Used by Capital Financing and Related Financing Activities</strong></td>
<td><strong>(35,334,765)</strong></td>
</tr>
</tbody>
</table>

### CASH FLOWS FROM INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from Sales and Maturities of Investments</td>
<td>79,678</td>
</tr>
<tr>
<td>Investment Income</td>
<td>4,594,042</td>
</tr>
<tr>
<td>Purchase of Investments and Related Fees</td>
<td>(5,773,317)</td>
</tr>
<tr>
<td><strong>Net Cash Used by Investing Activities</strong></td>
<td><strong>(1,099,957)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Decrease in Cash and Cash Equivalents</td>
<td>(13,360,942)</td>
</tr>
<tr>
<td>Cash and Cash Equivalents - July 1, 2012 (as restated)</td>
<td>127,860,237</td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents - June 30, 2013</strong></td>
<td><strong>$114,499,295</strong></td>
</tr>
</tbody>
</table>
RECONCILIATION OF NET OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss $ (113,537,729)

Adjustments to Reconcile Loss to Net Cash Used by Operating Activities:
- Depreciation Expense 14,585,939
- Allowances, Write-Offs, and Amortizations (17,487)
- Nonoperating Other Income 258,740

Changes in Assets and Liabilities:
- Receivables (Net) 118,247
- Due from State of North Carolina Component Units 27,473
- Due from University Component Units 305,025
- Inventories 83,693
- Notes Receivable (Net) (134,503)
- Accounts Payable and Accrued Liabilities (97,009)
- Due to Primary Government (1,278,984)
- Unearned Revenue 97,826
- Compensated Absences 480,520
- Deposits Payable (1,197)

Net Cash Used by Operating Activities $ (99,109,446)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:
- Cash and Cash Equivalents $ 82,182,448
- Restricted Cash and Cash Equivalents 16,166,802

Noncurrent Assets:
- Restricted Cash and Cash Equivalents 16,150,045

Total Cash and Cash Equivalents - June 30, 2013 $ 114,499,295

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

- Assets Acquired through the Assumption of a Liability $ 3,291,976
- Change in Fair Value of Investments 3,906,573
- Loss on Disposal of Capital Assets (629,678)
- Reduction in Liability through Termination of Capital Lease Agreement (3,472,733)
- Amortization of Bond Premiums, Discounts, and Deferred Charges on Refunding 18,908

The accompanying notes to the financial statements are an integral part of this statement.
**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University’s funds. The University’s component units are blended in the University’s financial statements. The blended component units, although legally separate, are, in substance, part of the University’s operations and therefore, are reported as if they were part of the University.

**Blended Component Units** - Although legally separate, the Donald R. Watson Foundation, Inc. (Watson Foundation) and the UNCW Corporation, Inc. (Corporation), component units of the University, are reported as if they were 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 Wilmington’s Board of Trustees and the Watson Foundation’s sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.
The Corporation was organized to enhance the University of North Carolina Wilmington’s educational mission, including overseeing and assisting in the acquisition and financing of capital assets for the University. The Corporation is a public not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements. The Corporation is governed by a six member board of which three are delegates of the University. The remaining three positions are filled by persons external to the operations and business functions and are elected to serve on the board by the Corporation’s Board of Directors. As the Corporation’s sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

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

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

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

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

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

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all
eligibility requirements imposed by the provider have been met, if probable of collection.

D. **Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

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

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises’ sales and services. Receivables also include amounts due from the federal government, state and local governments, related nonprofit foundations associated with the University, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider’s conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.

H. **Deferred Charges** - Deferred charges are comprised of prepayments of bond issuance and underwriter’s fees to be written off in future periods.

I. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

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

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

J. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

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

Revenue bonds payable are reported net of unamortized premiums or discounts and unamortized cost on refundings. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The unamortized cost on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs are amortized over the life of the bonds using the straight-line method.
L. **Compensated Absences** - The University’s policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

M. **Net Position** - The University’s net position is classified as follows:

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

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

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

**Unrestricted Net Position** - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.
Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

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

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

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

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

**NOTE 2 - DEPOSITS AND INVESTMENTS**

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

At June 30, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes $111,864,321 which represents the University’s equity position in the State Treasurer’s STIF. The STIF (a portfolio within the State Treasurer’s Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer’s Investment Pool (which includes the State Treasurer’s STIF) are included in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page http://www.osc.nc.gov/ and clicking on “Reports” or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.
Cash on hand at June 30, 2013 was $35,317. The carrying amount of the University’s deposits not with the State Treasurer was $2,599,657 and the bank balance was $2,599,657. Custodial credit risk is the risk that in the event of a bank failure, the University’s deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2013, the University’s bank balance was exposed to custodial credit risk as follows:

| Uninsured and Uncollateralized | $1,849,653 |

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

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

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

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

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

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

Investments are subject to the following risks.

