

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## UNIVERSITY OF NORTH CAROLINA GENERAL ADMINISTRATION

CHAPEL HILL, NORTH CAROLINA  
FINANCIAL STATEMENT AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2014

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



**NC**  **OSA**  
The Taxpayers' Watchdog

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



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

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## AUDITOR'S TRANSMITTAL

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The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
Board of Governors, University of North Carolina General Administration

We have completed a financial statement audit of the University of North Carolina General Administration for the year ended June 30, 2014, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA  
State Auditor



Beth A. Wood, CPA  
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.

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## **INDEPENDENT AUDITOR'S REPORT**

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Board of Governors  
University of North Carolina General Administration  
Chapel Hill, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of the University of North Carolina General Administration (UNC GA), the administrative body of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise UNC GA'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 University of North Carolina Center for Public Television (UNC TV), which represent 38.0 percent, 39.8 percent, and 8.4 percent, respectively, of the assets, net position, and revenues of UNC GA. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for UNC TV, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 UNC GA's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UNC GA'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 report 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 General Administration, as of June 30, 2014, 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 January 23, 2015 on our consideration of UNC GA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UNC GA's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

January 23, 2015



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Introduction

The University of North Carolina General Administration (UNC GA) provides this overview and management's discussion and analysis to assist in understanding the financial statements and notes to the financial statements presented herewith for the year ended June 30, 2014, and includes comparative data for the year ended June 30, 2013. This discussion describes important trends and events that have impacted the fiscal health of UNC GA and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of UNC GA's management along with the financial statements and the notes thereto. The report should be read and considered in its entirety.

## Using the Annual Report

This annual report consists of a series of financial statements, notes to the financial statements, and other information prepared in accordance with the Governmental Accounting Standards Board (GASB). The GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a consolidated basis for UNC GA as a whole. These standards were used in the preparation of this document. The statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Comparative information for the prior fiscal year is also presented in the condensed financial statements.

The basic financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are discussed in later sections of this discussion and analysis.

The Statement of Cash Flows provides information relative to UNC GA's sources and uses of cash for operating activities, noncapital financing activities, capital financing and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Position as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Position.

The notes to the financial statements should be read in conjunction with the financial statements. The notes to the financial statements provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on deposits and investments, accounts receivable, capital assets, accounts payable, long-term liabilities, lease obligations, revenues, expenses, required information on pension plans, other post-employment benefits, insurance against losses, commitments, and a discussion of accounting changes, if applicable. Overall, these notes to the financial statements provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

## Reporting Entity

The financial statements report information about UNC GA as a whole using accounting methods similar to those used in the private sector. UNC GA's supporting organization, The University of North Carolina Foundation, Inc. (Foundation), is a legally separate not-for-profit



corporation and is reported as a blended component unit based on the nature and significance of its relationship to UNC GA. Therefore, the results of its operations are blended with UNC GA's financial statements and are included in this discussion and analysis. The reporting entity also includes the University of North Carolina Center for Public Television and UNC Association of Student Government, divisions within UNC GA. Although the Foundation, the University of North Carolina Center for Public Television, and the UNC Association of Student Government organizations are all included in the UNC GA reporting entity, each organization is subject to an independent outside audit due to organizational requirements or source of funding.

### **Financial Highlights**

UNC GA's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2014. The combined net position for UNC GA increased by \$3,359,298.68 or 2.39%.

### **Summary of Net Position**

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of UNC GA as of the end of the fiscal year. The statement is a point-in-time statement presenting a fiscal snapshot of UNC GA. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of UNC GA. They are also able to determine how much UNC GA owes to vendors and others and how much is held for future use by UNC GA or others. Finally, the Statement of Net Position provides a picture of the net position and its availability for expenditure by UNC GA.

Net Position is divided into categories to show the availability to meet UNC GA obligations. The first category, net investment in capital assets, provides UNC GA's equity in property, plant, and equipment. The next net position category is restricted net position, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net position consists primarily of UNC GA's permanent endowment funds and is only available for investment purposes. Expendable restricted net position is available for use by UNC GA, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is available to UNC GA for any lawful purpose. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of UNC GA's unrestricted net position has been designated for various programs and initiatives.



