

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

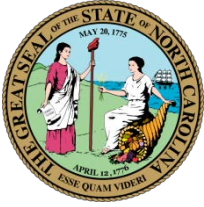
CHAPEL HILL, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2015

A CONSTITUENT INSTITUTION OF THE UNIVERSITY OF NORTH CAROLINA
SYSTEM AND A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



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STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, The University of North Carolina at Chapel Hill

We have completed a financial statement audit of The University of North Carolina at Chapel Hill for the year ended June 30, 2015, 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.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies that are detailed in the Findings, Recommendations, and Responses section of this report. The University's response is included following the finding.

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 black ink 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.



INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees

The University of North Carolina at Chapel Hill
Chapel Hill, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Chapel Hill, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2015, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the UNC Investment Fund, LLC, which represent 46.14 percent, 45.10 percent, and 6.66 percent, respectively, of the assets, net position, and revenues of the University; nor the financial statements of The Medical Foundation of North Carolina, Inc., The Educational Foundation Scholarship Endowment Trust, and the University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc., the University's discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are 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. The financial statements of the UNC Investment Fund, LLC, The Medical Foundation of

North Carolina, Inc., The Educational Foundation Scholarship Endowment Trust, and the University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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 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 opinions.

Opinions

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 respective financial position of The University of North Carolina at Chapel Hill, and its discretely presented component units, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 20 to the financial statements, during the year ended June 30, 2015, The University of North Carolina at Chapel Hill adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinions are not modified with respect to this matter.

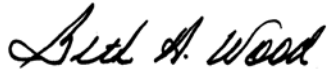
Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, 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 13, 2016 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 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

January 13, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

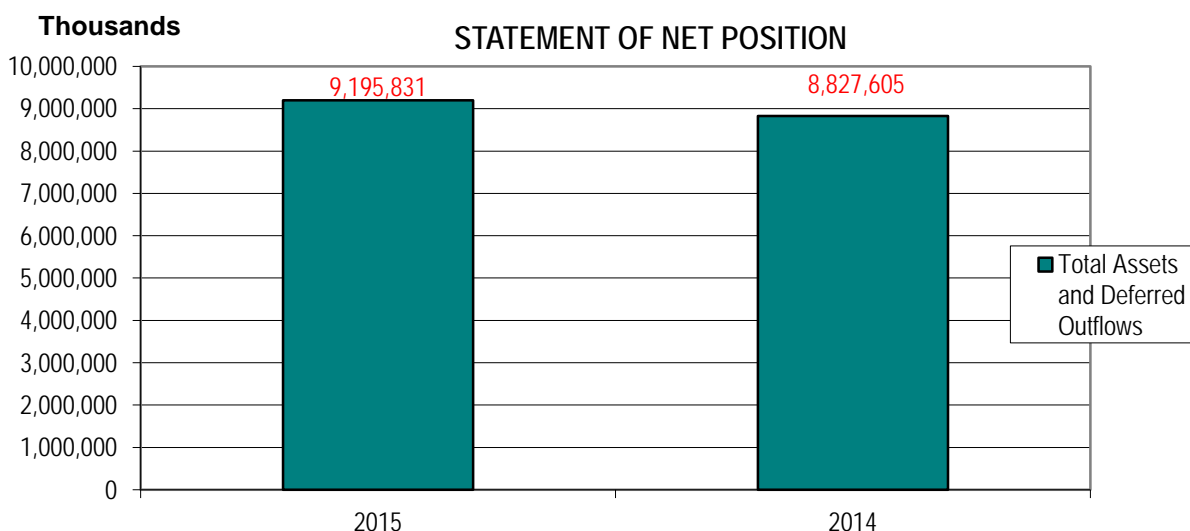
Management's Discussion and Analysis provides an overview of the financial position and activities of The University of North Carolina at Chapel Hill (the University) for the fiscal year that ended June 30, 2015, with comparative information for the fiscal year ended June 30, 2014. Management has prepared the discussion and analysis to be read in conjunction with the financial statements and accompanying notes to the financial statements.

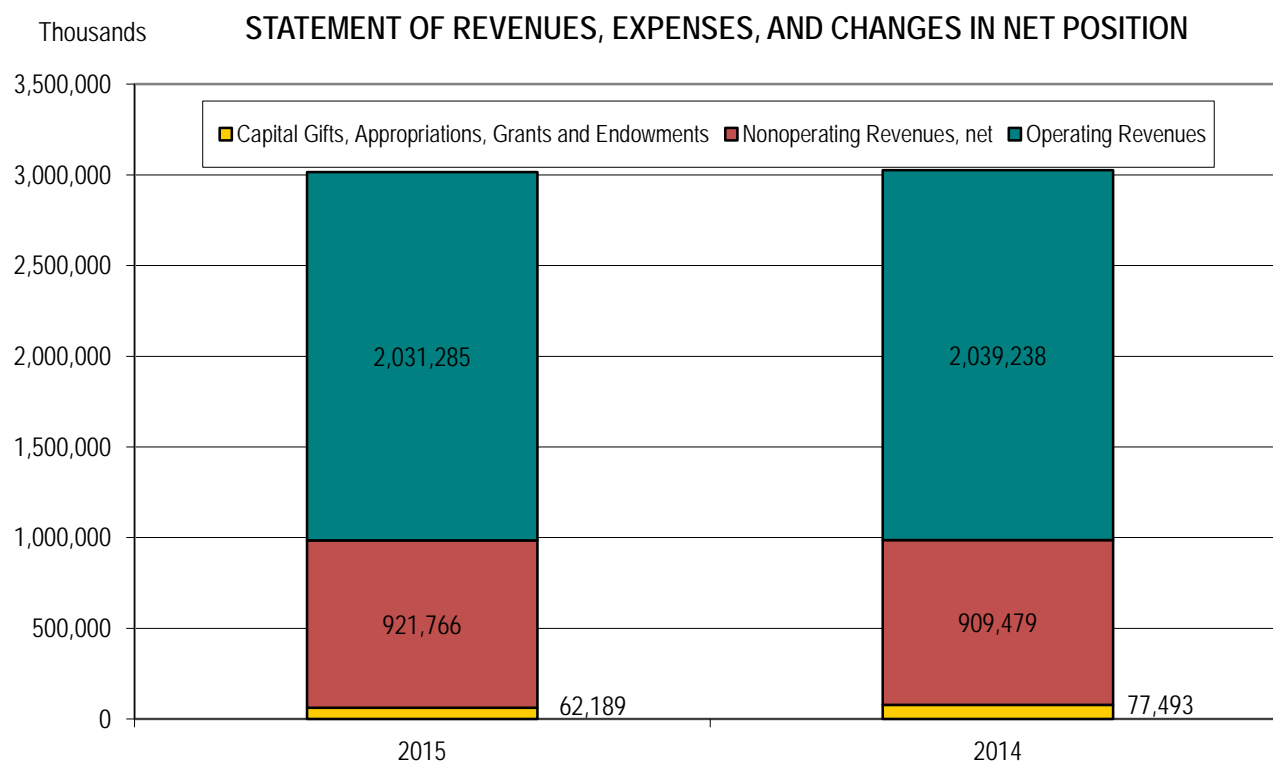
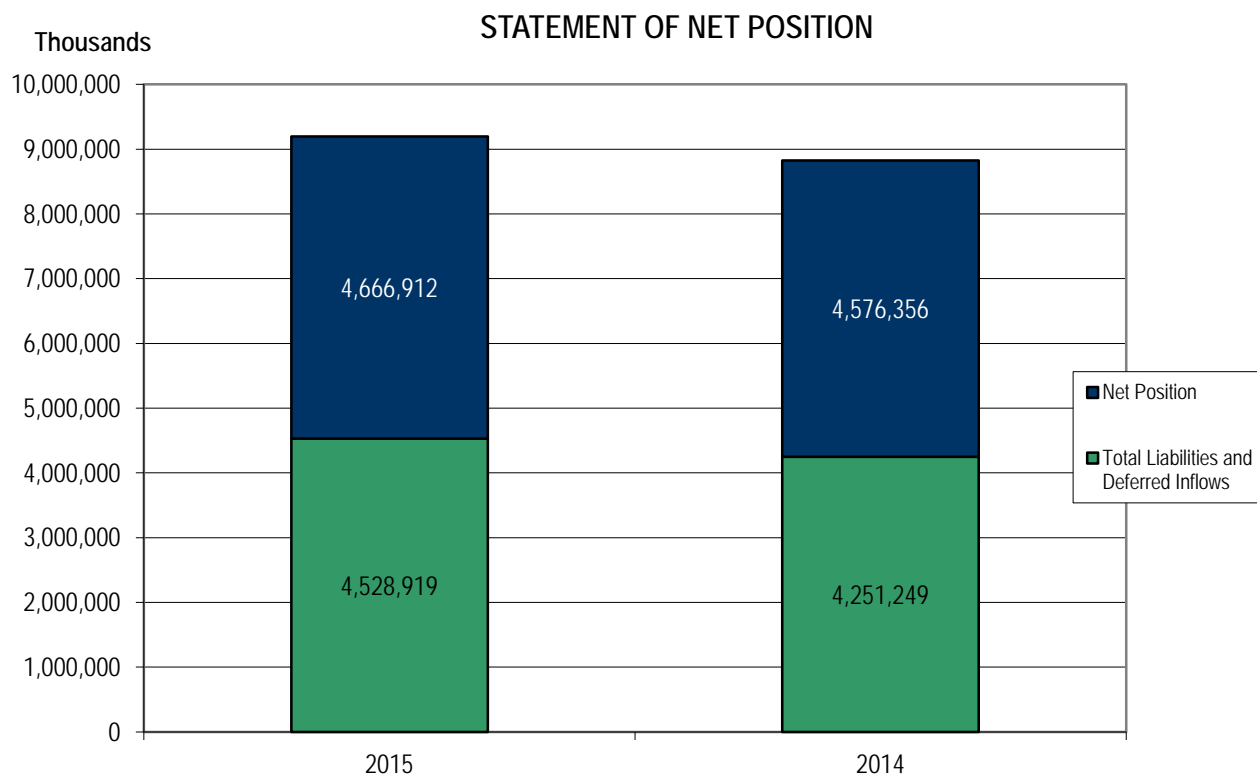
The University is a constituent institution of the multi-campus University of North Carolina System (UNC System), a component unit of the State of North Carolina, and an integral part of the State's *Comprehensive Annual Financial Report (CAFR)*. The financial reporting entity for the financial statements is comprised of the University and eleven component units. Eight component units are reported as if they were part of the University, and three are reported as discretely presented component units based on the nature and significance of their relationship to the University. Note 1A of the financial statements provides detailed information on the financial reporting entity.

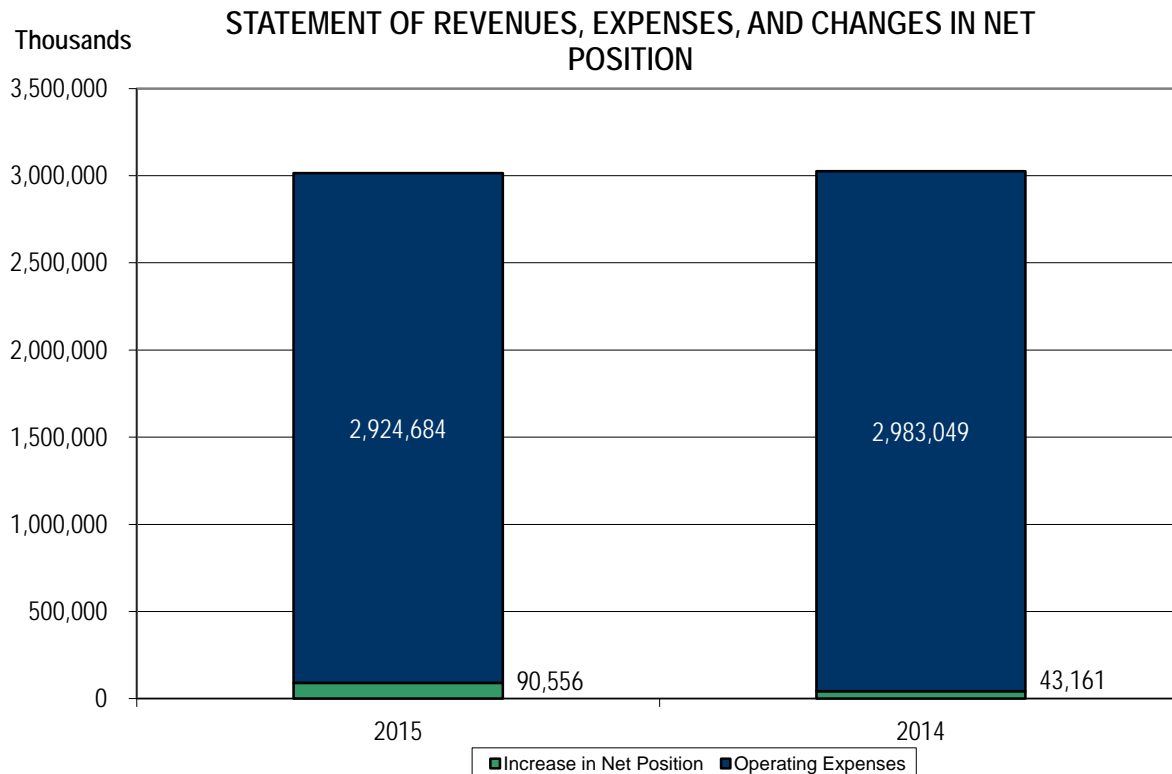
FINANCIAL HIGHLIGHTS

The University maintained its solid financial position at June 30, 2015 with net position increasing \$91 million for the fiscal year as a result of operating, nonoperating, and other changes in net position. Net position, which represents the residual interest in the University's assets and deferred outflows after deducting liabilities and deferred inflows, was \$4.7 billion at June 30, 2015. Net position as of June 30, 2014 of \$4.6 billion, as restated in the current year financial statements, declined \$196 million compared to the amount originally reported in the prior year, primarily due to an accounting change related to pension obligations.