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

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

**Long-Term Investment Pool** - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the 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, 2013, for the Long-Term Investment Pool.

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNC Investment Fund</td>
<td>$37,008,371</td>
</tr>
<tr>
<td>Equity Mutual Funds</td>
<td>$29,352,189</td>
</tr>
<tr>
<td>Investments in Real Estate</td>
<td>$294,766</td>
</tr>
<tr>
<td>Total Long-Term Investment Pool</td>
<td>$66,655,326</td>
</tr>
</tbody>
</table>

**UNC Investment Fund, LLC** - At June 30, 2013, the University’s investments include $37,008,371 which represents the University’s equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks
associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

**Non-Pooled Investments** - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2013, for the University’s non-pooled investments.

### Non-Pooled Investments

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Fair Value</th>
<th>Investment Maturities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Debt Securities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Mutual Funds</td>
<td>$ 372,518</td>
<td>$ 372,518</td>
</tr>
<tr>
<td><strong>Other Securities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Mutual Funds</td>
<td>1,057,539</td>
<td></td>
</tr>
<tr>
<td>Investments in Real Estate</td>
<td>2,237,833</td>
<td></td>
</tr>
<tr>
<td>Domestic Stocks</td>
<td>11,008</td>
<td></td>
</tr>
<tr>
<td>Other-Life Insurance</td>
<td>15,802</td>
<td></td>
</tr>
<tr>
<td><strong>Total Non-Pooled Investments</strong></td>
<td>$ 3,694,700</td>
<td></td>
</tr>
</tbody>
</table>

At June 30, 2013, the University’s non-pooled investments had the following credit quality distribution for securities with credit exposure:

<table>
<thead>
<tr>
<th></th>
<th>AAA</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
<th>BB/Ba and below</th>
<th>Unrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Mutual Funds</td>
<td>$ 372,518</td>
<td>$ 178,753</td>
<td>$ 48,767</td>
<td>$ 43,496</td>
<td>$ 58,970</td>
<td>$ 35,832</td>
</tr>
</tbody>
</table>

Rating Agency: Standard & Poor's

**Total Investments** - The following table presents the fair value of the total investments at June 30, 2013:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Debt Securities</strong></td>
<td></td>
</tr>
<tr>
<td>Debt Mutual Funds</td>
<td>$ 372,518</td>
</tr>
<tr>
<td><strong>Other Securities</strong></td>
<td></td>
</tr>
<tr>
<td>UNC Investment Fund</td>
<td>37,008,371</td>
</tr>
<tr>
<td>Equity Mutual Funds</td>
<td>30,409,728</td>
</tr>
<tr>
<td>Investments in Real Estate</td>
<td>2,532,599</td>
</tr>
<tr>
<td>Domestic Stocks</td>
<td>11,008</td>
</tr>
<tr>
<td>Other - Life Insurance</td>
<td>15,802</td>
</tr>
<tr>
<td><strong>Total Investments</strong></td>
<td>$ 70,350,026</td>
</tr>
</tbody>
</table>
C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2013, is as follows:

<table>
<thead>
<tr>
<th>Deposits and Investments</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on Hand</td>
<td>$ 35,317</td>
</tr>
<tr>
<td>Amount of Deposits with Private Financial Institutions</td>
<td>2,599,657</td>
</tr>
<tr>
<td>Deposits in the Short-Term Investment Fund</td>
<td>111,864,321</td>
</tr>
<tr>
<td>Long-Term Investment Pool</td>
<td>66,655,326</td>
</tr>
<tr>
<td>Non-Pooled Investments</td>
<td>3,694,700</td>
</tr>
<tr>
<td><strong>Total Deposits and Investments</strong></td>
<td><strong>$ 184,849,321</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deposits</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current:</td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$ 82,182,448</td>
</tr>
<tr>
<td>Restricted Cash and Cash Equivalents</td>
<td>16,166,802</td>
</tr>
<tr>
<td>Noncurrent:</td>
<td></td>
</tr>
<tr>
<td>Restricted Cash and Cash Equivalents</td>
<td>16,150,045</td>
</tr>
<tr>
<td><strong>Total Deposits</strong></td>
<td><strong>114,499,295</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investments</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noncurrent:</td>
<td></td>
</tr>
<tr>
<td>Endowment Investments</td>
<td>70,350,026</td>
</tr>
<tr>
<td><strong>Total Investments</strong></td>
<td><strong>70,350,026</strong></td>
</tr>
<tr>
<td><strong>Total Deposits and Investments</strong></td>
<td><strong>$ 184,849,321</strong></td>
</tr>
</tbody>
</table>