Condensed Statement of Net Position				
	2014	2013	Increase/ (Decrease)	Percent Change
<b>Assets:</b>				
Current Assets	\$ 48,425,894.52	\$ 52,151,462.11	\$ (3,725,567.59)	(7.14%)
Noncurrent Assets:				
Other	73,203,481.54	71,112,168.85	2,091,312.69	2.94%
Capital Assets	38,970,728.08	40,398,418.50	(1,427,690.42)	(3.53%)
<b>Total Assets</b>	<u>160,600,104.14</u>	<u>163,662,049.46</u>		
<b>Deferred Outflows of Resources</b>				
<b>Liabilities:</b>				
Current Liabilities	12,665,863.72	19,210,689.04	(6,544,825.32)	(34.07%)
Noncurrent Liabilities	3,830,551.95	3,706,970.63	123,581.32	3.33%
<b>Total Liabilities</b>	<u>16,496,415.67</u>	<u>22,917,659.67</u>		
<b>Deferred Inflows of Resources</b>				
<b>Net Position:</b>				
Net Investment in Capital Assets	38,965,728.08	40,398,418.50	(1,432,690.42)	(3.55%)
Restricted:				
Nonexpendable	33,647,604.91	30,529,762.99	3,117,841.92	10.21%
Expendable	47,092,778.06	46,244,896.18	847,881.88	1.83%
Unrestricted	24,397,577.42	23,571,312.12	826,265.30	3.51%
<b>Total Net Position</b>	<u>\$ 144,103,688.47</u>	<u>\$ 140,744,389.79</u>		

Net Position categories are defined in Note 1.L of the notes to the financial statements.

As of June 30, 2014, total UNC GA net position was \$144.10 million. UNC GA's capital assets of \$38.97 million represent 27.04% of total net position. Total assets decreased by \$3,061,945.32, or 1.87% primarily due to a decrease in prepaid expenses and restricted cash due to transfer of Optional Retirement Plan funds to the plan vendor.

UNC GA's liabilities totaled \$16.50 million at June 30, 2014. Current liabilities, which include accounts payable, unearned revenue, and funds held for others, decreased by \$6,544,825.32, or 34.07%, primarily due to the decrease in funds held for others related to the transfer of Optional Retirement Plan funds to the plan vendor. Noncurrent liabilities of \$3.83 million represent compensated absences. Details of both current and noncurrent liabilities are shown on the Statement of Net Position and in Notes 6 and 7, respectively.

UNC GA incurs a long-term liability for accumulated unused vacation benefits for employees. UNC GA's long-term liabilities increased by \$123,581.32 during fiscal year 2014. For detailed information about long-term liabilities, see Note 7 of the notes to the financial statements.

UNC GA's current assets of \$48.43 million covered the current liabilities of \$12.67 million, at a ratio of 3.82 (\$3.82 in current assets for every \$1.00 in current liabilities).

### Summary of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or

nonoperating. UNC GA's dependency on state aid, certain grants, and gifts will result in operating deficits since the GASB requires that state appropriations, certain grants, and gifts be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The change in total net position as presented on the Condensed Summary of Net Position is based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by UNC GA, both operating and nonoperating, the expenses paid by UNC GA, operating and nonoperating, and any other revenues, expenses, and any gains and/or losses received or spent by UNC GA.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of UNC GA. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of UNC GA. Nonoperating revenues are revenues received for which goods and services are not provided. Capital contributions are considered neither operating nor nonoperating revenues and are reported after "Income Before Other Revenues."

**Statement of Revenues, Expenses, and Changes in Net Position**

	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
<b>Operating Revenues:</b>				
Sales and Services	\$ 5,928,515.10	\$ 5,052,759.38	\$ 875,755.72	17.33%
Other	9,963.72	7,869.99	2,093.73	26.60%
<b>Total Operating Revenues</b>	<u>5,938,478.82</u>	<u>5,060,629.37</u>		
<b>Operating Expenses:</b>				
Salaries and Benefits	36,577,266.17	33,707,939.76	2,869,326.41	8.51%
Supplies and Materials	1,421,655.88	1,477,832.13	(56,176.25)	(3.80%)
Services	26,389,978.21	25,255,115.56	1,134,862.65	4.49%
Utilities	1,855,490.52	1,826,855.14	28,635.38	1.57%
Depreciation	3,289,868.91	3,338,135.49	(48,266.58)	(1.45%)
<b>Total Operating Expenses</b>	<u>69,534,259.69</u>	<u>65,605,878.08</u>		
<b>Operating Loss</b>	<u>(63,595,780.87)</u>	<u>(60,545,248.71)</u>		
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriations	232,478,110.14	236,309,483.90	(3,831,373.76)	(1.62%)
Noncapital Grants	44,244,157.88	51,803,644.28	(7,559,486.40)	(14.59%)
Noncapital Gifts	10,844,599.97	14,122,969.92	(3,278,369.95)	(23.21%)
Investment Income (Net )	9,372,690.67	6,931,578.41	2,441,112.26	35.22%
Grants, Aid and Subsidies	(231,054,051.59)	(245,172,951.40)	(14,118,899.81)	(5.76%)
Other Nonoperating Expenses	(853,355.52)	(307,375.78)	545,979.74	177.63%
<b>Net Nonoperating Revenues</b>	<u>65,032,151.55</u>	<u>63,687,349.33</u>		
<b>Income Before Other Revenues</b>	<u>1,436,370.68</u>	<u>3,142,100.62</u>		
State Capital Aid	1,360,428.00	1,519,825.00	(159,397.00)	(10.49%)
Capital Contributions	532,500.00	1,000,000.00	(467,500.00)	(46.75%)
Additions to Endowments	30,000.00	15,000.00	15,000.00	100.00%
<b>Increase (Decrease) in Net Position</b>	3,359,298.68	5,676,925.62		
<b>Net Position</b>				
Net Position - July 1	<u>140,744,389.79</u>	<u>135,067,464.17</u>		
Net Position - June 30	<u>\$ 144,103,688.47</u>	<u>\$ 140,744,389.79</u>		