The University's total assets and deferred outflows were \$9.2 billion at June 30, 2015. A comparison of the total assets and deferred outflows, liabilities and deferred inflows, and net position at June 30, 2015 and June 30, 2014 (as restated), along with the major components of the changes in net position for the two fiscal years are presented below:







Net position improved 2% at June 30, 2015 over the prior year balance, as restated. Total assets along with deferred outflows of resources increased 4.2% from the prior year and total liabilities along with deferred inflows of resources rose 6.5% for the same period. The percentage decrease of total operating revenues for fiscal year 2014-2015 as compared with the prior year was lesser than the corresponding decrease in operating expenses: 0.4% and 2.0%, respectively. Net nonoperating revenues and expenses increased 1.4% in fiscal year 2014-2015 over the prior year, reflecting higher noncapital gifts and grants, mitigated by slightly lower state appropriations. As a major research university, funding from contracts and grants continues to be of key importance to the University's success in fulfilling its mission. In addition to the foregoing, fund raising for operational needs, sales and services, and tuition and fees likewise continued to provide important resources for the University.

USING THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the University as a whole. 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.

The University's Financial Statements include the following three financial statements.

- Statement of Net Position

- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows

Management's Discussion and Analysis provides information regarding the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

CONDENSED STATEMENT OF NET POSITION

The Statement of Net Position presents the financial position of the University at the end of the fiscal year, includes all assets and deferred outflows, all liabilities and deferred inflows, and segregates the assets and liabilities into current and noncurrent components. The following table summarizes the University's assets and deferred outflows, liabilities and deferred inflows, and net position on June 30, 2015 and June 30, 2014.

Assets, Liabilities, Deferred Resources, and Net Position (dollars in thousands)

	2015	2014 (as restated)	Percent Change
Assets:			
Current Assets	\$ 1,807,887	\$ 1,697,314	6.5
Noncurrent Assets:			
Endowment, Restricted, and Other Investments	3,773,408	3,574,709	5.6
Capital Assets, Net	3,126,511	3,149,040	(0.7)
Other Noncurrent Assets	343,666	282,036	21.9
Total Assets	9,051,472	8,703,099	4.0
Deferred Outflows of Resources	144,359	124,506	15.9
Liabilities:			
Current Liabilities	587,615	511,623	14.9
Noncurrent Liabilities:			
Funds Held in Trust for Pool Participants	2,191,756	1,973,240	11.1
Long-Term Liabilities	1,484,804	1,652,016	(10.1)
Other Noncurrent Liabilities	128,215	114,370	12.1
Total Liabilities	4,392,390	4,251,249	3.3
Deferred Inflows of Resources	136,529	0	100.0
Net Position:			
Invested in Capital Assets, Net of Related Debt	1,686,949	1,694,842	(0.5)
Restricted	2,226,556	2,115,320	5.3
Unrestricted	753,407	766,194	(1.7)
Total Net Position	\$ 4,666,912	\$ 4,576,356	2.0

Current Assets and Liabilities

The Statement of Net Position reflects that working capital, which is current assets less current liabilities, was \$1.2 billion at June 30, 2015 and at June 30, 2014, as restated. A factor contributing to a substantial working capital margin is that many operating funds are invested in the State Treasurer's Short-term Investment Fund in order to maintain a high degree of liquidity while also earning interest. Such funds are reported as cash equivalents in the Statement of Net Position which details other current asset and current liability categories.

Endowment, Restricted and Other Investments

Endowment investments increased 7.6% during 2014-2015 and were \$1.83 billion at June 30, 2015 and \$1.70 billion at June 30, 2014, and include permanent endowments, funds internally designated as endowments and similar funds such as gift annuities and charitable trusts.

The endowment assets are invested with The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund, or CHIF), which is reported as a governmental external investment pool in the financial statements. The Chapel Hill Investment Fund is a 501(c)(3) nonprofit corporation established to support the University by operating an investment pool for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. It is expected that all or substantially all of the assets of the Chapel Hill Investment Fund will be invested in the UNC Investment Fund, LLC (UNC Investment Fund, or UNCIF), an investment pool organized by the Chapel Hill Investment Fund to allow the University, along with other constituent institutions of the UNC System and affiliated organizations, to pool investment resources.

The CHIF investment objective is to earn a long-term real rate of return exceeding 5.5%. This objective is intended to support the Chapel Hill Investment Fund's distribution policy providing a stable source of spending support that is sustainable over the long-term while preserving the purchasing power of the invested funds. The distribution rate is determined annually by its Board of Directors and for the past 5 years has ranged between 5% and 6% based on the beginning market value of the Chapel Hill Investment Fund.

As reported by UNC Management Company, Inc. (Management Company), the manager of the UNC Investment Fund, the endowment assets invested in the UNC Investment Fund recorded a 9.3% return for fiscal year 2014-2015, exceeding both the Strategic Investment Policy Portfolio (SIPP) return of 3.2% and the primary objective of earning a real rate of return exceeding 5.5%. Six of the seven major asset classes used in managing the portfolio produced positive returns for the fiscal year 2014-2015 with five out of seven exceeding their benchmark.

Over the long term, UNCIF's 10-year annualized performance of 8.6% has surpassed its primary objective of providing a real rate of return exceeding 5.5%. UNCIF's ten year return exceeds the SIPP benchmark which returned 7.6%. Compared to its peers, UNCIF's three and ten year annualized returns rank in the top quartile of the BNY Mellon Endowment and Foundation Funds Universe with the five year return firmly in the second quartile.

Recognizing that severe market declines periodically occur, a University Statutory Endowment policy (established pursuant to NC General Statute 116-36) addresses the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The policy indicates that campus departments shall examine the endowment-supported activity for the upcoming fiscal year for possible deferment of program expenses, and if appropriate, pursue alternative funding for essential activities, and consult with donors regarding other funding options for program support. Invasion of endowment principal is an option of last resort and will only be done consistent with approved limitations to preserve the endowment principal's value. The distribution of investment earnings for fiscal years 2014-2015 and 2013-2014 provided for a full distribution without reduction to principal value.

Noncurrent restricted investments of \$1.9 billion at June 30, 2015 include funds of affiliated entities that are neither part of the University's reporting entity nor reported discretely but invested through UNCIF.

Capital Assets and Debt Management

Construction of Marsico Hall, the imaging research building and the University's largest capital project to date, was substantially done by March 2014, though finalization of basement shell space and open space improvements is expected to extend ultimate full project completion to December 2015. A significant portion of funding for this 343,000 square foot building came from state debt in the form of COPs, Certificates of Participation. Current projects in construction include a renovation to the original Hill Hall for the Department of Music and Carolina Performing Arts and a comprehensive renovation to Howell Hall for the Department of Psychology.

Current projects in design include: a comprehensive renovation to Mary Ellen Jones Research Building; an addition to the Manning Plant for generators and a chilled water plant to meet capacity needs; a comprehensive renovation to Wilson Hall Annex for the Department of Biology; fire safety project for Davis Library; small repair and renovation projects; and two pedestrian safety and open space renewal projects. All these projects are funded by the University through cash and debt financing.

Looking forward through 2019, the University six-year capital plan includes \$210 million worth of projects for possible state funding subject to the financial climate. State funding is critical relative to continuing capital renewal needs. The University's six-year capital plan for non-appropriated funding identifies \$475 million worth of projects funded from a variety of sources, including debt.

The University has initiated a comprehensive University Master Plan process anticipated to conclude at the end of 2016. An assessment currently is underway to identify the key drivers and strategic priorities that reflect the campus' strategic plan for Sustainability and will guide future development of University and Endowment properties. The plan will develop land use principles and include examination of facility utilization and needs, infrastructure, environmental resources, and economic impact.

A summary of changes in capital assets is disclosed in Note 5. Capital assets, net of accumulated depreciation and amortization, at June 30, 2015 and June 30, 2014, were as follows:

Capital Assets (dollars in thousand)

	2015	2014 (as restated)	Percent Change
Capital Assets:			
Construction in Progress	\$ 99,526	\$ 44,257	124.9
Land and Other Non-Depreciable Assets	187,037	248,803	(24.8)
Buildings	1,959,075	2,014,192	(2.7)
General Infrastructure	585,114	610,646	(4.2)
Machinery, Equipment, and Computer Software	295,759	231,142	28.0
Total	<u>\$ 3,126,511</u>	<u>\$ 3,149,040</u>	(0.7)

Other nondepreciable assets decreased 24.8% and computer software increased 28.0% mainly due to capitalizing the \$64.0 million Connect Carolina Financial module that was activated in October 2014. During fiscal year 2014-2015, the University funded capital improvement projects with proceeds from the Board of Governors of the University of North Carolina System General Revenue Series 2012AB bond issue. After those funds were exhausted, the University continued to use its commercial paper program to provide low-cost bridge financing for capital projects until gifts are received, or in anticipation of an external bond issue. Commercial paper debt was \$28.0 million at June 30, 2015 and \$18.0 million at June 30, 2014.

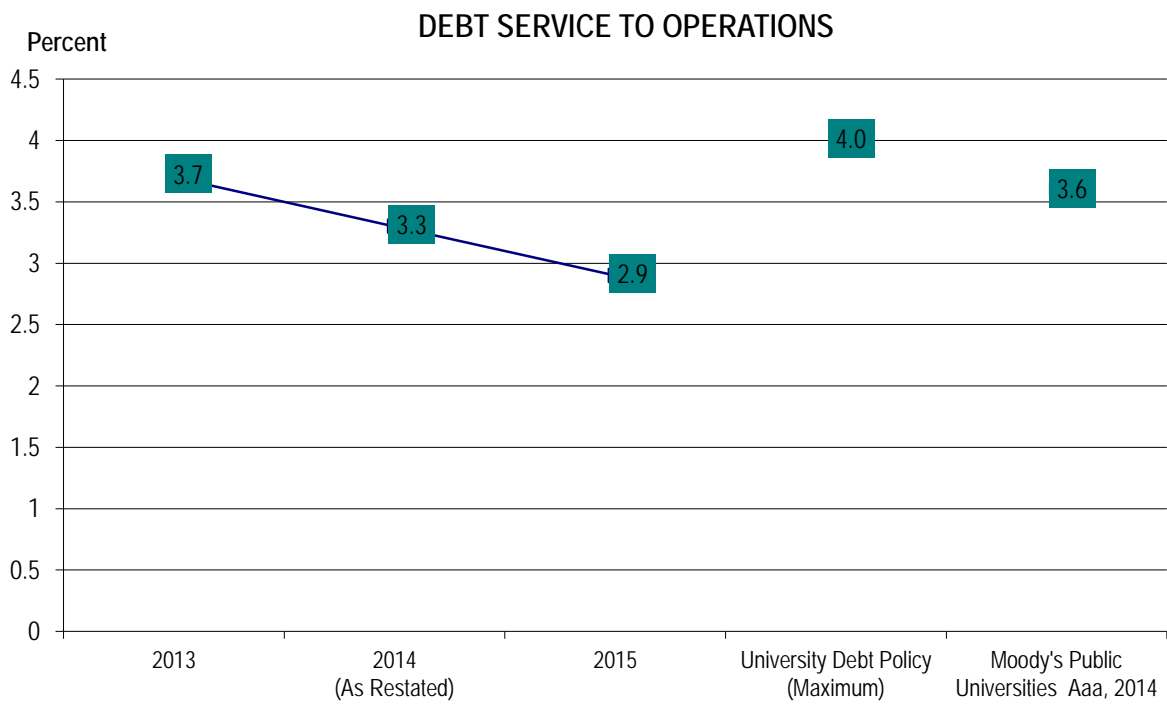
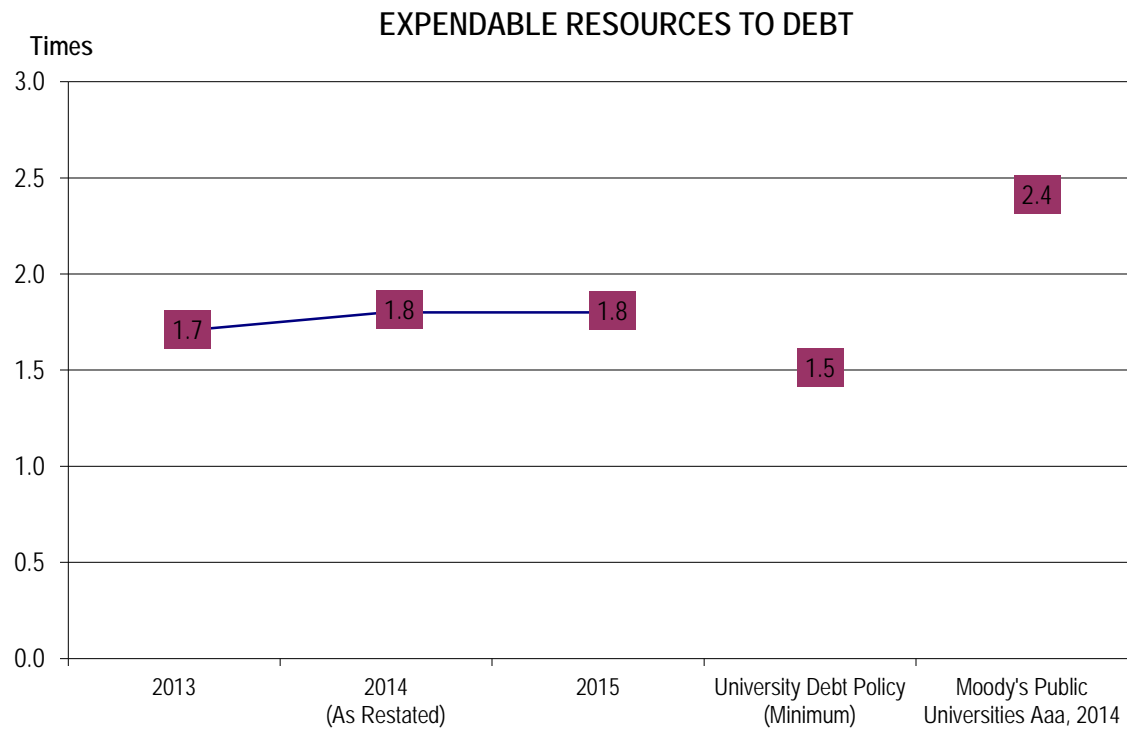
On behalf of the University, the Board of Governors for the University of North Carolina System issued General Revenue Bonds Series 2014 in the amount of \$265.6 million on October 9, 2014, to advance refund a portion of its General Revenue Bonds Series 2005A. In addition, on June 1, 2015, the University modified the terms of its General Revenue Bonds Series 2012D, "The University of North Carolina at Chapel Hill General Revenue Bond (Kenan Stadium Improvements Phase II), Series 2012D," changing the original principal amount of \$41.0 million to \$30.0 million and extending the maturity date to June 1, 2042. All other terms remained the same.