**Note 3 - Endowment Investments**

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

Investment return of the University’s endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University’s endowment funds are based on an adopted spending policy which limits spending to 4.5% of the average market value of the endowment at the end of the three previous years. To the extent that the total return for the current year exceeds the payout, the excess is reinvested with the principal. If current year earnings do not meet the payout requirements, the University uses
accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2013, net appreciation of $22,112,921 was available to be spent, of which $18,851,628 was classified in net position as restricted expendable, as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2013, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Gross Receivables</th>
<th>Less Allowance for Doubtful Accounts</th>
<th>Net Receivables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Receivables:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Students</td>
<td>$1,969,198</td>
<td>$196,592</td>
<td>$1,772,606</td>
</tr>
<tr>
<td>Accounts</td>
<td>1,127,747</td>
<td></td>
<td>1,127,747</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>564,530</td>
<td></td>
<td>564,530</td>
</tr>
<tr>
<td>Pledges</td>
<td>207,730</td>
<td>10,387</td>
<td>197,343</td>
</tr>
<tr>
<td>Interest on Loans</td>
<td>126,026</td>
<td></td>
<td>126,026</td>
</tr>
<tr>
<td>Other</td>
<td>39,905</td>
<td></td>
<td>39,905</td>
</tr>
<tr>
<td><strong>Total Current Receivables</strong></td>
<td>$4,035,136</td>
<td>$206,979</td>
<td>$3,828,157</td>
</tr>
<tr>
<td><strong>Noncurrent Receivables:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pledges</td>
<td>$14,435</td>
<td>$722</td>
<td>$13,713</td>
</tr>
<tr>
<td><strong>Notes Receivable:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Notes Receivable - Current:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Loan Programs</td>
<td>$538,621</td>
<td>$49,220</td>
<td>$489,401</td>
</tr>
<tr>
<td>Institutional Student Loan Programs</td>
<td>111,887</td>
<td></td>
<td>111,887</td>
</tr>
<tr>
<td><strong>Total Notes Receivable - Current</strong></td>
<td>$650,508</td>
<td>$49,220</td>
<td>$601,288</td>
</tr>
<tr>
<td><strong>Notes Receivable - Noncurrent:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Loan Programs</td>
<td>$4,604,742</td>
<td>$460,474</td>
<td>$4,144,268</td>
</tr>
<tr>
<td>Due from UNCW Foundation</td>
<td>1,278,445</td>
<td></td>
<td>1,278,445</td>
</tr>
<tr>
<td>Institutional Student Loan Programs</td>
<td>36,020</td>
<td></td>
<td>36,020</td>
</tr>
<tr>
<td><strong>Total Notes Receivable - Noncurrent</strong></td>
<td>$5,919,207</td>
<td>$460,474</td>
<td>$5,458,733</td>
</tr>
</tbody>
</table>
NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

<table>
<thead>
<tr>
<th>Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1, 2012 (as restated)</td>
<td></td>
<td></td>
<td>June 30, 2013</td>
</tr>
</tbody>
</table>

**Capital Assets, Nondepreciable:**
- Land and Permanent Easements: $6,258,371
- Art, Literature, and Artifacts: $1,673,320
- Construction in Progress: $58,570,159

**Total Capital Assets, Nondepreciable:** $66,501,850

**Capital Assets, Depreciable:**
- Buildings: $485,973,041
- Machinery and Equipment: $39,825,480
- General Infrastructure: $41,751,864

**Total Capital Assets, Depreciable:** $567,550,385

**Less Accumulated Depreciation for:**
- Buildings: $111,371,920
- Machinery and Equipment: $25,449,347
- General Infrastructure: $12,530,804

**Total Accumulated Depreciation:** $149,352,071

**Total Capital Assets, Depreciable, Net:** $418,198,314

**Capital Assets, Net:** $484,700,164

During the year ended June 30, 2013, the University incurred $11,384,784 in interest costs related to the acquisition and construction of capital assets. Of this total, $10,667,592 was charged in interest expense, and $717,192 was capitalized.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

<table>
<thead>
<tr>
<th>Current Accounts Payable and Accrued Liabilities</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$1,662,302</td>
</tr>
<tr>
<td>Accrued Payroll</td>
<td>$642,866</td>
</tr>
<tr>
<td>Contract Retainage</td>
<td>$2,329,628</td>
</tr>
<tr>
<td>Intergovernmental Payables</td>
<td>$8,845</td>
</tr>
</tbody>
</table>