The Statement of Revenues, Expenses, and Changes in Net Position shows an increase in net position of \$3,359,298.68 for the fiscal year. The total operating loss for fiscal year 2014 was \$63.60 million. Since the State of North Carolina appropriation is not included within operating revenue per GASB, UNC GA shows a significant operating loss.

The state appropriations are received through an allotment and requisition system through the North Carolina Office of State Budget and Management and the North Carolina Office of the State Controller. For the fiscal year ending June 30, 2014 the appropriations from the State for UNC GA decreased by \$3.83 million or 1.62% for operations. The decrease is primarily due to a decrease in funding for the UNC Need Based Financial Aid Program.

Grants, aid, and subsidies decreased by \$14.12 million or 5.76% primarily due to reduced funds available for the UNC Need Based Financial Aid Program. Noncapital Gifts decreased \$3.28 million, or 23.21% due to a decrease in private gifts. Investment Income increased \$2.44 million, or 35.22% due to market investment performance.

Operating revenues include sales and services (including academic affairs private college licensure fees, NC Center for International Understanding exchange programs, School Leadership Development training and conferencing services, etc.) and other operating revenues. For fiscal year 2014 operating revenues increased by \$877,849.45 or 17.35% due to increased revenue for Optional Retirement Program support.

Operating expenses, including depreciation of \$3.29 million, totaled \$69.53 million. Of this total, \$36.58 million was used for salaries and benefits and \$26.39 million was for services. Services consisted of contractual agreements, data processing services, travel, and communication expenses.

Other nonoperating expenses increased by \$545,979.74, or 177.63% due to a legislative mandated transfer of \$670,500 to Department of Public Instruction for special education scholarship grants for children with disabilities.

One of UNC GA's greatest strengths is the diverse streams of revenues, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, state appropriations, and investment income. UNC GA has in the past and will continue to seek funding aggressively from all possible sources consistent with its mission and prudently manage the financial resources realized from these efforts to fund its operating activities.

### **Capital Assets**

The primary capital project for fiscal year 2014 was a renovation project at the UNC President's residence. Total capital assets, net of accumulated depreciation, at June 30, 2014 were \$38.97 million. For more detailed information about asset holdings, see Note 5 of the notes to the financial statements.

### **Factors Impacting Future Periods**

Management believes that UNC GA is well positioned to continue its level of excellence in service to UNC constituent institutions, students, the community, and governmental agencies. UNC GA's ongoing efforts toward maximizing the State's resources with efficiency and effectiveness measures will enable it to provide the necessary resources to support this level of excellence. However, fluctuations in state appropriations will continue to impact the

ability of UNC GA to maintain resources to provide programs and services, including financial aid, to meet the growing demands of the State and its citizens.

A major initiative from fiscal year 2013 was the development of a five-year strategic directions plan. During fiscal year 2014 work plans for tasks have been established and tracked for "The UNC Compact with North Carolina: Strategic Directions 2013-2018." Although the plan was not fully funded, UNC GA has identified key projects for execution within available resources. To read more about the strategic directions initiative, go to <http://www.northcarolina.edu/?q=content/our-time-our-future>.

A crucial element to UNC GA's future will continue to be its relationship with the State of North Carolina. Private gifts are an important supplement to the fundamental support from the State and other revenue sources. Fluctuations in market condition will continue to affect the future level of donor funding UNC GA receives from corporate and individual giving, including the support received through The University of North Carolina Center for Public Television.

UNC GA will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate UNC GA's operations from temporary market volatility.

While it is not possible to predict the ultimate results, management believes that with cost reduction measures previously implemented and the continued support of the State of North Carolina and faithful donors, UNC GA's financial condition is strong enough to weather economic uncertainties.