On October 3, 2013, a blended component unit of the University closed on a bank note that provides up to \$30.0 million in funding for the construction of a capital project. Outstanding draws against the note were \$19.2 million at June 30, 2015 and \$4.7 million at June 30, 2014. The note expires on October 2, 2016. The UNC-Chapel Hill Foundation, part of the University's reporting entity, has a line of credit agreement issued by Bank of America to finance the costs of projects benefiting the Foundation and/or University, subject to the approval of the Board of Directors of the Foundation. On May 20, 2015, the Foundation renewed the line of credit, modifying the commitment amount up to \$4.0 million with a new maturity date of April 30, 2018. As of June 30, 2015, there were no outstanding draws on the line.

The University maintains a combination of variable and fixed- rate debt, consistent with its debt management policy. The interest rate on the commercial paper program for fiscal year 2014-2015 ranged from 0.04 to 0.14% and for 2013-2014 ranged from 0.07 to 0.20%. Interest rates on the University's variable-rate, long-term bonds ranged from 0.01 to 0.87% for fiscal year 2014-2015 and ranged from 0.02 to 0.88% for fiscal year 2013-2014. Interest rates on fixed-rate, long-term bonds are disclosed in Note 8B of the financial statements. These rates reflect direct interest rates and do not reflect any impact from the interest rate swaps as referenced in Note 9.

The University's debt policy uses two key ratios to measure debt capacity, financial health, and credit quality. The *expendable resources to debt ratio* measures unrestricted, expendable restricted, and temporarily restricted net position to funded debt and serves as a relative indicator of financial health or cushion. The *debt service to operations ratio* provides an indicator of the University's ability to repay annual principal and interest relative to its overall operating expenses. Each ratio is compared to the University's debt policy standard and the appropriate peer group comparison for fiscal year 2013-2014 (the latest available numbers). At June 30, 2015, the *expendable resources to debt ratio* was 1.8 times, and the *debt service to operations ratio* was 2.9%.

The University continues to maintain its long-term bond ratings of Aaa/AA+/AAA from Moody's Investor Services, Standard & Poor's and Fitch Ratings, respectively.



Other Noncurrent Assets and Liabilities

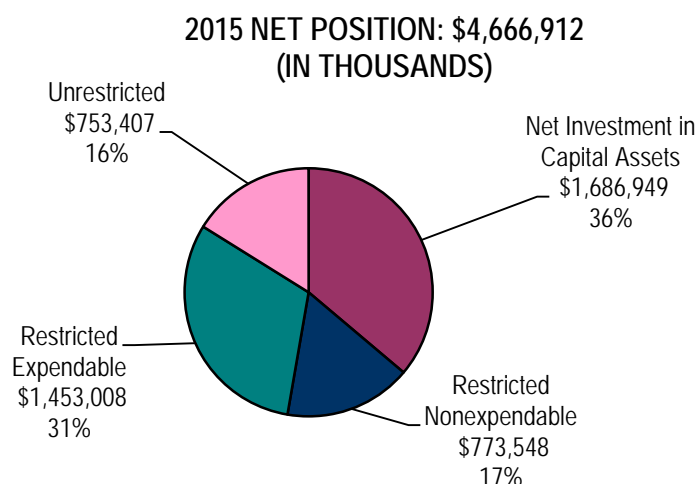
Other noncurrent assets were \$343.7 million at June 30, 2015 and \$282.0 million at June 30, 2014, a 21.9% increase. Noncurrent receivables increased principally due to a \$37 million pledge to the UNC Eshelman School of Pharmacy Foundation for the Eshelman Institute for Innovation, with \$28M classified as noncurrent. Also, there was an \$11 million Note Receivable from the UNC Healthcare System. The Deferred Outflow of Resources increased 15.9% resulting from implementing GASB 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, that recognized employer's contribution.

Noncurrent liabilities were \$3.8 billion at June 30, 2015 and \$3.7 billion at June 30, 2014, and include funds held in trust for the University's affiliated foundations and other campuses in the UNC System and their affiliates of \$2.2 billion and \$2.0 billion, respectively. These entities are not part of the University's financial reporting entity and are not discretely presented, but the entities do invest in the UNC Investment Fund. The increase in funds held in trust over the prior year resulted from additional participant contributions and net investment gains.

The Deferred Inflows of Resources increased \$136.5 million from implementing GASB 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, that recognized the collective deferred inflows of resources arising from differences between projected and actual pension plan investment earnings related to pensions.

Net Position

Net position represents the value of the University's assets and deferred outflows after liabilities and deferred inflows are deducted. The University's net position was \$4.7 billion at June 30, 2015, an increase of \$91.0 million over the prior year (after restatement). Net investment in capital assets 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. Nonexpendable restricted net position includes endowment and similar 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. Expendable restricted net position includes resources in which the University is legally obligated to spend the resources in accordance with restrictions provided by external parties. Unrestricted net position is not subject to externally imposed stipulations; however, most of these resources have been designated for particular academic, research, or other programs, as well as capital projects.



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

The Statements of Revenues, Expenses, and Changes in Net Position present the University's results of operations. The statements for the fiscal year ended June 30, 2015 and the prior year are summarized as follows:

University Operations (dollars in thousands)

	2015	2014 (as restated)	Percent Change
Operating Revenues:			
Student Tuition and Fees, Net	\$ 395,005	\$ 361,771	9.2
Grants and Contracts	840,553	903,260	(6.9)
Sales and Services, Net	785,280	770,512	1.9
Other	10,447	3,695	182.7
Total Operating Revenues	2,031,285	2,039,238	(0.4)
Operating Expenses	2,924,684	2,983,049	(2.0)
Operating Loss	(893,399)	(943,811)	(5.3)
Nonoperating Revenues (Expenses):			
State Appropriations	479,186	482,728	(0.7)
Noncapital Gifts and Grants	279,894	238,649	17.3
Investment Income	195,407	258,372	(24.4)
Interest and Fees on Debt	(67,459)	(66,218)	1.9
Federal Interest Subsidy on Debt	2,107	2,109	(0.1)
Other Net Non-Operating Revenues (Expenses)	32,631	(6,161)	629.6
Net Non-Operating	921,766	909,479	1.4
Income Before Other Changes	28,367	(34,332)	(182.6)
Capital Appropriations	1,600	4,313	(62.9)
Capital Grants	29,631	41,507	(28.6)
Capital Gifts	11,261	6,064	85.7
Additions to Permanent Endowments	19,697	25,609	(23.1)
Increase in Net Position	90,556	43,161	109.8
Net Position – July 1 (as restated)	4,576,356	4,533,195	1.0
Net Position – June 30	\$ 4,666,912	\$ 4,576,356	2.0

Fiscal year 2014-2015 revenues and other changes total \$3,082,700 and expenses total \$2,992,143.
Fiscal year 2013-2014 revenues and other changes total \$3,098,589 and expenses total \$3,055,248.

Operating Revenues

The operating revenues represent resources generated by the University in fulfilling its instruction, research, and public service missions. Net student tuition and fees for fiscal year 2014-2015 increased 9.2% over the prior year total. Student tuition and fees are reported net of scholarship discounts, which totaled \$97.4 million for fiscal year 2014-2015 and \$96.0 million for the prior year. Tuition rates for fiscal year 2014-2015 remained stable for undergraduate residents and increased 10.9% for undergraduate non-residents, 3.4% for graduate residents, and 1.3% for graduate non-residents.

Revenues from operating grants and contracts decreased 6.9% from the prior year, and were impacted by a \$54M decrease due to downward trend in new awards during the year related to non-federal grants and contracts. Discussion of grants and contracts in terms of awards provides another useful perspective. Faculty secured \$796.2 million in research funding during fiscal year 2014-2015, as compared to \$792.7 million the previous year. The funding comes in contracts and grants awarded by federal and state agencies, foundations, nonprofit organizations, corporations and associations, with the federal government providing the majority of the awards. Securing research funding has become an increasingly competitive endeavor, particularly as the portion of the federal government budget allocable to research is constrained. A key factor in dealing with such competitive pressures is diversifying funding sources and bringing in more awards from foundations and private industry and business.

The National Institutes of Health (NIH) remained the University's largest funding source, with awards exceeding \$390 million. NIH's strong and ongoing support reflects positively on the University's health-related professional schools (dentistry, medicine, nursing, pharmacy and public health), UNC Health Care and its teaching hospitals, and basic and social science units in the College of Arts and Sciences.

The University's other top funders were the National Science Foundation at \$38.2 million; the Department of Health and Human Services (excluding NIH) \$36.2 million; and U.S. Agency for International Development, \$53.1 million. The University's multidisciplinary research centers and institutes continue to play a growing role in bringing research funding to North Carolina, accounting for approximately \$168 million of total awards in fiscal year 2014-2015, over 21% of the total.

New, innovative research facilities and infrastructure have made possible ground-breaking interdisciplinary scientific research, which contributes to obtaining research awards. Noteworthy among such endeavors for 2014-15 was the MEASURE Evaluation, led by the Carolina Population Center, which won the university's second largest research grant ever of approximately \$180 million, to be awarded over five years, from the United States Agency for International Development. This award will be used to continue the research required to optimally target U.S. spending on global health threats such as malaria and HIV.

Sales and services include the revenues of campus auxiliary operations such as student housing, student stores, student health services, the utilities system, and parking and transportation, as well as revenues from patient services provided by the professional health-care clinics. Other revenues represent operating resources not separately identified and include, for example, an assessment to the Chapel Hill Investment Fund to support University administrative services.

Operating Expenses

The University's operating expenses were \$2.9 billion for the fiscal year ended June 30, 2015, a decrease of 2.0% from the prior year. The operating expenses are reported by natural classification in the financial statements and by functional classification in Note 12. The following tables illustrate the University's operating expenses by natural classification and by functional classification.