**Total Current Accounts Payable and Accrued Liabilities:** $4,643,641

**Noncurrent Accounts Payable**
- Claims Payable: $6,662
### A. Changes in Long-Term Liabilities

A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance</th>
<th>Restatement</th>
<th>Additions</th>
<th>Reductions</th>
<th>Balance</th>
<th>Current Portion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>July 1, 2012</td>
<td></td>
<td></td>
<td></td>
<td>June 30, 2013</td>
<td></td>
</tr>
<tr>
<td>Revenue Bonds Payable</td>
<td>$112,136,544</td>
<td>$0</td>
<td>$0</td>
<td>$4,753,860</td>
<td>$107,382,684</td>
<td>$5,001,291</td>
</tr>
<tr>
<td>Certificates of Participation</td>
<td>$125,950,000</td>
<td>1,080,000</td>
<td></td>
<td>124,870,000</td>
<td>$1,265,000</td>
<td></td>
</tr>
<tr>
<td>Deduct Unamortized Cost on Refunding</td>
<td>$2,565,092</td>
<td>(195,360)</td>
<td></td>
<td></td>
<td>(2,369,732)</td>
<td></td>
</tr>
<tr>
<td>Total Revenue Bonds and Certificates of Participation Payable</td>
<td>$113,545,344</td>
<td>126,700,841</td>
<td></td>
<td>5,852,768</td>
<td>$234,393,417</td>
<td>$6,266,291</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>4,468,111</td>
<td></td>
<td></td>
<td>83,822</td>
<td>4,384,289</td>
<td>99,754</td>
</tr>
<tr>
<td>Capital Leases Payable</td>
<td>130,290,555</td>
<td>(125,950,000)</td>
<td></td>
<td>3,524,409</td>
<td>816,146</td>
<td>53,554</td>
</tr>
<tr>
<td>Compensated Absences</td>
<td>8,297,544</td>
<td></td>
<td></td>
<td>1,318,463</td>
<td>837,943</td>
<td>8,778,064</td>
</tr>
<tr>
<td>Total Long-Term Liabilities</td>
<td>$256,601,554</td>
<td>750,841</td>
<td>$1,318,463</td>
<td>10,298,942</td>
<td>$248,371,916</td>
<td>$6,485,661</td>
</tr>
</tbody>
</table>

Additional information regarding capital lease obligations is included in Note 8.
Additional information regarding blended component units is included in Note 16.
Additional information regarding the restatement is included in Note 17.

Capital leases payable in the amount of $125,950,000 related to the UNCW Corporation, Inc. (Corporation) has been reclassified as Certificates of Participation along with its associated premium and discount, as a result of the implementation of GASB Statement No. 61 and the blending of this component unit. In prior years, the University reported the Corporation discretely and presented its debt as capital leases.
### B. Revenue Bonds Payable and Certificates of Participation

The University was indebted for revenue bonds payable and certificates of participation for the purposes shown in the following table:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Series</th>
<th>Interest Rate/ Range</th>
<th>Final Maturity Date</th>
<th>Original Amount</th>
<th>Principal Paid Through June 30, 2013</th>
<th>Unamortized Premium</th>
<th>Total Revenue Bonds Payable and Certificates of Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Bonds Payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UNCW General Revenue Bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construct New Union</td>
<td>2003A</td>
<td>2.5 - 5.25</td>
<td>01/01/2013</td>
<td>$30,000,000</td>
<td>$30,000,000</td>
<td>0</td>
<td>$66,505,000</td>
</tr>
<tr>
<td>Construct MARBIONC Facility</td>
<td>2010</td>
<td>1.38 - 5.97</td>
<td>01/01/2040</td>
<td>15,750,000</td>
<td>740,000</td>
<td>15,010,000</td>
<td></td>
</tr>
<tr>
<td>Schwartz/Suites &amp; Wagoner Renovation Projects</td>
<td>2011</td>
<td>3.64</td>
<td>03/01/2026</td>
<td>9,000,000</td>
<td>952,316</td>
<td>8,047,684</td>
<td></td>
</tr>
<tr>
<td>Refund 2003A Union</td>
<td>2012</td>
<td>2.84</td>
<td>01/01/2028</td>
<td>11,755,000</td>
<td>11,755,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total UNCW General Revenue Bonds</td>
<td></td>
<td></td>
<td></td>
<td>$66,505,000</td>
<td>$31,692,316</td>
<td>$34,812,684</td>
<td>$279,825,000</td>
</tr>
<tr>
<td>The University of North Carolina System Pool Revenue Bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refund Series J and Recreation (2005A)</td>
<td>(A)</td>
<td>4.0 - 5.25</td>
<td>04/01/2019</td>
<td>12,630,000</td>
<td>6,275,000</td>
<td>6,355,000</td>
<td></td>
</tr>
<tr>
<td>Union Addition &amp; Parking (2006A)</td>
<td>(B)</td>
<td>4.0 - 5.0</td>
<td>10/01/2033</td>
<td>19,400,000</td>
<td>4,195,000</td>
<td>15,205,000</td>
<td></td>
</tr>
<tr>
<td>Refund Series 2002A &amp; 2003A; Rec Ctr Exp (2010C)</td>
<td>(C)</td>
<td>2.5 - 5.0</td>
<td>10/01/2026</td>
<td>32,170,000</td>
<td>1,820,000</td>
<td>30,350,000</td>
<td></td>
</tr>
<tr>
<td>Recreation Center Expansion (2010D)</td>
<td>(D)</td>
<td>6.627 - 6.727</td>
<td>10/01/2039</td>
<td>20,660,000</td>
<td>20,660,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total The University of North Carolina System Pool Revenue Bonds</td>
<td></td>
<td></td>
<td></td>
<td>$84,860,000</td>
<td>$12,290,000</td>
<td>$72,570,000</td>
<td>$234,393,417</td>
</tr>
<tr>
<td>Certificates of Participation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Housing-Seahawk Village</td>
<td>2005</td>
<td>3.0 - 5.25</td>
<td>06/01/2036</td>
<td>28,710,000</td>
<td>1,000,000</td>
<td>27,710,000</td>
<td></td>
</tr>
<tr>
<td>Student Housing-Seahawk Landing</td>
<td>2006</td>
<td>4.0 - 5.0</td>
<td>06/01/2037</td>
<td>38,290,000</td>
<td>690,000</td>
<td>37,600,000</td>
<td></td>
</tr>
<tr>
<td>Student Housing-Seahawk Crossing &amp; Parking Deck</td>
<td>2008</td>
<td>3.5 - 5.0</td>
<td>06/01/2038</td>
<td>61,460,000</td>
<td>1,900,000</td>
<td>59,560,000</td>
<td></td>
</tr>
<tr>
<td>Total Certificates of Participation</td>
<td></td>
<td></td>
<td></td>
<td>$128,460,000</td>
<td>$3,590,000</td>
<td>$124,870,000</td>
<td>$234,393,417</td>
</tr>
</tbody>
</table>