# FINANCIAL STATEMENTS

**UNC General Administration**  
**Statement of Net Position**  
**June 30, 2014**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 5,089,334.92
Restricted Cash and Cash Equivalents (Note 2)	39,155,432.97
Receivables, Net (Note 4)	2,558,020.34
Inventories	24,500.69
Prepaid Items	1,598,605.60
	<hr/>
Total Current Assets	48,425,894.52

Noncurrent Assets:

Restricted Cash and Cash Equivalents (Note 2)	7,910,885.41
Endowment Investments (Note 2)	65,292,596.13
Capital Assets - Nondepreciable (Note 5)	898,159.35
Capital Assets - Depreciable, Net (Note 5)	38,072,568.73
	<hr/>
Total Noncurrent Assets	112,174,209.62
	<hr/>
Total Assets	160,600,104.14

**DEFERRED OUTFLOWS OF RESOURCES**

Total Deferred Outflows of Resources	<hr/> 0.00
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,251,789.65
Due to Primary Government	9,384.36
Funds Held for Others	5,186,363.46
Unearned Revenue	5,059,837.98
Long-Term Liabilities - Current Portion (Note 7)	158,488.27
	<hr/>
Total Current Liabilities	12,665,863.72

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<hr/> 3,830,551.95
Total Liabilities	<hr/> 16,496,415.67

**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows of Resources	<hr/> 0.00
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**UNC General Administration**  
**Statement of Net Position**  
**June 30, 2014**

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

**NET POSITION**

Net Investment in Capital Assets	38,965,728.08
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	32,350,357.70
Departmental Uses	114,034.97
Other	1,183,212.24
Expendable:	
Scholarships and Fellowships	5,051,686.29
Endowed Professorships	127,066.90
Departmental Uses	40,107,578.73
Capital Projects	1,773,760.97
Other	32,685.17
Unrestricted	<u>24,397,577.42</u>
Total Net Position	<u><u>\$ 144,103,688.47</u></u>

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



**UNC General Administration  
Statement of Revenues, Expenses, and  
Changes in Net Position  
For the Fiscal Year Ended June 30, 2014**

**Exhibit A-2**

**REVENUES**

Operating Revenues:	
Sales and Services	\$ 5,928,515.10
Other Operating Revenues	9,963.72
	<hr/>
Total Operating Revenues	5,938,478.82
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**EXPENSES**

Operating Expenses:	
Salaries and Benefits	36,577,266.17
Supplies and Materials	1,421,655.88
Services	26,389,978.21
Utilities	1,855,490.52
Depreciation	3,289,868.91
	<hr/>
Total Operating Expenses	69,534,259.69
	<hr/>
Operating Loss	(63,595,780.87)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	232,478,110.14
Noncapital Grants	44,244,157.88
Noncapital Gifts, Net (Note 9)	10,844,599.97
Investment Income (Net of Investment Expense of \$272,387.98)	9,372,690.67
Grants, Aid, and Subsidies	(231,054,051.59)
Other Nonoperating Expenses	(853,355.52)
	<hr/>
Net Nonoperating Revenues	65,032,151.55
	<hr/>
Income Before Other Revenues	1,436,370.68
	<hr/>
Capital Contributions	1,360,428.00
Capital Gifts	532,500.00
Additions to Endowments	30,000.00
	<hr/>
Increase in Net Position	3,359,298.68

**NET POSITION**

Net Position, July 1, 2013	140,744,389.79
	<hr/>
Net Position, June 30, 2014	\$ 144,103,688.47
	<hr/> <hr/>

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

**UNC General Administration**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2014**

**Exhibit A-3**  
**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 5,571,675.21
Payments to Employees and Fringe Benefits	(36,286,104.88)
Payments to Vendors and Suppliers	(29,334,180.31)
Other Payments	(6,004,334.72)
	<hr/>
Net Cash Used by Operating Activities	(66,052,944.70)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	232,478,110.14
Noncapital Grants	44,293,310.95
Noncapital Gifts	10,398,356.97
Additions to Endowments	30,000.00
Grants, Aid, and Subsidies	(231,054,051.59)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	56,145,726.47

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

State Capital Appropriations	1,360,428.00
Capital Gifts	500,000.00
Proceeds from Insurance on Capital Assets	6,306.94
Acquisition and Construction of Capital Assets	(2,051,424.51)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(184,689.57)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	1,556,840.00
Investment Income	571,258.83
	<hr/>
Cash Provided by Investing Activities	2,128,098.83

Net Decrease in Cash and Cash Equivalents	(7,963,808.97)
Cash and Cash Equivalents, July 1, 2013	60,119,462.27
	<hr/>
Cash and Cash Equivalents, June 30, 2014	\$ 52,155,653.30