Operating Expenses by Nature (dollars in thousands)

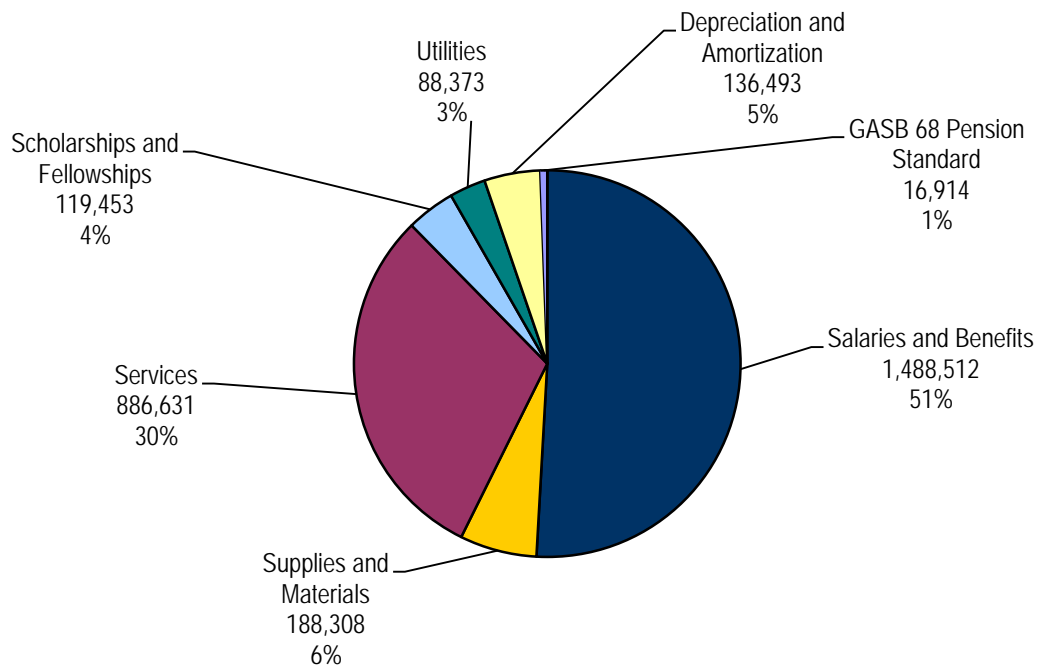
	2015	2014 as restated	Percent Change
Salaries and Benefits	\$ 1,488,512	\$ 1,467,756	1.4
Supplies and Materials	188,308	159,907	17.8
Services	886,631	872,702	1.6
Scholarships and Fellowships	119,453	112,450	6.2
Utilities	88,373	85,157	3.8
Depreciation and Amortization	136,493	130,438	4.6
GASB 68 Pension Standard Implementation	16,914	154,639	(89.1)
Total Operating Expenses	\$ 2,924,684	\$ 2,983,049	(2.0)

Operating Expenses by Function (dollars in thousands)

	2015	2014 as restated	Percent Change
Instruction	\$ 683,793	\$ 675,822	1.2
Research	714,093	703,621	1.5
Public Service	152,661	134,917	13.2
Academic Support	110,417	118,680	(7.0)
Student Services	35,845	32,807	9.3
Institutional Support	130,905	100,238	30.6
Operations and Maintenance of Plant	162,016	150,013	8.0
Student Financial Aid	119,453	112,450	6.2
Auxiliary Enterprises	662,094	669,423	(1.1)
Depreciation and Amortization	136,493	130,439	4.6
GASB 68 Pension Standard Implementation	16,914	154,639	(89.1)
Total Operating Expenses	\$ 2,924,684	\$ 2,983,049	(2.0)

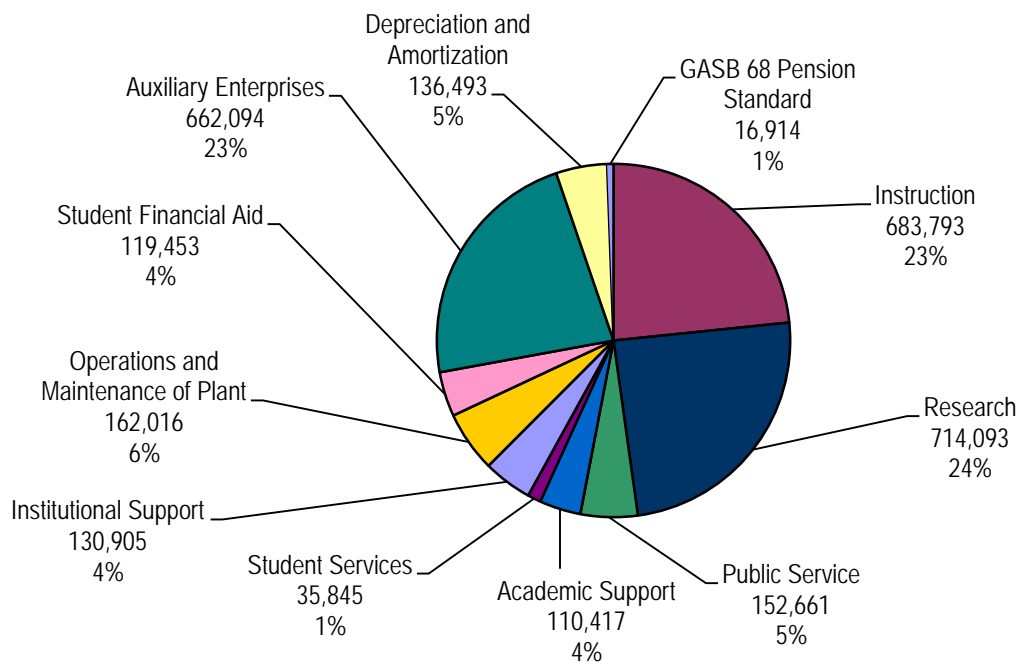
The following graph illustrates the University's operating expenses by natural classification.

2015 OPERATING EXPENSES BY NATURE: \$2,924,684 (IN THOUSANDS)



The following graph illustrates the University's operating expenses by function.

2015 OPERATING EXPENSES BY FUNCTION: \$2,924,684 (IN THOUSANDS)



Operating expense categories changed at varying rates, although the overall rate of decrease was 2.0% as previously noted. Expenses for supplies and materials incurred an increase of 17.8% related to the cost of goods sold in auxiliary services, followed by scholarships and fellowships at 6.2%. Operating expenses by functional classification recorded the same increases for depreciation and amortization and for student financial aid as the natural classification categories previously noted. For the other functional classifications, institutional support recorded the highest increase of 30.6% over the prior year due to increase in contracted and other services. Note that implementing GASB 68 pension standard resulted in an 89.1% decrease in fiscal year 2015 as compared with fiscal year 2014 as all prior years is recognized in fiscal year 2014.

Nonoperating Revenues and Expenses

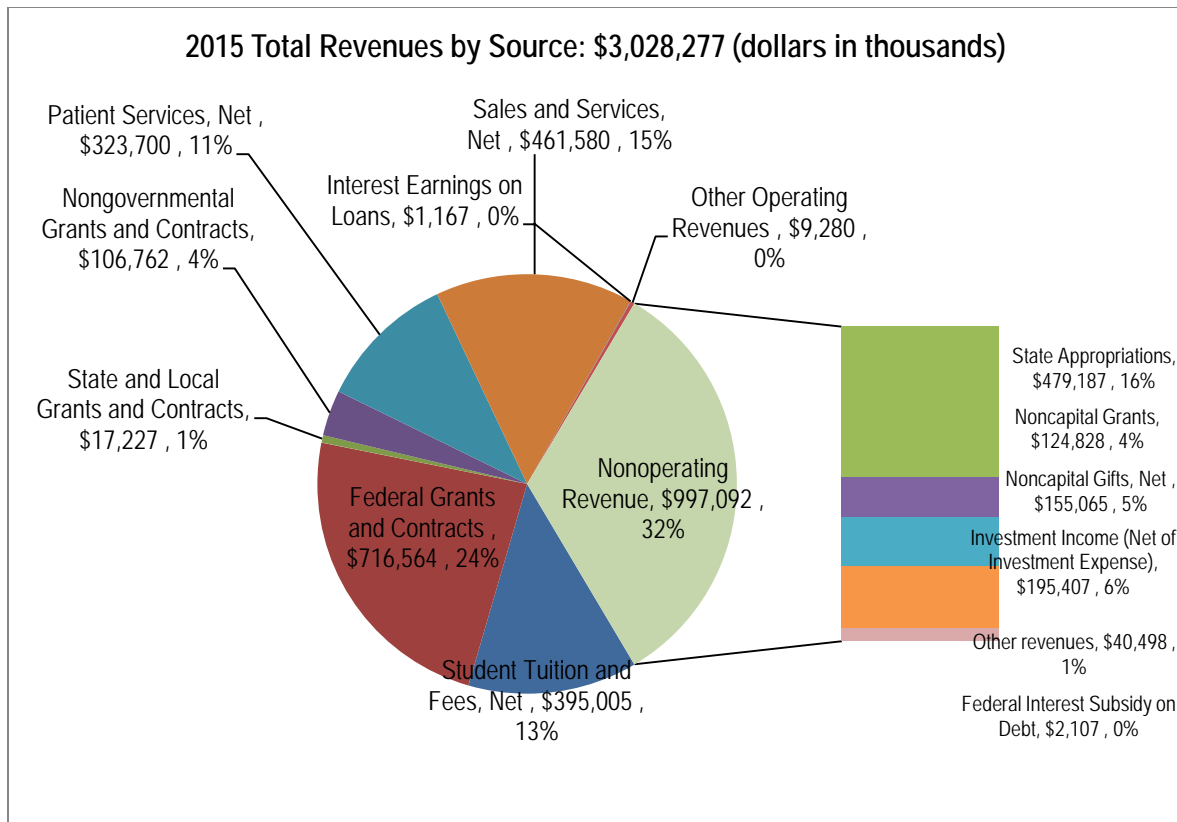
State appropriations, noncapital gifts and grants, and investment income are considered nonoperating because they were not generated by the University's principal, ongoing operations. For example, state appropriations were not generated by the University but were provided to help fund operating expenses.

State appropriations revenue totaled \$479.2 million for fiscal year 2014-2015, a net decrease of 0.7%, or \$3.5 million, from the \$482.7 million in state appropriations received during the prior year. Appropriations revenue for fiscal 2014-15, compared to the highest appropriations revenue during the past 10 years (\$543.3 million in 2007-2008), reflects a decline of almost 12% – highlighting the challenges in recent years of ensuring the University's core mission has not been negatively impacted.

Noncapital gifts and grants increased 17.3% to \$279.9 million mainly due to silent phase of fund raising campaign and include expendable gifts and federal and other awards that are not considered to be operating revenues. Investment income for fiscal year 2014-2015 was \$195.4 million, a decrease of 24.4% from the prior year due to unrealized losses from investment performance. Investment income includes income and realized and unrealized gains, net of investment management fees. Other net nonoperating revenues (expenses) changed due to consolidation of external participants.

Total Operating and Nonoperating Revenues

Operating and nonoperating revenues such as state appropriations, noncapital grants, noncapital gifts, and investment income are used to fund University operations. The following chart illustrates the University's operating and nonoperating revenues, which total \$3 billion for fiscal year 2014-15.



Other Changes in Net Position

Capital grants of \$29.6 million for fiscal year 2014-2015 and \$41.5 million for fiscal year 2013-2014 are for capital construction projects. Capital gifts of \$11.3 million for fiscal year 2014-2015 and \$6.1 million for the prior year include funding for construction projects and contributed improvements to facilities. Nonexpendable gifts and funds from the state's program to match gifts for distinguished professorship endowments resulted in additions to permanent endowments of \$19.7 million during fiscal year 2014-2015 and \$25.6 million during fiscal year 2013-14.

Economic Outlook

The University's state appropriations budget for fiscal year 2015-2016 is \$489.3 million, a net decrease of \$1.2 million from the prior year budget of \$490.5 million, essentially stabilizing after recent significant reductions in recent years.

Tuition rates for the ensuing fiscal year of 2015-2016 increased for undergraduate students a modest 3.5%, and for undergraduate non-residents remained relatively stable with a 0.7% increase. For graduate residents, rates increased 5.2% and for graduate non-residents there was an increase of 1.7%. The University continues to return a portion of tuition revenue to students in the form of need-based aid and continues to provide 100% of documented need-based aid to students.

Consistency and growth in sponsored awards is a proven and reliable source in support of the University's research mission. Philanthropic efforts continue to demonstrate success. Invested endowment funds provide an important distribution of earnings in support of the

University's operating budget. The University's strong debt credit ratings of Aaa, AA+, and AAA allow it to obtain competitive financing for capital construction.

Faculty secured \$796.2 million in research awards during fiscal year 2014-2015 through contracts and grants awarded by federal and state agencies, foundations, nonprofit organizations, corporations and associations. In an era of stagnant federal funding, Carolina has accomplished what many US research universities have struggled to do – grow. The dollar volume of its research has quadrupled since 1997, boosting its national ranking from 32nd to 9th in the nation. Strong financial support from North Carolina's elected officials has helped build the infrastructure that enabled this growth, as have strong collaborative ties to Duke and NC State in the Research Triangle Park region.

Fundraising has been a cornerstone resource for the University. Fiscal year 2014-2015 marked another strong fundraising year—the best in University history—with a total of \$447 million in private commitments, over a 44% increase compared to the prior fiscal year. This achievement includes yet another record: the \$100 million commitment from pharmaceutical entrepreneur Fred Eshelman to the pharmacy school for the new Eshelman Institute for Innovation. This represents the largest gift from an individual in the University's history and the largest ever made to a pharmacy school in the United States.

The University's investment management operation is separately organized as the UNC Management Company, Inc. (Management Company), the non-profit corporation organized and operated as a 501(c)(3) entity, to provide investment management services and administrative services to the University and to the other campuses of the UNC System and their affiliated non-profit foundations as appropriate. As of June 30, 2015, the Management Company managed invested assets of \$4.7 billion in the UNC Investment Fund.