#### C. Annual Requirements

The annual requirements to pay principal and interest on the long-term obligations at June 30, 2013, are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Principal Payable</th>
<th>Interest Payable</th>
<th>Certificates of Participation</th>
<th>Principal</th>
<th>Interest</th>
<th>Notes Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$5,001,290</td>
<td>$5,163,140</td>
<td>$1,265,000</td>
<td>$6,003,588</td>
<td>$99,754</td>
<td>$151,269</td>
</tr>
<tr>
<td>2015</td>
<td>5,184,356</td>
<td>4,960,667</td>
<td>1,400,000</td>
<td>5,950,901</td>
<td>110,947</td>
<td>147,711</td>
</tr>
<tr>
<td>2016</td>
<td>5,423,078</td>
<td>4,719,865</td>
<td>1,840,000</td>
<td>5,892,081</td>
<td>128,852</td>
<td>143,706</td>
</tr>
<tr>
<td>2017</td>
<td>5,677,482</td>
<td>4,471,999</td>
<td>2,055,000</td>
<td>5,817,801</td>
<td>141,896</td>
<td>139,121</td>
</tr>
<tr>
<td>2018</td>
<td>5,742,592</td>
<td>4,201,235</td>
<td>2,465,000</td>
<td>5,733,425</td>
<td>161,999</td>
<td>134,023</td>
</tr>
<tr>
<td>2019-2023</td>
<td>26,086,191</td>
<td>17,385,263</td>
<td>19,450,000</td>
<td>26,483,596</td>
<td>1,098,760</td>
<td>570,655</td>
</tr>
<tr>
<td>2024-2028</td>
<td>22,512,695</td>
<td>12,472,971</td>
<td>26,780,000</td>
<td>20,970,509</td>
<td>1,728,600</td>
<td>333,522</td>
</tr>
<tr>
<td>2029-2033</td>
<td>13,130,000</td>
<td>8,146,690</td>
<td>33,985,000</td>
<td>13,752,365</td>
<td>913,481</td>
<td>40,309</td>
</tr>
<tr>
<td>2034-2038</td>
<td>12,970,000</td>
<td>4,017,310</td>
<td>35,630,000</td>
<td>4,746,129</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2039-2040</td>
<td>5,655,000</td>
<td>421,580</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Requirements</td>
<td>$107,382,684</td>
<td>$65,960,720</td>
<td>$124,870,000</td>
<td>$95,350,402</td>
<td>$4,384,289</td>
<td>$1,660,316</td>
</tr>
</tbody>
</table>
D. Notes Payable - The University was indebted for notes payable for the purposes shown in the following table:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Financial Institution</th>
<th>Interest Rate/ Ranges</th>
<th>Final Maturity Date</th>
<th>Original Amount of Issue</th>
<th>Principal Paid Through June 30, 2013</th>
<th>Principal Outstanding June 30, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed Energy Savings Contract</td>
<td>BB&amp;T</td>
<td>3.47%</td>
<td>03/01/2030</td>
<td>$4,542,387</td>
<td>$158,098</td>
<td>$4,384,289</td>
</tr>
</tbody>
</table>