**UNC General Administration**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2014**

**Exhibit A-3**  
**Page 2 of 2**

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

Operating Loss	\$ (63,595,780.87)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,289,868.91
Nonoperating Other Expenses	(757,025.76)
Changes in Assets and Liabilities:	
Receivables, Net	(366,803.61)
Inventories	34,905.08
Prepaid Items	634,927.74
Accounts Payable and Accrued Liabilities	(242,093.66)
Due to Primary Government	5,266.05
Compensated Absences	191,100.38
Funds Held for Others	(5,247,308.96)
	<u>(5,247,308.96)</u>
Net Cash Used by Operating Activities	<u>\$ (66,052,944.70)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 5,089,334.92
Restricted Cash and Cash Equivalents	39,155,432.97
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	7,910,885.41
	<u>7,910,885.41</u>
Total Cash and Cash Equivalents - June 30, 2014	<u>\$ 52,155,653.30</u>

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

Assets Acquired through a Gift	\$ 32,500.00
Change in Fair Value of Investments	8,962,849.82
Loss on Disposal of Capital Assets	(102,636.70)

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



# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 - SIGNIFICANT ACCOUNT 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 General Administration (UNC GA) is the administrative body 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 UNC GA and its component unit. UNC GA is the organizational structure established, pursuant to *North Carolina General Statutes* 116-3 through 116-22, to support and assist the President of the University System in fulfilling his responsibilities to the Board of Governors in meeting overall responsibilities for administering the University System. The President, as chief administrative and executive officer, is responsible for (1) communication between the Board and persons inside and outside the University System, (2) preparation, presentation, and execution of the budget for the University System, and (3) establishment and supervision of administrative divisions to comply with policies of the Board. These responsibilities are accomplished through offices which address academic affairs, financial administration, long-range planning, student services and special programs, research, communications, and public affairs. UNC GA's component unit is blended in UNC GA's financial statements. The blended component unit, although legally separate, is, in substance, part of UNC GA's operations and therefore, is reported as if it were part of UNC GA.

**Blended Component Unit** - Although legally separate, The University of North Carolina Foundation, Inc. (Foundation), a component unit of UNC GA, is reported as if it were part of UNC GA.

The Foundation is governed by a board consisting of six voting ex-officio directors. The Foundation's purpose is to aid, support, and promote teaching, research and service in various educational, scientific, scholarly, professional, artistic, and creative endeavors of the multi-campus University System. The Foundation is included as part of UNC GA based on the nature and significance of its relationship with UNC GA. The six ex-officio directors are the Chair of the Board of Governors of the University System, the President of the University System, the Chief Operating Officer of the University System, the Senior Vice-President for Academic Affairs of the University System, the Chief of Staff of the University System, and the Vice President for Legal Affairs and General Counsel of the University System. Because the

Foundation's sole purpose is to benefit the University System, its financial statements have been blended with those of UNC GA.

Separate financial statements for the Foundation may be obtained from the UNC GA Services Office, 910 Raleigh Road, Chapel Hill, NC, or by calling (919) 962-3992.

Condensed combining information regarding blended component unit is provided in Note 15.

- 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 UNC GA'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 UNC GA 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 UNC GA 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, 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. The fair value for investments in the UNC Investment Fund was based on amounts reported to UNC GA by UNC Management Company, Inc. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a

ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Real estate not held by a governmental external investment pool is 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 UNC GA 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 amounts due from the federal government, state and local governments, other universities, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied, and accrued interest receivable from investments. Receivables are recorded net of estimated uncollectible amounts.
- G. **Inventories** - Inventories, consisting of expendable supplies and postage, are valued at cost using the last invoice cost method.
- H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

UNC GA 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 10 to 50 years for general infrastructure, 20 to 100 years for buildings, and 5 to 30 years for equipment.

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.



- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** – UNC GA’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 UNC GA has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

- L. Net Position** - UNC GA’s net position is classified as follows:

**Net Investment in Capital Assets** – This represents UNC GA’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. In the current year, the only debt incurred related to capital assets was contract retainage in the amount of \$5,000. See Note 6 for further disclosure.

**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 UNC GA 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 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 UNC GA.

- M. Revenue and Expense Recognition** – UNC GA 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 UNC GA's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) sales and services of auxiliary enterprises, and (2) certain federal, state and local grants and contracts that are essentially contracts for services. 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 UNC GA, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

## NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, UNC GA 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 General Statute 116-36.1, may authorize UNC GA 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, UNC GA may voluntarily deposit institutional trust funds, endowment funds, special funds, and revenue bond proceeds with the State Treasurer. Special funds consist of agency funds held directly by UNC GA.