FINANCIAL STATEMENTS

The University of North Carolina at Chapel Hill
Statement of Net Position
June 30, 2015

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 11,660,535
Restricted Cash and Cash Equivalents	181,920,082
Short-Term Investments	905,413,058
Restricted Short-Term Investments	306,852,471
Receivables, Net (Note 4)	337,844,721
Due from Primary Government	1,299,478
Due from State of North Carolina Component Units	37,302,154
Inventories	19,745,609
Notes Receivable, Net (Note 4)	5,258,240
Other Assets	590,291
Total Current Assets	1,807,886,639

Noncurrent Assets:

Restricted Cash and Cash Equivalents	246,456,589
Receivables, Net (Note 4)	43,681,052
Restricted Due from Primary Government	327,656
Endowment Investments	1,830,850,393
Restricted Investments	1,919,852,148
Other Investments	22,705,763
Notes Receivable, Net (Note 4)	43,499,635
Investment in Joint Venture (Note 18)	9,700,635
Capital Assets - Nondepreciable (Note 5)	286,563,061
Capital Assets - Depreciable, Net (Note 5)	2,839,948,136
Total Noncurrent Assets	7,243,585,068

Total Assets	9,051,471,707
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	3,483,617
Accumulated Decrease in Fair Value of Hedging Derivatives	96,806,001
Deferred Outflows Related to Pensions	44,069,279
Total Deferred Outflows of Resources	144,358,897

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	266,858,773
Due to Primary Government	3,091,794
Due to State of North Carolina Component Units	22,952,906
Deposits Payable	10,933,348
Funds Held for Others	81,697,687
Unearned Revenue	17,876,326
Interest Payable	13,998,694
Obligations Under Reverse Repurchase Agreements	12,376,000
Short-Term Debt (Note 7)	28,000,000
Long-Term Liabilities - Current Portion (Note 8)	129,829,258
Total Current Liabilities	587,614,786

The University of North Carolina at Chapel Hill
Statement of Net Position
June 30, 2015

Exhibit A-1
Page 2 of 2

Noncurrent Liabilities:

U. S. Government Grants Refundable	31,410,098
Funds Held in Trust for Pool Participants	2,191,755,737
Hedging Derivative Liability (Note 9)	96,806,001
Long-Term Liabilities, Net (Note 8)	<u>1,484,803,912</u>
Total Noncurrent Liabilities	<u>3,804,775,748</u>
Total Liabilities	<u>4,392,390,534</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	<u>136,528,532</u>
Total Deferred Inflows of Resources	<u>136,528,532</u>

NET POSITION

Net Investment in Capital Assets	1,686,948,575
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	164,810,230
Research	20,283,737
Endowed Professorships	351,278,080
Departmental Uses	145,714,679
Loans	22,038,077
Library Acquisitions	40,327,566
Other	29,096,125
Expendable:	
Scholarships and Fellowships	203,927,150
Research	16,119,333
Endowed Professorships	470,151,967
Departmental Uses	470,830,429
Instruction and Educational Agreements	3,775
Capital Projects	149,572,848
Debt Service	85,332,306
Plant Improvements	1,982,212
Library Acquisitions	55,087,571
Unrestricted	<u>753,406,878</u>
Total Net Position	<u>\$ 4,666,911,538</u>

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

***The University of North Carolina at Chapel Hill
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2015***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 11)	\$ 395,005,215
Patient Services, Net (Note 11)	323,700,133
Federal Grants and Contracts	716,563,873
State and Local Grants and Contracts	17,226,880
Nongovernmental Grants and Contracts	106,761,998
Sales and Services, Net (Note 11)	461,579,399
Interest Earnings on Loans	1,167,156
Other Operating Revenues	9,280,127

Total Operating Revenues	2,031,284,781
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EXPENSES

Operating Expenses:

Salaries and Benefits	1,505,426,030
Supplies and Materials	188,308,238
Services	886,631,028
Scholarships and Fellowships	119,452,837
Utilities	88,372,804
Depreciation/ Amortization	136,492,666

Total Operating Expenses	2,924,683,603
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Operating Loss	(893,398,822)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	479,186,534
Noncapital Grants - Student Financial Aid	36,232,220
Other Noncapital Grants	88,596,395
Noncapital Gifts, Net (Note 11)	155,065,093
Investment Income (Net of Investment Expense of \$8,215,727)	195,406,737
Interest and Fees on Debt	(67,458,623)
Federal Interest Subsidy on Debt	2,107,038
Other Nonoperating Revenues	32,630,792

Net Nonoperating Revenues	921,766,186
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Income Before Other Revenues	28,367,364
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Capital Appropriations	1,600,000
Capital Grants	29,630,523
Capital Gifts	11,260,733
Additions to Endowments	19,697,292

Increase in Net Position	90,555,912
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NET POSITION

Net Position - July 1, 2014, as Restated (Note 20)	4,576,355,626
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Net Position - June 30, 2015	\$ 4,666,911,538
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The accompanying notes to the financial statements are an integral part of this statement.

The University of North Carolina at Chapel Hill
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,998,151,003
Payments to Employees and Fringe Benefits	(1,518,873,534)
Payments to Vendors and Suppliers	(1,043,639,938)
Payments for Scholarships and Fellowships	(119,452,837)
Loans Issued	(6,448,919)
Collection of Loans	5,515,668
Interest Earned on Loans	1,079,786
Other Payments	(29,010,638)
Net Cash Used by Operating Activities	(712,679,409)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	479,186,534
Noncapital Grants - Student Financial Aid	36,232,220
Other Noncapital Grants	88,596,395
Noncapital Gifts	112,637,671
Additions to Endowments	19,697,292
William D. Ford Direct Lending Receipts	174,258,609
William D. Ford Direct Lending Disbursements	(176,414,375)
Related Activity Agency Receipts	1,448,902,936
Related Activity Agency Disbursements	(1,249,326,880)
Receipts from UNC Health Care System for School of Medicine	7,391,616
Net Cash Provided by Noncapital Financing Activities	941,162,018

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	290,045,000
Capital Appropriations	1,600,000
Capital Grants	28,331,046
Capital Gifts	9,806,478
Acquisition and Construction of Capital Assets	(130,606,639)
Principal Paid on Capital Debt and Leases	(326,688,890)
Interest and Fees Paid on Capital Debt and Leases	(58,235,398)
Federal Interest Subsidy on Debt Received	2,107,038
Net Cash Used by Capital Financing and Related Financing Activities	(183,641,365)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	3,857,815,245
Investment Income	148,917,276
Purchase of Investments and Related Fees	(4,321,545,841)
Change in obligations under reverse repurchase agreements	12,376,000
Net Cash Used by Investing Activities	(302,437,320)
Net Decrease in Cash and Cash Equivalents	(257,596,076)
Cash and Cash Equivalents - July 1, 2014	697,633,282
Cash and Cash Equivalents - June 30, 2015	\$ 440,037,206

The University of North Carolina at Chapel Hill
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$	(893,398,822)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/ Amortization Expense		136,492,666
Allowances, Write-Offs, and Amortizations		16,500,729
Pension Expense		16,913,662
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		(31,195,700)
Inventories		4,037,608
Notes Receivable, Net		(12,841,889)
Accounts Payable and Accrued Liabilities		97,118,207
Due to Primary Government		3,087,385
U.S. Government Grants Refundable		229,982
Unearned Revenue		(18,190,274)
Deferred Outflows for Contributions Subsequent to the Measurement Date		(41,292,272)
Compensated Absences		10,197,072
Other Assets		(337,763)
Net Cash Used by Operating Activities	\$	<u>(712,679,409)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	11,660,535
Restricted Cash and Cash Equivalents		181,920,082
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>246,456,589</u>
Total Cash and Cash Equivalents - June 30, 2015	\$	<u>440,037,206</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$	1,454,255
Change in Fair Value of Investments		45,826,928
Loss on Disposal of Capital Assets		(16,715,302)
Amortization of Bond Premiums/Discounts		7,900,087

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

The University of North Carolina at Chapel Hill Foundations
Statement of Financial Position
June 30, 2015

Exhibit B-1

	UNC CH Arts and Sciences Foundation, Inc.	The Educational Foundation Scholarship Endowment Trust	The Medical Foundation of North Carolina, Inc.
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 25,697,346	\$ 11,853,137	\$ 16,363,625
Pledges Receivable, Net of Allowances for Doubtful Pledges		2,010,209	
Contributions Receivable from Split-interest Agreements		3,744,569	
Promises to Give, Net	8,388,158		6,230,606
Accounts Receivable	422,290		
Funds Held In Trust	2,016,499		
Other Current Assets			303,136
Total Current Assets	36,524,293	17,607,915	22,897,367
Property and Equipment:			
Capital Assets, Net	315,479		327,003
Furniture and Equipment	561,860		
Leasehold Interest - Building	3,750,483		
Total Property and Equipment	4,627,822		327,003
Other Assets:			
Investments	201,332,663	213,374,259	243,368,466
Real Estate			
Cash Value of Life Insurance		1,743,309	
Promises to Give, Net	12,119,802		10,658,990
Split-interest Agreements	2,133,900		
Other Assets			3,792,804
Total Other Assets	215,586,365	215,117,568	257,820,260
Total Assets	256,738,480	232,725,483	281,044,630
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Expenses	217,984		586,922
Annuities Payable		56,089	
Total Current Liabilities	217,984	56,089	586,922
Long Term Liabilities			
Loan Payable	2,000,000		
Deferred Revenue			257,425
Liabilities under Charitable Remainder Trusts			46,229
Total Liabilities	2,217,984	56,089	890,576
NET ASSETS			
Unrestricted	41,002,514		9,781,380
Temporarily Restricted	106,627,994	118,207,875	176,341,310
Permanently Restricted	106,889,988	114,461,519	94,031,364
Total Net Assets	\$ 254,520,496	\$ 232,669,394	\$ 280,154,054

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

The University of North Carolina at Chapel Hill Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2015

Exhibit B-2

	UNC CH Arts and Sciences Foundation, Inc.	The Educational Foundation Scholarship Endowment Trust	The Medical Foundation of North Carolina, Inc.
SUPPORT AND REVENUES			
Support:			
Contributions	\$ 25,745,886	\$ 3,279,447	\$ 26,741,606
Development Assessment Fee Income	2,766,635		
Change in Value of Split-interest Agreements	302,700		(8,662)
Donated Facilities	82,675		
Actuarial Adjustment of Annuities Payable		3,934	
Contributed Services			1,638,050
Endowment Investment Return Designated for Current Operations		9,858,904	
Total Support	28,897,896	13,142,285	28,370,994
Revenue:			
Net Unrealized and Realized Gains on Investments	16,371,660		11,522,280
Loss on Sale of Real Estate	(58,889)		
Interest and Dividends			3,034,732
Investment Income	1,688,725		896,318
Other Income / asset disposal loss			
Total Revenue	18,001,496	0	15,453,330
Total Support and Revenue	46,899,392	13,142,285	43,824,324
EXPENSES			
Program Services			
Program services	9,644,010		14,217,348
Scholarship Expense Distribution		9,853,034	
Annuity Payments		5,870	
Other Expense/Loss		350,985	
Total Program Services	9,644,010	10,209,889	14,217,348
Supporting Services:			
Fundraising	3,442,297		3,606,609
Management and General	1,162,557		2,090,788
Total Supporting Services	4,604,854		5,697,397
Bad Debt	301,511		
Total Expenses and Bad Debt	14,550,375	10,209,889	19,914,745
OTHER CHANGES			
Endowment investment return in excess of amounts designated for current operations		8,584,978	
Change in Net Assets	32,349,017	11,517,374	23,909,579
CHANGES IN NET ASSETS			
Unrestricted	4,114,963		(32,269)
Temporarily restricted	17,202,733	8,588,912	12,748,499
Permanently restricted	11,031,321	2,928,462	11,193,349
Total changes in net assets	32,349,017	11,517,374	23,909,579
Net Assets at Beginning of Year	222,171,479	221,152,020	256,244,475
Net Assets at End of Year	\$ 254,520,496	\$ 232,669,394	\$ 280,154,054

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Units - Although legally separate, The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund), UNC Investment Fund, LLC (UNC Investment Fund), UNC Intermediate Pool, LLC (UNC Intermediate Fund), UNC Management Company, Inc. (Management Company), The University of North Carolina at Chapel Hill Foundation, Inc. (UNC-Chapel Hill Foundation), The Kenan-Flagler Business School Foundation (Business School Foundation), U.N.C. Law Foundation, Inc. (Law Foundation), and The University of North Carolina at Chapel Hill School of Education Foundation, Inc. (School of Education Foundation), component units of the University, are reported as if they were part of the University.

The Chapel Hill Investment Fund is governed by a board consisting of eight to eleven ex-officio directors and two to four elected directors. Ex-officio directors include all of the members of the Board of Trustees of the Endowment Fund of the University, which includes the Chair of the University Board of Trustees and the Chancellor, the Vice Chancellor for Finance and Administration, and the Vice Chancellor for University Advancement. The UNC-Chapel Hill Foundation Board may, in its discretion, elect one or two of its at-large members to the Chapel Hill Investment Fund Board. The ex-officio directors of the Chapel Hill

Investment Fund may elect one or two directors by unanimous written consent. The Chapel Hill Investment Fund supports the University by operating an investment fund for certain eligible charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Because members of the Board of Directors of the Chapel Hill Investment Fund are officials or appointed by officials of the University and the Chapel Hill Investment Fund's primary purpose is to benefit the University and other organizations operated primarily to support the University, its financial statements have been blended with those of the University.