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to buildings 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, 2013:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$71,317</td>
</tr>
<tr>
<td>2015</td>
<td>71,317</td>
</tr>
<tr>
<td>2016</td>
<td>71,317</td>
</tr>
<tr>
<td>2017</td>
<td>657,821</td>
</tr>
</tbody>
</table>

Total Minimum Lease Payments $871,772

Amount Representing Interest (2.24% Rate of Interest) $55,626

Present Value of Future Lease Payments $816,146

Buildings acquired under capital lease amounted to $908,561 at June 30, 2013. Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $200,914 at June 30, 2013.

B. Operating Lease Obligations - The University entered into operating leases for $580,449 for an aquaculture facility, boat slips, IT server, and Printing Services printer. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$181,116</td>
</tr>
<tr>
<td>2015</td>
<td>130,216</td>
</tr>
<tr>
<td>2016</td>
<td>130,216</td>
</tr>
<tr>
<td>2017</td>
<td>130,216</td>
</tr>
<tr>
<td>2018</td>
<td>8,685</td>
</tr>
</tbody>
</table>

Total Minimum Lease Payments $580,449

Rental expense for all operating leases during the year was $489,866.
NOTE 9 - REVENUES

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

<table>
<thead>
<tr>
<th>Gross Revenues</th>
<th>Internal Sales Eliminations</th>
<th>Less Scholarship Allowances</th>
<th>Less Uncollectibles</th>
<th>Net Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Tuition and Fees</td>
<td>$109,540,901</td>
<td>$0</td>
<td>$16,485,028</td>
<td>$13,506</td>
</tr>
<tr>
<td>Sales and Services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and Services of Auxiliary Enterprises:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential Life</td>
<td>$24,245,497</td>
<td>$0</td>
<td>$3,674,700</td>
<td>$26,743</td>
</tr>
<tr>
<td>Dining</td>
<td>14,054,580</td>
<td>2,082,790</td>
<td>13,525</td>
<td>11,958,265</td>
</tr>
<tr>
<td>Parking</td>
<td>3,043,503</td>
<td>100,043</td>
<td>149,780</td>
<td>946</td>
</tr>
<tr>
<td>Communications</td>
<td>3,015,942</td>
<td>3,011,313</td>
<td>4,629</td>
<td></td>
</tr>
<tr>
<td>Athletics</td>
<td>2,241,726</td>
<td>16,642</td>
<td>2,225,084</td>
<td></td>
</tr>
<tr>
<td>Physical Plant</td>
<td>3,475,592</td>
<td>3,341,858</td>
<td>133,734</td>
<td></td>
</tr>
<tr>
<td>Printing and Duplicating</td>
<td>1,283,190</td>
<td>1,179,206</td>
<td>103,984</td>
<td></td>
</tr>
<tr>
<td>Bookstore</td>
<td>616,557</td>
<td>616,557</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postal Services</td>
<td>435,673</td>
<td>228,030</td>
<td>333</td>
<td>207,310</td>
</tr>
<tr>
<td>Other</td>
<td>2,531,803</td>
<td>266,167</td>
<td>11,382</td>
<td>2,254,254</td>
</tr>
<tr>
<td>Sales and Services of Education and Related Activities</td>
<td>3,348,775</td>
<td>3,348,775</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Sales and Services</td>
<td>$58,292,838</td>
<td>$8,126,617</td>
<td>$5,907,270</td>
<td>$69,571</td>
</tr>
<tr>
<td>Nonoperating - Noncapital Gifts</td>
<td>$2,967,967</td>
<td>$0</td>
<td>$0</td>
<td>(5,112)</td>
</tr>
</tbody>
</table>

*The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

NOTE 10 - OPERATING EXPENSES BY FUNCTION

The University’s operating expenses by functional classification are presented as follows:

<table>
<thead>
<tr>
<th>Salaries and Benefits</th>
<th>Supplies and Materials</th>
<th>Services</th>
<th>Scholarships and Fellowships</th>
<th>Utilities</th>
<th>Depreciation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>$85,402,312</td>
<td>$4,000,027</td>
<td>$5,671,493</td>
<td>$189,598</td>
<td>$225</td>
<td>$95,263,655</td>
</tr>
<tr>
<td>Research</td>
<td>7,786,189</td>
<td>1,486,221</td>
<td>3,057,177</td>
<td>92,216</td>
<td>9,698</td>
<td>12,431,501</td>
</tr>
<tr>
<td>Public Service</td>
<td>1,921,363</td>
<td>188,033</td>
<td>1,180,506</td>
<td>246,143</td>
<td>3,536,045</td>
<td></td>
</tr>
<tr>
<td>Academic Support</td>
<td>10,325,736</td>
<td>4,852,862</td>
<td>2,782,697</td>
<td>9,743</td>
<td>17,971,038</td>
<td></td>
</tr>
<tr>
<td>Student Services</td>
<td>7,753,371</td>
<td>863,999</td>
<td>2,143,769</td>
<td>18,228</td>
<td>10,779,367</td>
<td></td>
</tr>
<tr>
<td>Institutional Support</td>
<td>18,939,661</td>
<td>1,768,287</td>
<td>3,584,577</td>
<td>3,000</td>
<td>13,381</td>
<td>24,308,906</td>
</tr>
<tr>
<td>Facilities</td>
<td>12,055,048</td>
<td>3,477,596</td>
<td>3,279,017</td>
<td>5,060,531</td>
<td>23,872,192</td>
<td></td>
</tr>
<tr>
<td>Student Financial Aid</td>
<td>41,337</td>
<td>19</td>
<td>102,570</td>
<td>16,426,472</td>
<td>16,570,398</td>
<td></td>
</tr>
<tr>
<td>Auxiliary Enterprises</td>
<td>12,560,877</td>
<td>4,624,257</td>
<td>28,256,090</td>
<td>675,841</td>
<td>2,213,898</td>
<td>48,330,963</td>
</tr>
<tr>
<td>Depreciation</td>
<td>14,585,939</td>
<td>14,585,939</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>$156,785,894</td>
<td>$21,261,301</td>
<td>$50,057,896</td>
<td>$17,661,241</td>
<td>$7,297,733</td>
<td>$267,650,004</td>
</tr>
</tbody>
</table>
NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the TSERS are established by North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of $126,154,303, of which $55,820,098 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were $4,649,814 and $3,349,206, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were $4,649,814, $4,220,585, and $2,874,128, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for
payments to beneficiaries in the event of the participant’s death. Administrators and eligible faculty of the University may join the Program instead of the TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to 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, 2013, 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 $126,154,303, of which $53,789,224 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $3,679,183 and $3,227,353, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans - Internal Revenue Code Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through 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 $236,413 for the year ended June 30, 2013.
Internal Revenue Code Section 401(k) Plan - All members of the Teachers’ and State Employees’ Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan 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, 2013, were $72,300. The voluntary contributions by employees amounted to $674,318 for the year ended June 30, 2013.

Internal Revenue Code Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee’s eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. The plan administrators are TIAA-CREF and Fidelity Investments. No costs are incurred by the University. The voluntary contributions by employees amounted to $1,544,477 for the year ended June 30, 2013.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the current fiscal year the University contributed 5.30% 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, 2012, and 2011, were 5.0% and 4.9%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were $5,809,294, $5,322,845, and $5,329,549, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2013, the University made a statutory contribution of 0.44% of covered payroll under the Teachers’ and State Employees’ Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were 0.52% and 0.52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended
June 30, 2013, 2012, and 2011, which were $482,281, $553,576, and $565,585, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

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

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

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

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible.
The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance, to insure select students, staff, faculty and assets of the University.

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

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

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% 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 $3,935,705 and on other purchases were $7,542,000 at June 30, 2013.

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

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Pledges</td>
<td>$2,630,243</td>
</tr>
</tbody>
</table>

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NOTE 15 - RELATED PARTIES

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

The Foundation of the University of North Carolina Wilmington and the University of North Carolina 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 $940,460 for the year ended June 30, 2013.

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 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 a fixed rate of 2.5% per annum for three years and includes two one year optional renewal periods. For the year ended June 30, 2013, the Foundation has paid all accrued note interest and has made principal payments of $471,555 towards this loan. The current loan balance has been reduced from $1,750,000 to $1,278,445 at June 30, 2013 and was subsequently paid in full in September, 2013. 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 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.

**NOTE 16 - BLENDED COMPONENT UNITS**

Condensed combining information for the University’s blended component units for the year ended June 30, 2013, are presented as follows:

### Condensed Statement of Net Position
**June 30, 2013**

<table>
<thead>
<tr>
<th></th>
<th>Donald R. Watson Foundation, Inc.</th>
<th>UNCW Corporation, Inc.</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>$36,750</td>
<td>$1,766,199</td>
<td>$ (1,766,199)</td>
<td>$36,750</td>
</tr>
<tr>
<td>Other Noncurrent Assets</td>
<td>1,430,057</td>
<td>126,202,956</td>
<td>(123,810,489)</td>
<td>3,822,524</td>
</tr>
<tr>
<td>Total Assets</td>
<td>1,466,807</td>
<td>127,969,155</td>
<td>(125,576,688)</td>
<td>3,859,274</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
<td>1,766,199</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>126,202,956</td>
<td>(123,810,489)</td>
<td>2,392,467</td>
<td></td>
</tr>
<tr>
<td>Total Liabilities</td>
<td></td>
<td>127,969,155</td>
<td>(125,576,688)</td>
<td>2,392,467</td>
</tr>
<tr>
<td><strong>NET POSITION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted - Nonexpendable</td>
<td>999,796</td>
<td>999,796</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted - Expendable</td>
<td>467,011</td>
<td>467,011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Net Position</td>
<td>$1,466,807</td>
<td>$0</td>
<td>0</td>
<td>$1,466,807</td>
</tr>
</tbody>
</table>

### Condensed Statement of Revenues, Expenses, and Changes in Net Position
**For the Fiscal Year Ended June 30, 2013**

<table>
<thead>
<tr>
<th></th>
<th>Donald R. Watson Foundation, Inc.</th>
<th>UNCW Corporation, Inc.</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and Services</td>
<td>$0</td>
<td>$5,214,066</td>
<td>(5,214,066)</td>
<td>$0</td>
</tr>
<tr>
<td>Other Operating Revenues</td>
<td>112,789</td>
<td></td>
<td>(112,789)</td>
<td>112,789</td>
</tr>
<tr>
<td>Total Operating Revenues</td>
<td>126,202,956</td>
<td>126,202,956</td>
<td>(123,810,489)</td>
<td>2,392,467</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>86,177</td>
<td>112,789</td>
<td>(112,789)</td>
<td>86,177</td>
</tr>
<tr>
<td>Operating Income (Loss)</td>
<td>(86,177)</td>
<td>5,214,066</td>
<td>(5,214,066)</td>
<td>(86,177)</td>
</tr>
<tr>
<td><strong>NONOPERATING REVENUES (EXPENSES)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Income</td>
<td>158,333</td>
<td></td>
<td>(5,214,066)</td>
<td>158,333</td>
</tr>
<tr>
<td>Interest and Fees on Debt</td>
<td>5,214,066</td>
<td></td>
<td>5,214,066</td>
<td>5,214,066</td>
</tr>
<tr>
<td>Net Nonoperating Revenues (Expenses)</td>
<td>158,333</td>
<td>5,214,066</td>
<td>5,214,066</td>
<td>158,333</td>
</tr>
<tr>
<td>Increase in Net Position</td>
<td>72,156</td>
<td></td>
<td></td>
<td>72,156</td>
</tr>
<tr>
<td><strong>NET POSITION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Position, July 1, 2012</td>
<td>1,394,651</td>
<td></td>
<td></td>
<td>1,394,651</td>
</tr>
<tr>
<td>Net Position, June 30, 2013</td>
<td>$1,466,807</td>
<td>$0</td>
<td>0</td>
<td>$1,466,807</td>
</tr>
</tbody>
</table>
Condensed Statement of Cash Flows  
June 30, 2013

Donald R. Watson  
Foundation, Inc.  
UNCW Corporation, Inc.  
Total

Net Cash Provided (Used) by Operating Activities  $ (53,552)  $ 5,428,077  $ 5,374,525
Net Cash Used by Capital and Related Financing Activities  (6,254,883)  (6,254,883)
Net Cash Provided by Investing Activities  45,618  826,806  872,424
Net Decrease in Cash and Cash Equivalents  (7,934)  (7,934)
Cash and Cash Equivalents, July 1, 2012  43,051
Cash and Cash Equivalents, June 30, 2013  $ 35,117  $ 0  $ 35,117

NOTE 17  -  NET POSITION RESTATEMENT

As of July 1, 2012, net position as previously reported was restated as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1, 2012 Net Position as Previously Reported</td>
<td>$ 406,730,759</td>
</tr>
<tr>
<td><strong>Restatement:</strong> To correct error of Supplies and Materials understatement incorrectly capitalized as Construction in Progress.</td>
<td>(7,034,463)</td>
</tr>
<tr>
<td><strong>July 1, 2012 Net Position as Restated</strong></td>
<td>$ 399,696,296</td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITOR’S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the University of North Carolina Wilmington, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University’s basic financial statements, and have issued our report thereon dated December 6, 2013. Our report includes a reference to other auditors who audited the financial statements of the UNCW Corporation, Inc., as described in our report on the University’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control. Accordingly, we do not express an opinion on the effectiveness of the University’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency,
or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 6, 2013
ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: http://www.ncauditor.net

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477
or download our free app


For additional information contact:
Bill Holmes
Director of External Affairs

This audit required 948 audit hours at an approximate cost of $72,048.