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$50,064,892.59 which represents UNC GA's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2014. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports", or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2014 was \$900.00. The carrying amount of UNC GA's deposits not with the State Treasurer was \$2,089,860.71 and the bank balance was \$2,092,443.25. Custodial credit risk is the risk that in the event of a bank failure, UNC GA's deposits may not be returned to it. UNC GA does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$1,842,443.25 of UNC GA's bank balance was uninsured and uncollateralized.

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

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

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 on them by the donor upon that part of the Endowment Fund to be invested.

Investments of UNC GA's component unit, the 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. UNC GA utilizes investment pools to manage investments and distribute investment income.

Investments also include investments in real estate of \$25,200.00 and other investments of \$385.00 not subject to interest rate risk, credit risk, or custodial credit risk.

**UNC Investment Fund, LLC** – At June 30, 2014, UNC GA investments include \$65,267,011.13 which represents UNC GA's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in the 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.

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for UNC GA to the basic financial statements at June 30, 2014, is as follows:

Cash on Hand	\$ 900.00
Amount of Deposits with Private Financial Institutions	2,089,860.71
Deposits in the Short Term Investment Fund	50,064,892.59
Investments in the UNC Investment Fund	65,267,011.13
Investments in Real Estate	25,200.00
Other Investments	<u>385.00</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 117,448,249.43</u></b>
Current:	
Cash and Cash Equivalents	\$ 5,089,334.92
Restricted Cash and Cash Equivalents	39,155,432.97
Noncurrent:	
Restricted Cash and Cash Equivalents	7,910,885.41
Endowment Investments	<u>65,292,596.13</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 117,448,249.43</u></b>

**NOTE 3 - ENDOWMENT INVESTMENTS**

Investments of UNC GA'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 Governors 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 UNC GA’s endowment funds is predicated on the total return concept (yield plus appreciation). Annual distributions from UNC GA’s endowment funds are based on an adopted spending policy and are subject to a maximum of 5% of the aggregate endowment fund’s average market value for the previous year. Under this policy, annual distributions are calculated by comparing cash associated with the endowment fund to the projected expenses for programs associated with the fund. To the extent that the total return for the current year exceeds the distribution, the excess is added to principal. If current year earnings do not meet the distribution requirements, UNC GA uses accumulated income and appreciation to fund the difference. At June 30, 2014, endowment net position of \$31,563,288.26 was available to be spent, of which \$10,627,150.75 was restricted to specific purposes. The remaining portion of endowment net position available to be spent is classified as unrestricted net position.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Accounts	\$ 999,272.25	\$ 0.00	\$ 999,272.25
Intergovernmental	709,806.09		709,806.09
Pledges	1,389,642.00	540,700.00	848,942.00
Total Current Receivables	<u>\$ 3,098,720.34</u>	<u>\$ 540,700.00</u>	<u>\$ 2,558,020.34</u>

**NOTE 5 - CAPITAL ASSETS**

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

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 802,658.00	\$ 0.00	\$ 0.00	\$ 802,658.00
Construction in Progress	658,300.56	86,720.00	649,519.21	95,501.35
<b>Total Capital Assets, Nondepreciable</b>	<u>1,460,958.56</u>	<u>86,720.00</u>	<u>649,519.21</u>	<u>898,159.35</u>
Capital Assets, Depreciable:				
Buildings	88,826,576.38	1,625,782.35	1,041,875.35	89,410,483.38
Machinery and Equipment	12,314,554.27	852,414.55	709,274.99	12,457,693.83
General Infrastructure	21,754,094.59	49,417.50	63,057.78	21,740,454.31
<b>Total Capital Assets, Depreciable</b>	<u>122,895,225.24</u>	<u>2,527,614.40</u>	<u>1,814,208.12</u>	<u>123,608,631.52</u>
Less Accumulated Depreciation for:				
Buildings	65,873,629.72	2,082,595.01	1,028,780.02	66,927,444.71
Machinery and Equipment	8,951,409.63	646,195.94	627,400.53	8,970,205.04
General Infrastructure	9,132,725.95	561,077.96	55,390.87	9,638,413.04
<b>Total Accumulated Depreciation</b>	<u>83,957,765.30</u>	<u>3,289,868.91</u>	<u>1,711,571.42</u>	<u>85,536,062.79</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>38,937,459.94</u>	<u>(762,254.51)</u>	<u>102,636.70</u>	<u>38,072,568.73</u>
<b>Capital Assets, Net</b>	<u>\$ 40,398,418.50</u>	<u>\$ (675,534.51)</u>	<u>\$ 752,155.91</u>	<u>\$ 38,970,728.08</u>

**NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	Amount
Accounts Payable	\$ 1,408,397.03
Accrued Payroll	838,392.62
Contract Retainage	5,000.00
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 2,251,789.65</u>