The UNC Investment Fund was organized by the Chapel Hill Investment Fund to allow the University, the UNC System, other constituent institutions of the UNC System, and certain eligible affiliated foundations, associations, trusts, and endowments that support the University and the UNC System, to pool their resources and invest collectively in investment opportunities identified, structured and managed by the Management Company. The membership interests are offered only to eligible government entities or tax-exempt organizations that are controlled by or support the University, the UNC System, or other constituent institutions of the UNC System. The Chapel Hill Investment Fund contributed and assigned all of its assets to the UNC Investment Fund effective January 1, 2003, in exchange for its membership interest in the UNC Investment Fund. Upon such contribution and assignment, and in consideration thereof, the UNC Investment Fund has assumed all liabilities and obligations of the Chapel Hill Investment Fund in respect of such contributed assets. At June 30, 2015, the Chapel Hill Investment Fund membership interest was approximately 61% of the UNC Investment Fund total membership interests. Because the Chapel Hill Investment Fund is the organizer and controlling member of the UNC Investment Fund, the financial statements of the UNC Investment Fund have been blended with those of the University.

The UNC Intermediate Fund was organized by the University to make available an intermediate-term investment fund for eligible participants. The University is the controlling member. Eligible participants in the fund include not only the University but also the UNC System, its constituent institutions, and/or affiliates and supporting organizations of the UNC System or such constituent institutions. The University has retained the Management Company to serve as the investment manager of the fund. Because the University is the organizer and controlling member of the UNC Intermediate Fund, the financial statements of the UNC Intermediate Fund have been blended with those of the University.

The Management Company is a North Carolina nonprofit corporation organized and operated exclusively to support the educational mission of the University. The Management Company provides investment management and administrative services to the University, UNC System, and institutions and affiliated tax-exempt organizations, and performs other functions for and generally carries out the purposes of the University. The Management Company is governed by five ex-officio

directors and one to three additional directors as fixed or changed from time to time by the board, elected by the ex-officio directors. The ex-officio directors consist of the Chancellor, the Vice Chancellor for Finance and Administration, the Chair of the University Board of Trustees, the Chair of the Board of Directors of the Chapel Hill Investment Fund, and the President of the Management Company. Because members of the Board of Directors of the Management Company are officials or appointed by officials of the University and the Management Company's primary purpose is to benefit the University and other organizations operated primarily to support the University, its financial statements have been blended with those of the University.

The UNC-Chapel Hill Foundation is governed by a 17-member board consisting of nine ex-officio directors and eight elected directors. Ex-officio directors include the Chair of the University Board of Trustees, the Chancellor, the Vice Chancellor for Finance and Administration, and the Vice Chancellor for University Advancement (non-voting). In addition, the Board of Trustees elects two ex-officio directors from among its own members as well as three ex-officio directors from the Board of Trustees of the Endowment Fund who have not otherwise been selected. The eight remaining directors are elected as members of the UNC-Chapel Hill Foundation Board of Directors by action of the ex-officio directors. The UNC-Chapel Hill Foundation aids, supports, and promotes teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because members of the Board of Directors of the UNC-Chapel Hill Foundation are officials or appointed by officials of the University and the UNC-Chapel Hill Foundation's sole purpose is to benefit the University, its financial statements have been blended with those of the University.

The Business School Foundation is governed by a board consisting of four ex-officio directors and four or more elected directors. Ex-officio directors include the Dean of the Kenan-Flagler Business School (Business School), as well as the School's Chief Financial Officer, Associate Dean of Academic Affairs, and Associate Dean for MBA Programs. The remaining directors are elected to the Business School Foundation Board of Directors by action of the ex-officio directors. The Business School Foundation aids, promotes, and supports the Kenan-Flagler Business School at the University. Because members of the Board of Directors of the Business School Foundation are officials or appointed by officials of the University, the financial statements of the Business School Foundation have been blended with those of the University.

The Law Foundation is governed by a board consisting of one ex-officio director, six appointed directors, and six elected directors. The ex-officio director is the Dean of the School of Law of the University. The ex-officio director appoints six directors and the Board of Directors of the Law Alumni Association of UNC, Inc. elects the other six directors. The Law Foundation provides support, fosters, and encourages the study and teaching of law at the University's Law School. Because a majority of the

members of the Board of Directors of the Law Foundation are officials or appointed by officials of the University, the financial statements of the Law Foundation have been blended with those of the University.

The School of Education Foundation is governed by a board consisting of seven ex-officio directors and up to fifteen elected directors. Ex-officio directors include the Dean of the School of Education, as well as the school's Associate Dean for Academic Programs, Assistant Dean for External Relations, Assistant Dean for Administration and Finance, Director of Alumni Relations, President of the Alumni Council, and President-Elect of the Alumni Council. The remaining directors are elected to the School of Education Foundation Board of Directors by action of the ex-officio directors. The School of Education Foundation aids, supports and promotes teaching, research, and service at the School of Education. Because members of the Board of Directors of the School of Education Foundation are officials or appointed by officials of the University, the financial statements of the School of Education Foundation have been blended with those of the University.

Separate financial statements for the Chapel Hill Investment Fund, UNC Investment Fund, UNC Intermediate Fund, the Management Company, and blended foundations may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

Condensed combining information regarding blended component units is provided in Note 19.

Discretely Presented Component Units – The Medical Foundation of North Carolina, Inc. (Medical Foundation), The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc. (Arts and Sciences Foundation), and The Educational Foundation Scholarship Endowment Trust (Educational Foundation Trust) are legally separate, nonprofit, tax-exempt organizations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Medical Foundation is governed by a board consisting of one ex-officio director, the Dean of the UNC School of Medicine, and up to 33 elected directors, who serve staggered terms. Two other ex-officio directors, the President of UNC Health Care and the President of the Medical Foundation, have no voting rights on any matters. Its purpose is to support educational, scientific, and public service efforts of the University's School of Medicine and UNC Health Care System. Historically, the University's School of Medicine has been the major recipient of financial support from the Medical Foundation rather than UNC Health Care System. Although the University does not control the timing or amount of receipts from the Medical Foundation, the majority of resources or income that the Medical Foundation holds and invests is restricted to the University by the donors. Because these restricted resources held by the Medical Foundation can only be used by, or for the

benefit of the University, the Medical Foundation is considered a component unit of the University.

The Arts and Sciences Foundation is governed by a board consisting of five ex-officio directors, 30 elected directors and such number of emeritus directors determined from time to time by the Board of Directors. The 30 elected directors are elected for staggered terms by the Board of Directors in office at the time of election. The purpose of the Arts and Sciences Foundation is to promote and support the University's College of Arts and Sciences. Although the University does not control the timing or amount of receipts from the Arts and Sciences Foundation, the majority of resources or income that the Arts and Sciences Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Arts and Sciences Foundation can only be used by, or for the benefit of the University, the Arts and Sciences Foundation is considered a component unit of the University.

The Educational Foundation Trust is governed by The Educational Foundation Scholarship Endowment Trust Agreement which designates the voting members of the Investment Committee of The Educational Foundation, Inc. as trustees. The Investment Committee consists of five members elected from the membership of The Educational Foundation, Inc. The Educational Foundation Trust operates solely to assist the University in providing financial assistance to students at the University. On an annual basis, the Board of Trustees of the Educational Foundation Trust appropriates a portion of the net appreciation on its assets to The Educational Foundation, Inc. in its capacity as agent for the Educational Foundation Trust. The distribution from the Educational Foundation Trust to The Educational Foundation, Inc. is then forwarded by The Educational Foundation, Inc. to the University to provide financial assistance to students at the University. Although the University does not control the timing or amount of receipts from the Educational Foundation Trust, the majority of resources or income that the Educational Foundation Trust holds and invests is restricted to the students of the University by the donors. Because these restricted resources held by the Educational Foundation Trust can only be used for the benefit of the students of the University, the Educational Foundation Trust is considered a component unit of the University.

The Medical Foundation, the Arts and Sciences Foundation, and the Educational Foundation Trust are private, nonprofit organizations that report their financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the financial information in the University's financial statements for these differences.

During the year ended June 30, 2015, the Medical Foundation, the Arts and Sciences Foundation, and the Educational Foundation Trust

distributed in total \$33,714,392 to the University for both restricted and unrestricted purposes. Complete financial statements for the Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust can be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

Other related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

- 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 includes state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (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 are generally reported at fair value. The fair values of all debt and equity securities with readily determinable fair market values are based on quoted market prices. Investments for which a readily determinable fair value does not exist include investments in certain commingled funds and limited partnerships. These investments are carried at estimated fair values as provided by the respective fund managers of these investments or third party administrators. The

Management Company reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed. The net increase or decrease in the fair value of investments is recognized as a component of investment income. The majority of private equity limited partnerships and real assets limited partnerships are subject to fair value estimation, which includes discounted cash flow and transaction comparison. The estimated fair value of these investments is \$1.61 billion.

Money market funds, 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.

Short-term investments include marketable securities representing the investment of cash that is available for current operations. A majority of this available cash is invested in the University's Temporary Pool, a governmental external investment pool.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity, 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 to patients for services provided by the UNC Faculty Physicians and the Dental Faculty Practices. Receivables also include amounts due from the federal government, state and local governments, 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 notes receivable from loans to students. Students, patients, pledges, and notes receivable are recorded net of an allowance for doubtful accounts. The accounts and other receivables are shown at book value with no provision for doubtful accounts considered necessary.
- G. Inventories** – Inventories held by the University are priced at cost or average cost except for the Student Stores inventory, which is valued at the lower of cost or market. Inventories consist of expendable supplies, postage, fuel held for consumption, textbooks, and other merchandise for resale.

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

The University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year except for intangible assets which are capitalized when the value or cost is \$100,000 or greater and internally generated software which is capitalized when the value or cost is \$1,000,000 or greater.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 12 to 75 years for buildings, and 3 to 30 years for equipment. Amortization is computed using the straight-line method over the estimated useful lives of the assets, from 3 to 20 years for computer software.

The University's historic property, artworks, and literary collections are capitalized at cost or fair value at the date of donation. These properties and collections are considered inexhaustible and are therefore not depreciated.

- I. Restricted Assets** – Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. Reverse Repurchase Agreement** – During the year, a fixed income manager engaged in reverse repurchase agreements on behalf of UNC Investment Fund, LLC, resulting in an obligation of \$12,376,000 to a financial institution.
- K. Funds Held in Trust for Pool Participants** – Funds held in trust for pool participants represent the external portion of the University's governmental external investment pools more fully described in Note 2. The assets associated with this liability are included in restricted investments, cash, and other similar asset accounts.
- L. Funds Held in Trust by Others** – Funds held in trust by others are resources neither in the possession nor the control of the University, but held and administered by an outside organization, with the University deriving income from such funds. Such funds established under irrevocable trusts where the University has legally enforceable rights or claims have not been recorded on the accompanying financial statements. The value of these assets at June 30, 2015 is \$33,385,464.

- M. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include principal amounts of revenue bonds payable, net pension liability, notes payable, capital lease obligations, annuity and life income payable, and compensated absences that are not scheduled to be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Deferred charges on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are included as Deferred Outflows or Deferred Inflows of Resources on the Statement of Net Position. Issuance costs are expensed.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 13 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

- N. 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. 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.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method.

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.

O. 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. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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. Both restricted and unrestricted net position includes consideration of deferred inflows and outflows of resources.

P. 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 gross charge for goods and services provided by the University and the actual 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.

Q. 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 that represent subsidies or gifts to the University, 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.

- R. **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 utility services, telecommunications, central stores, printing and copy centers, postal services, and repairs and maintenance services. 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, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$355,010,177 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 or subject to any other regulatory oversight other than that of the legislative body and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. 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, 2015 was \$160,507. The carrying amount of the University's deposits not with the State Treasurer was \$84,866,522 and the bank balance was \$86,849,157. 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, 2015, \$84,643,950 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

- 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 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 specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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, in accordance with the bond resolutions.

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 units, UNC-Chapel Hill Foundation, UNC Management Company, Chapel Hill Investment Fund, UNC Intermediate Pool, UNC Investment Fund, Business School Foundation, Law Foundation, School of Education Foundation, Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust, 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. The UNC Management Company does not hold endowment funds.

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.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have a formal policy for foreign currency risk.

Temporary Investment Pool (Temporary Pool) – The Temporary Pool is a fixed income portfolio managed by the Management Company and Novant Asset Management, LLC. It operates in conjunction with the University's Bank of America disbursing account for all special funds, funds received for services rendered by health care professionals, and endowment revenue funds (internal portion) and funds of affiliated foundations (external portion). Because of the participation in the Temporary Pool by affiliated foundations, it is considered a governmental external investment pool. The external portion of the Temporary Pool is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants. Fund ownership of the University's Temporary Pool is measured using the unit value method. Under this method, participant activity is recorded on a cost basis in the UNC-Chapel Hill

Money Market System. This is the official means of recording activity in the Temporary Pool. The Temporary Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the University Board of Trustees. The University has not provided legally binding guarantees during the period to support the value of the pool's investments. There are no involuntary participants in the Temporary Pool.

The Bank of New York Mellon is the custodian for the Temporary Pool and provides the University with monthly statements defining income and market value information. Investments of the Temporary Pool are generally highly liquid and include (but are not limited to) U.S. government securities, collateralized mortgage obligations, asset-backed securities, corporate bonds, and mutual funds. The University has elected to invest a portion of the Temporary Pool assets in the Chapel Hill Investment Fund.

Participants may purchase and sell shares in the Temporary Pool at a fixed value of \$1 per share. Generally, the purchase and sale of participation shares occur only at the beginning of the month. Income distribution is determined each quarter by multiplying the distribution rate by the average of the invested fund balance. Statements are provided via internet website to each participating account or group of accounts on a quarterly basis reflecting the participants' balance and income distribution. The rate earned by an account is dependent upon its account classification and investable fund balance. The rates are set by policy and approved by the Vice Chancellor for Finance and Administration.

The following table presents the fair value of the Temporary Pool investments by type and investments subject to interest rate risk at June 30, 2015.

Temporary Pool Investments

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<i>Debt Securities</i>					
U.S. Treasuries	\$ 144,919,000	\$ 0	\$ 144,919,000	\$ 0	\$ 0
U.S. Agencies	105,624,769	4,063,355	18,832,454	4,405,529	78,323,431
Mortgage Pass Throughs	20,505	20,505			
Collateralized Mortgage Obligations	7,104,105	2,283,895			4,820,210
Asset-backed Securities	961,030	961,030			
Money Market Mutual Funds	114,937,528	114,937,528			
Domestic Corporate Bonds	27,523,915	11,075,507	12,530,378	504,885	3,413,145
Total Debt Securities	401,090,852	\$ 133,341,820	\$ 176,281,832	\$ 4,910,414	\$ 86,556,786
<i>Other Securities</i>					
Domestic Stocks	30,000				
Total Temporary Pool Investments	\$ 401,120,852				

The University has elected to invest \$90,508,495 of Temporary Pool assets in the UNC Chapel Hill Investment Fund. The disclosures for these investments are not included in the preceding table. Rather, the disclosures for this portion of the Temporary Investment Pool are included in those for UNC Chapel Hill Investment Fund, Inc.

At June 30, 2015, investments in the Temporary Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB, Ba and below	Unrated
U.S. Agencies	\$ 105,624,769	\$ 0	\$ 105,624,769	\$ 0	\$ 0	\$ 0	\$ 0
Collateralized Mortgage Obligations	7,104,106				52,947	3,559,548	3,491,611
Asset-backed Securities	961,030					961,030	
Mortgage Pass Throughs	20,505					20,505	
Money Market Mutual Funds	114,937,528	114,937,528					
Domestic Corporate Bonds	27,523,914	4,748,637	6,137,406	15,769,019	504,885	363,967	
Total	\$ 256,171,852	\$ 119,686,165	\$ 111,762,175	\$ 15,769,019	\$ 557,832	\$ 4,905,050	\$ 3,491,611

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

Since a separate annual financial report of the Temporary Investment Pool is not issued, the following additional disclosures are being provided in the University's financial statements.

The Temporary Investment Pool's Statement of Net Position and Statement of Operations and Changes in Net Position as of and for the period ended June 30, 2015, are as follows:

Statement of Net Position

June 30, 2015

	Amount
Assets:	
State Treasurer Investment Fund	\$ 5,000,000
Accounts Receivable	27
Accrued Investment Income	697,323
Chapel Hill Investment Fund	90,508,495
Investments	401,120,852
Total Assets	\$ 497,326,697
Liabilities:	
Deferred Gain	\$ 206,337
Accounts Payable	60,163,507
Total Liabilities	60,369,844
<i>Net Position As Held in Trust for All Pool Participants:</i>	
Internal Portion	236,994,952
External Portion	199,961,901
Total Net Position	436,956,853
Total Liabilities and Net Position	\$ 497,326,697

Statement of Operations and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

	<u>Amount</u>
<i>Increase in Net Position from Operations:</i>	
Revenues:	
Investment Income	\$ 23,639,883
Expenses:	
Investment Management	<u>(588,234)</u>
Net Increase in Net Position Resulting from Operations	23,051,649
<i>Distributions to Participants:</i>	
Distributions Paid and Payable	(23,051,649)
<i>Share Transactions:</i>	
Net Share Purchases	<u>(29,241,885)</u>
Total Decrease in Net Position	(29,241,885)
<i>Net Position:</i>	
Beginning of Year	<u>466,198,738</u>
End of Year	<u><u>\$ 436,956,853</u></u>

Intermediate Investment Pool (Intermediate Pool) - Established in October 2007, the Intermediate Pool is a portfolio managed by the Management Company, comprised of fixed income investments and investments with the UNC-Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund). Participation in the Intermediate Pool is open to all participants that are eligible for the UNC Chapel Hill Temporary Investment Pool; currently, the University is the only member. Fund ownership of the University's Intermediate Pool is measured using the unit value method. Under this method, each participant's investment balance is determined on a market value basis. The Intermediate Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the University Board of Trustees. The University has not provided legally binding guarantees during the period to support the value of the pool's investments. There are no involuntary participants in the Intermediate Pool.

The Bank of New York Mellon is the custodian for the Intermediate Pool and provides the University with monthly statements defining income and market value information. Generally a minimum of 45% and a maximum of 65% of the market value of the Intermediate Pool will be invested in the Chapel Hill Investment Fund. The remaining assets of the Intermediate Pool will be invested primarily (at least 80%) in cash, money market instruments, high quality bonds, and other high quality fixed income instruments in accordance with investment guidelines.

Purchase and sale of participation shares occur at the beginning of the month. As calculated by the Management Company, returns net of fees and expenses are to be allocated 85% to the Intermediate Pool

participants and 15% to the University. Statements are to be provided by the Management Company to each participant on a monthly basis reflecting the participants' balance and investment activity. However, as noted above, the University is currently the only participant in the Intermediate Pool.

The following table presents the fair value of the investments by type and investments subject to interest rate risk at June 30, 2015.

Intermediate Pool Investments

	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 to 5
Investment Type			
<i>Debt Securities</i>			
Debt Mutual Funds	\$ 7,525,815	\$ 0	\$ 7,525,815
Money Market Mutual Funds	7,164,397	7,164,397	
Total Intermediate Pool Investments	\$ 14,690,212	\$ 7,164,397	\$ 7,525,815

At June 30, 2015, investments in the Intermediate Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A
Debt Mutual Funds	\$ 7,525,815	\$ 0	\$ 5,136,394	\$ 2,389,421
Money Market Mutual Funds	7,164,397	3,208,431	3,955,966	
Total	\$ 14,690,212	\$ 3,208,431	\$ 9,092,360	\$ 2,389,421

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

At June 30, 2015, the Intermediate Investment Pool had investments of \$20,008,744 in the Chapel Hill Investment Fund. The disclosures for these investments are not included here. The disclosures for this portion of the Intermediate Investment Pool can be found under the heading UNC Chapel Hill Investment Fund, Inc.

UNC Intermediate Pool, LLC (UNC Intermediate Fund) - The UNC Intermediate Fund was organized in May 2013 by the University to make available an intermediate-term investment fund for eligible participants with the University being the controlling member. The UNC Intermediate Fund is classified as a governmental external investment pool. Eligible participants in the Fund include not only the University but also the University of North Carolina System (UNC System), its constituent institutions, and/or affiliates and supporting organizations of the UNC

System or such constituent institutions. The University has retained the Management Company to serve as the investment manager of the fund.

Fund ownership of the UNC Intermediate Fund is measured using the unit value method. Under this method, each participant's investment balance is determined on a market value basis. The UNC Intermediate Fund is not registered with the SEC and is not subject to any formal oversight beyond that provided by UNC Management Company as well as an Oversight Committee of University employees appointed by the Chancellor of the University. The University has not provided legally binding guarantees during the period to support the value of the pool's investments. There are no involuntary participants in the Intermediate Pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Chapel Hill Investment Fund. The audited financial statements for the UNC Intermediate Fund may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The Bank of New York Mellon is the custodian for the UNC Intermediate Fund and provides the University with monthly statements providing income and market value information. UNC Intermediate Fund investments are comprised of (but not limited to) shares in mutual funds, money market accounts, and the UNC Investment Fund.

As of June 30, 2015, the University's membership interest was approximately 98% of the UNC Intermediate Fund's total membership interests. An affiliated organization, not included in the University's reporting entity, held the remaining 2% membership interest. This external portion of the UNC Intermediate Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants.

The following table presents the fair value of the UNC Intermediate Fund investments by type and investments subject to interest rate risk at June 30, 2015.

UNC Intermediate Fund Investments

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<i>Debt Securities</i>					
U.S. Treasuries	\$ 37,864,738	\$ 70,033	\$ 20,684,045	\$ 17,110,660	\$ 0
U.S. Agencies	895,400				895,400
Mortgage Pass Throughs	11,738,013				11,738,013
Collateralized Mortgage Obligations	21,650,652			2,491,638	19,159,014
Asset-backed Securities	29,665,924		1,481,136	8,151,196	20,033,592
Debt Mutual Funds	156,724,153	23,092,515	61,925,181	64,697,884	7,008,573
Money Market Mutual Funds	5,483,520				5,483,520
Domestic Corporate Bonds	12,796,532		5,258,571	7,122,628	415,333
Foreign Corporate Bonds	22,558,075	205,000	9,658,836	9,903,877	2,790,362
Foreign Government Bonds	1,636,400		959,850	676,550	
Total Debt Securities	301,013,407	\$ 23,367,548	\$ 99,967,619	\$ 110,154,433	\$ 67,523,807
<i>Other Securities</i>					
Real Estate Investment Trusts	177,476				
Total Intermediate Fund Investments	\$ 301,190,883				

The University has elected to invest \$110,845,953 of assets of the UNC Intermediate Fund in the UNC Investment Fund. The disclosures for these investments are not included in the preceding table. Rather, the disclosures for this portion of UNC Intermediate Fund investments are included in those for UNC Investment Fund.

At June 30, 2015, investments in UNC Intermediate Fund had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB, Ba and below	Unrated
U.S. Agencies	\$ 895,400	\$ 0	\$ 895,400	\$ 0	\$ 0	\$ 0	\$ 0
Mortgage Pass Throughs	11,738,013	699,530	99,358	401,961	1,281,659	8,896,439	359,066
Collateralized Mortgage Obligations	21,650,652	875,685	500,730		718,033	19,556,204	
Asset-backed Securities	29,665,924	6,390,655	1,086,458	5,800,993	7,653,211	6,239,875	2,494,732
Debt Mutual Funds	156,724,153			71,187,495		85,536,658	
Money Market Mutual Funds	5,483,520	5,483,520					
Domestic Corporate Bonds	12,796,532		411,338	1,571,146	3,147,842	7,666,206	
Foreign Corporate Bonds	22,558,075		1,068,443	998,611	8,585,959	11,864,262	40,800
Foreign Government Bonds	1,636,400				1,020,050	616,350	
Total	\$ 263,148,669	\$ 13,449,390	\$ 4,061,727	\$ 79,960,206	\$ 22,406,754	\$ 140,375,994	\$ 2,894,598

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

UNC Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund) – Chapel Hill Investment Fund is a North Carolina non-profit corporation exempt from income tax pursuant to Section 501(c)(3). It was established in January 1997 and is classified as a governmental external investment pool. The pool is utilized to manage the investments for charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily

to support the University. The University's Endowment, UNC-Chapel Hill Foundation, Business School Foundation, School of Education Foundation, Law Foundation, Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust are participants in the Chapel Hill Investment Fund and are included in the University's reporting entity (internal portion). Other affiliated organizations (external portion) in the Chapel Hill Investment Fund are not included in the University's reporting entity. Fund ownership of the Chapel Hill Investment Fund is measured using the unit value method. Under this method, each participant's investment balance is determined on a market value basis. The external portion of the Chapel Hill Investment Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants.

The Chapel Hill Investment Fund is not registered with the SEC and is not subject to any formal oversight other than that provided by the Chapel Hill Investment Fund Board of Directors (See Note 1A).

The Chapel Hill Investment Fund is the primary participant of UNC Investment Fund, LLC (UNC Investment Fund) and on a monthly basis receives a unitization report from the Management Company defining change in book and market value, applicable realized gains and losses and expenses. The Chapel Hill Investment Fund uses a unit basis to determine each participant's market value and to distribute the fund's earnings according to the Fund's spending policy. There are no involuntary participants in the Chapel Hill Investment Fund. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Chapel Hill Investment Fund. The audited financial statements for the Chapel Hill Investment Fund may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The Chapel Hill Investment Fund consists of an approximate 62.1% membership in the UNC Investment Fund categorized below.

UNC Investment Fund, LLC (UNC Investment Fund) – The UNC Investment Fund is a non-profit limited liability company exempt from income tax pursuant to Section 501(c)(3) organized under the laws of the State of North Carolina. It was established in December 2002 by the Chapel Hill Investment Fund and is classified as a governmental external investment pool. The pool is utilized to manage the investments for The University of North Carolina, its constituent institutions, and affiliates of the constituent institutions. This includes charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support these institutions. As previously noted, the Chapel Hill Investment Fund, with an approximate 62.1% membership interest as of June 30, 2015, is the predominant member of the UNC Investment Fund.