**NOTE 7 - LONG-TERM LIABILITIES**

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

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Compensated Absences	<u>\$ 3,797,939.84</u>	<u>\$ 2,710,443.19</u>	<u>\$ 2,519,342.81</u>	<u>\$ 3,989,040.22</u>	<u>\$ 158,488.27</u>

**NOTE 8 - OPERATING LEASE OBLIGATIONS**

UNC GA entered into operating leases for tower sites and office and storage facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

Fiscal Year	<u>Amount</u>
2015	\$ 228,723.00
2016	138,146.00
2017	112,220.00
2018	29,333.00
2019	26,386.00
2020-2024	123,010.00
2025-2029	102,748.00
2030-2034	9,691.00
2035-2039	85.00
2040-2044	85.00
2045-2049	83.00
2050-2054	80.00
2055-2059	78.00
2060-2064	75.00
2065-2069	75.00
2070-2109	<u>521.00</u>
<b>Total Minimum Lease Payments</b>	<b><u>\$ 771,339.00</u></b>

Rental expense for all operating leases during the year was \$300,951.57.

**NOTE 9 - REVENUES**

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

	<u>Gross Revenues</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Nonoperating - Noncapital Gifts	<u>\$ 11,118,783.97</u>	<u>\$ 274,184.00</u>	<u>\$ 10,844,599.97</u>



**NOTE 10 - OPERATING EXPENSES BY FUNCTION**

UNC GA's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Utilities	Depreciation	Total
Instruction	\$ 1,897,626.16	\$ 29,474.18	\$ 980,339.72	\$ 2,602.22	\$ 0.00	\$ 2,910,042.28
Research	1,005,292.39	4,412.67	272,825.24			1,282,530.30
Public Service	12,175,382.42	1,293,987.17	15,712,804.86	1,578,411.29		30,760,585.74
Institutional Support	21,498,965.20	93,781.86	7,538,289.44	274,477.01		29,405,513.51
Operations and Maintenance of Plant			1,698,822.92			1,698,822.92
Student Financial Aid			186,896.03			186,896.03
Depreciation					3,289,868.91	3,289,868.91
<b>Total Operating Expenses</b>	<b>\$ 36,577,266.17</b>	<b>\$ 1,421,655.88</b>	<b>\$ 26,389,978.21</b>	<b>\$ 1,855,490.52</b>	<b>\$ 3,289,868.91</b>	<b>\$ 69,534,259.69</b>

**NOTE 11 - PENSION PLANS**

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

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

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

For the current fiscal year, UNC GA had a total payroll of \$28,559,003.11, of which \$19,638,164.26 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$1,706,556.47 and \$1,178,289.86 respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. UNC GA made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$1,706,556.47, \$1,624,349.91, and \$1,440,219.84, 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 employees of UNC GA 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, 2014, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. UNC GA assumes no liability other than its contribution.

For the current fiscal year, UNC GA had a total payroll of \$28,559,003.11, of which \$6,560,224.76 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$448,719.37 and \$393,613.49, respectively.

**NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS**

**A. Health Benefits** – UNC GA 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 UNC GA contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0% respectively. UNC GA made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$1,414,713.01, \$1,259,453.00 and \$1,126,145.19, respectively. UNC GA 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** – UNC GA participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2014, UNC GA made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. UNC GA made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$115,272.91, \$104,558.36, and \$117,119.10, respectively. UNC GA 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**

UNC GA 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. UNC GA pays the premium, based on a composite rate, directly to the private insurer.

UNC GA 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 UNC GA for operations supported by the State's General Fund. Extended coverage insurance is available at a cost to electing agencies. UNC GA has opted to purchase this additional coverage offered by the Fund. Other operations not supported by the State's General Fund are charged for the coverage. UNC GA has elected to purchase additional "all risk" coverage for all computers, equipment, buildings and contents. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible.

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. UNC GA pays premiums to the North Carolina Department of Insurance for the coverage.

UNC GA 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. UNC GA is 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.

UNC GA 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, UNC GA's primary responsibility is to arrange for and provide the necessary treatment for work related injury. UNC GA is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. UNC GA retains the risk for workers' compensation.

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

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

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

UNC GA has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$151,602.80 at June 30, 2014.

**NOTE 15 - BLENDED COMPONENT UNIT**

Condensed combining information for UNC GA's blended component unit for the year ended June 30, 2014, is presented as follows:

**Condensed Statement of Net Position  
June 30, 2014**

	<u>UNC GA</u>	<u>The UNC Foundation, Inc.</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets	\$ 47,434,559.52	\$ 991,335.00	\$ 48,425,894.52
Capital Assets	38,970,728.08		38,970,728.08
Other Noncurrent Assets	<u>73,203,481.54</u>		<u>73,203,481.54</u>
Total Assets	<u>159,608,769.14</u>	<u>991,335.00</u>	<u>160,600,104.14</u>
Deferred Outflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<b>LIABILITIES</b>			
Current Liabilities	12,510,360.72	155,503.00	12,665,863.72
Noncurrent Liabilities	<u>3,830,551.95</u>		<u>3,830,551.95</u>
Total Liabilities	<u>16,340,912.67</u>	<u>155,503.00</u>	<u>16,496,415.67</u>
Deferred Inflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	38,965,728.08	0.00	38,965,728.08
Restricted - Nonexpendable	33,647,604.91		33,647,604.91
Restricted - Expendable	46,256,946.06	835,832.00	47,092,778.06
Unrestricted	<u>24,397,577.42</u>		<u>24,397,577.42</u>
Total Net Position	<u>\$ 143,267,856.47</u>	<u>\$ 835,832.00</u>	<u>\$ 144,103,688.47</u>

## NOTES TO THE FINANCIAL STATEMENTS

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

	<b>UNC GA</b>	<b>The UNC Foundation, Inc.</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Sales and Services	\$ 5,928,340.10	\$ 175.00	\$ 5,928,515.10
Other	9,963.72		9,963.72
Total Operating Revenues	<u>5,938,303.82</u>	<u>175.00</u>	<u>5,938,478.82</u>
<b>OPERATING EXPENSES</b>			
Operating Expenses	66,197,531.78	46,859.00	66,244,390.78
Depreciation	3,289,868.91		3,289,868.91
Total Operating Expenses	<u>69,487,400.69</u>	<u>46,859.00</u>	<u>69,534,259.69</u>
Operating Loss	<u>(63,549,096.87)</u>	<u>(46,684.00)</u>	<u>(63,595,780.87)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State Appropriations	232,478,110.14	0.00	232,478,110.14
Noncapital Grants	43,244,157.88	1,000,000.00	44,244,157.88
Noncapital Gifts (Net)	10,807,674.97	36,925.00	10,844,599.97
Investment Income (Net)	9,371,160.67	1,530.00	9,372,690.67
Grants, Aid and Subsidies	(230,178,038.59)	(876,013.00)	(231,054,051.59)
Other Nonoperating Expenses	(853,355.52)		(853,355.52)
Net Nonoperating Revenues	<u>64,869,709.55</u>	<u>162,442.00</u>	<u>65,032,151.55</u>
Capital Contributions	1,360,428.00	0.00	1,360,428.00
Capital Gifts	532,500.00		532,500.00
Additions to Endowments	30,000.00		30,000.00
Increase in Net Position	3,243,540.68	115,758.00	3,359,298.68
<b>NET POSITION</b>			
Net Position, July 1, 2013	<u>140,024,315.79</u>	<u>720,074.00</u>	<u>140,744,389.79</u>
Net Position, June 30, 2014	<u>\$ 143,267,856.47</u>	<u>\$ 835,832.00</u>	<u>\$ 144,103,688.47</u>

**Condensed Statement of Cash Flows  
June 30, 2014**

	<b>UNC GA</b>	<b>The UNC Foundation, Inc.</b>	<b>Total</b>
Net Cash Used by Operating Activities	\$ (65,933,467.70)	\$ (119,477.00)	\$ (66,052,944.70)
Net Cash Provided by Noncapital Financing Activities	55,984,814.47	160,912.00	56,145,726.47
Net Cash Provided (Used) by Capital and Related Financing Activities	(186,219.57)	1,530.00	(184,689.57)
Cash Provided by Investing Activities	2,128,098.83	0.00	2,128,098.83
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(8,006,773.97)</u>	<u>42,965.00</u>	<u>(7,963,808.97)</u>
Cash and Cash Equivalents, July 1, 2013	59,171,888.27	947,574.00	60,119,462.27
Cash and Cash Equivalents, June 30, 2014	<u>\$ 51,165,114.30</u>	<u>\$ 990,539.00</u>	<u>\$ 52,155,653.30</u>



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



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

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

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Board of Governors  
University of North Carolina General Administration  
Chapel Hill, 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 General Administration (UNC GA), the administrative body of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise UNC GA's basic financial statements, and have issued our report thereon dated January 23, 2015. Our report includes a reference to other auditors who audited the financial statements of the University of North Carolina Center for Public Television as described in our report on UNC GA'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 UNC GA'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 UNC GA's internal control. Accordingly, we do not express an opinion on the effectiveness of UNC GA'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 UNC GA'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 UNC GA'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 UNC GA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UNC GA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

January 23, 2015

# ORDERING INFORMATION

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