The University's reporting entity portion of the Chapel Hill Investment Fund and the Management Company's portion of the UNC Investment

Fund are characterized as the internal portion. Other affiliated organizations in the Chapel Hill Investment Fund, in addition to other members of the UNC Investment Fund not included in the University's reporting entity, are characterized as the external portion. The external portion of the UNC Investment Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants. Membership interests of the UNC Investment Fund are measured using the unit value method. Under this method, each member's investment balance is determined on a market value basis.

The UNC Investment Fund is not registered with the SEC and is not subject to any formal oversight other than that provided by the Chapel Hill Investment Fund as the controlling member (See Note 1A). Effective January 1, 2003, the Management Company entered into an investment management services agreement with the UNC Investment Fund and provides investment management and administrative services.

The Bank of New York Mellon is the custodian for the UNC Investment Fund and provides the University with monthly statements defining income and market value information. The UNC Investment Fund uses a unit basis to determine each member's market value and to distribute the fund's earnings. The University has not provided or obtained any legally binding guarantees during the period to support the value for the UNC Investment Fund investments. The audited financial statements for the UNC Investment Fund may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

The following table presents the fair value of the UNC Investment Fund investments by type and investments subject to interest rate risk at June 30, 2015.

UNC Investment Fund Pool Investments

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<i>Debt Securities</i>					
U.S. Treasuries	\$ 16,735,371	\$ 0	\$ 12,721,860	\$ 3,051,330	\$ 962,181
U.S. Agencies	46,474,713	6,679,167	1,684,417	1,417,970	36,693,159
Collateralized Mortgage Obligations	74,741,538	47,464,007			27,277,531
Asset-backed Securities	26,329,177	26,329,177			
Debt Mutual Funds	1,712,656	1,712,656			
Money Market Mutual Funds	241,894,263	241,158,178			736,085
Domestic Corporate Bonds	5,359,205	515,390	2,534,100		2,309,715
Total Debt Securities	413,246,923	\$ 323,858,575	\$ 16,940,377	\$ 4,469,300	\$ 67,978,671
<i>Other Securities</i>					
Equity Index Funds	917,640				
Real Estate Investment Trust	29,217,648				
Long/Short Hedge Funds	928,507,248				
Diversifying Hedge Funds	319,503,506				
Hedge Funds in Liquidation	40,388,425				
Long Only Equity Funds	1,165,276,639				
Private Equity Limited Partnerships	1,087,580,886				
Real Assets Limited Partnerships	522,368,873				
Domestic Stocks	205,099,226				
Foreign Stocks	6,139,791				
Total UNC Investment Fund Pool	\$ 4,718,246,805				

At June 30, 2015, investments in the UNC Investment Fund Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB, Ba & Below	Unrated
U.S. Agencies	\$ 46,474,713	\$ 0	\$ 46,474,713	\$ 0	\$ 0	\$ 0	\$ 0
Collateralized Mortgage Obligations	74,741,538					67,048,289	7,693,249
Asset-backed Securities	26,329,177	6,169,802				18,249,372	1,910,003
Debt Mutual Funds	1,712,656			1,712,656			
Money Market Mutual Funds	241,894,263	241,158,178					736,085
Domestic Corporate Bonds	5,359,205			3,165,025	500,405	1,693,775	
Total	\$ 396,511,552	\$ 247,327,980	\$ 46,474,713	\$ 4,877,681	\$ 500,405	\$ 86,991,436	\$ 10,339,337

Rating Agency: Moody's/Standard and Poor's/Fitch (lowest rating reported above)

Foreign Currency Risk: The University recognized an aggregate foreign currency transaction loss of \$15,331,957 for the fiscal year ended June 30, 2015. Of that amount, \$15,033,833 was an unrealized loss as of the reporting date. Transaction gains or losses result from a change in exchange rates between the U.S. Dollar and the currency in which a foreign currency transaction is denominated. At June 30, 2015, the UNC Investment Fund Pool's exposure to foreign currency risk is as follows:

Investment	Currency	Fair value (U.S. dollars)
Private equity limited partnerships	Euro	\$ 82,225,081
Real assets limited partnerships	Euro	14,981,073
Other hedge funds	Euro	29,241,582
Total Euro		126,447,736
Private equity limited partnerships	British Pound Sterling	22,013,463
Real assets limited partnerships	British Pound Sterling	10,782,611
Total British Pound Sterling		32,796,074
Real assets limited partnerships	Canadian Dollar	8,240,032
Foreign stocks	Canadian Dollar	6,139,791
		14,379,823
Private equity limited partnerships	Australian Dollar	2,831,519
Total		\$ 176,455,152

Investment Derivatives: At June 30, 2015, the UNC Investment Fund is invested in futures contracts with a fair value of \$101,291,389. Additional information is provided in Note 9 Derivative Instruments.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2015, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<i>Debt Securities</i>					
U.S. Treasuries	\$ 92,523	\$ 0	\$ 60,769	\$ 0	\$ 31,754
U.S. Agencies	375				375
Mortgage Pass Throughs	174				174
Collateralized Mortgage Obligations	38,365				38,365
Debt Mutual Funds	7,656,307	287,648	796,054	6,136,767	435,838
Money Market Mutual Funds	49,958,814	49,398,175	113,580	447,059	
Domestic Corporate Bonds	488,609	242,969	120,009	125,631	
Foreign Corporate Bonds	1,425,475				1,425,475
Foreign Government Bonds	33,194			33,194	
Total Debt Securities	\$ 59,693,836	\$ 49,928,792	\$ 1,090,412	\$ 6,742,651	\$ 1,931,981
<i>Other Securities</i>					
Equity Index Funds	98,441				
Equity Mutual Funds	2,161,104				
Investments in Real Estate	596,230				
Real Estate Investment Trust	3,367,912				
Private Equity Limited Partnerships	4,715,585				
Long/Short Hedge Funds	52,796				
Domestic Stocks	19,505,552				
Foreign Stocks	5,646,985				
Other	12,421,493				
Total Non-Pooled Investments	\$ 108,259,934				

At June 30, 2015, the University's Non-Pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB, Ba and below	Unrated
U.S. Agencies	\$ 375	\$ 0	\$ 375	\$ 0	\$ 0	\$ 0	\$ 0
Mortgage Pass Throughs	174				174		
Collateralized Mortgage Obligations	38,365				38,365		
Debt Mutual Funds	7,656,307	2,041,358	3,982,418	1,043,432	528,084	61,015	
Money Market Mutual Funds	49,958,814	49,324,369	110,169	515,349	103		8,824
Domestic Corporate Bonds	488,609	127,570	178,077	84,737	98,225		
Foreign Corporate Bonds	1,425,475			1,425,475			
Foreign Government Bonds	33,194			33,194			
Total	\$ 59,601,313	\$ 51,493,297	\$ 4,271,039	\$ 3,102,187	\$ 664,951	\$ 61,015	\$ 8,824

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

Foreign Currency Risk: At June 30, 2015, the University had nominal direct exposure to foreign currency risk in Non-Pooled Investments. In terms of indirect exposure, the University had approximately \$7.1 million of Non-Pooled investments in foreign domains where the investments were denominated in U.S. dollars.

Total Investments – The following table presents the fair value of the total investments at June 30, 2015.

Investment Type	Fair Value
<i>Debt Securities</i>	
U.S. Treasuries	\$ 199,611,632
U.S. Agencies	152,995,257
Mortgage Pass Throughs	11,758,692
Collateralized Mortgage Obligations	103,534,660
Asset-backed Securities	56,956,131
Debt Mutual Funds	173,618,931
Money Market Mutual Funds	419,438,522
Domestic Corporate Bonds	46,168,261
Foreign Corporate Bonds	23,983,550
Foreign Government Bonds	1,669,594
Total Debt Securities	1,189,735,230
<i>Other Securities</i>	
Equity Index Funds	1,016,081
Equity Mutual Funds	2,161,104
Investments in Real Estate	596,230
Real Estate Investment Trust	32,763,036
Long/Short Hedge Funds	928,560,044
Diversifying Hedge Funds	319,503,506
Hedge Funds in Liquidation	40,388,425
Long Only Equity Funds	1,165,276,639
Private Equity Limited Partnerships	1,092,296,471
Real Assets Limited Partnerships	522,368,873
Domestic Stocks	224,634,778
Foreign Stocks	11,786,776
Other	12,421,493
Total Investments	\$ 5,543,508,686

Total investments are reported in the University's financial statements:

University Statement of Net Position	Amount
Short-term investments	\$ 905,413,058
Restricted short-term investments	306,852,471
Endowment investments	1,830,850,393
Restricted investments	1,919,852,148
Other investments	22,705,763
Subtotal	4,985,673,833
Investments of UNC Investment Fund Held for Component Units that are Discretely Presented in Accompanying Financial Statements	557,834,853
Total investments	\$ 5,543,508,686

The University's reporting entity, including the three discretely presented component units, comprises approximately 52.4% of the UNC Investment Fund.

Component Units - Investments of the University's discretely presented component unit, the Medical Foundation of North Carolina, Inc., 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. Because the Medical Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. A summary of investments not held by the University as of June 30, 2015:

<u>Investment Type</u>	<u>Carrying Value</u>
Money Market Funds	\$ 7,150,510
Common Stock	25,784,199
Mutual Funds - Equity Oriented	33,978,100
Mutual Funds - Credit Oriented	11,230,555
Mutual Funds - Alternative	4,146,829
International Equity Fund	9,364,022
Government Securities	6,109,459
Total Investments	\$ 97,763,674

NOTE 3 - ENDOWMENT INVESTMENTS

Substantially all of the investments of the University's endowment funds are pooled in the Chapel Hill Investment Fund. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may 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 pooled endowment funds is predicated on the total return concept (yield plus appreciation). Annual distributions from the Chapel Hill Investment Fund to the University's pooled endowment funds are generally based on an adopted distribution policy. Under this policy, the prior year distribution is increased by the rate of inflation as measured by the Consumer Price Index (CPI) unless the Board determines otherwise. Each year's distribution, however, is subject to a minimum of 4% and a maximum of 7% of the pooled endowment fund's average market value for the previous year.

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, the University uses accumulated income and appreciation to make up the difference. At June 30, 2015, accumulated income and appreciation of \$733,505,382 was available in the University's pooled endowment funds of which \$671,939,917 was restricted to specific purposes including scholarships and fellowships, research, library

acquisitions, professorships, departmental and other uses. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<i>Current Receivables</i>			
Students	\$ 6,015,447	\$ 2,743,763	\$ 3,271,684
Student Sponsors	246,825		246,825
Patients	186,726,542	138,500,940	48,225,602
Accounts	16,004,752		16,004,752
Auxiliary	57,054,873		57,054,873
Intergovernmental	187,234,531		187,234,531
Pledges	23,141,193	532,155	22,609,038
Investment Earnings	1,493,693		1,493,693
Interest on Loans	1,147,853		1,147,853
Other	555,870		555,870
Total Current Receivables	\$ 479,621,579	\$ 141,776,858	\$ 337,844,721
<i>Noncurrent Receivables</i>			
Pledges	\$ 44,801,079	\$ 1,120,027	\$ 43,681,052
Notes Receivable			
<i>Notes Receivable - Current:</i>			
Institutional Student Loan Programs	\$ 4,435,364	\$ 321,962	\$ 4,113,402
UNC Healthcare System	1,144,838		1,144,838
Total Notes Receivable - Current	\$ 5,580,202	\$ 321,962	\$ 5,258,240
<i>Notes Receivable - Noncurrent:</i>			
Federal Loan Programs	\$ 26,715,127	\$ 1,737,819	\$ 24,977,308
Institutional Student Loan Programs	7,822,284	564,799	7,257,485
UNC Healthcare System	11,264,842		11,264,842
Total Notes Receivable - Noncurrent	\$ 45,802,253	\$ 2,302,618	\$ 43,499,635

Pledges are receivable over varying time periods ranging from one to ten years, and have been discounted based on a projected interest rate of 0.584% for the outstanding periods, and allowances are provided for the amounts estimated to be uncollectible.

Scheduled receipts, the discounted amount under these pledge commitments, and allowances for uncollectible pledges are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 23,141,194
2017	15,158,160
2018	12,526,854
2019	11,060,273
2020	1,360,838
2021 - 2025	<u>5,578,537</u>
Total Pledge Receipts Expected	<u>68,825,856</u>
Less Discount Amount Representing Interest (0.584% Rate of Interest)	<u>883,584</u>
Present Value of Pledge Receipts Expected	67,942,272
Less Allowance for Doubtful Accounts	<u>1,652,182</u>
Pledges Receivable, Net	<u>\$ 66,290,090</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015, is presented as follows:

	<u>Balance July 1, 2014 (As Restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2015</u>
Capital Assets, Nondepreciable				
Land	\$ 63,488,953	\$ 470,000	\$ 470,000	\$ 63,488,953
Art, Literature, and Artifacts	120,456,393	2,097,726	5,750	122,548,369
Construction in Progress	44,257,307	60,544,344	5,275,912	99,525,739
Computer Software in Development	63,857,850		63,857,850	
Other Intangible Assets	<u>1,000,000</u>			<u>1,000,000</u>
Total Capital Assets, Nondepreciable	<u>293,060,503</u>	<u>63,112,070</u>	<u>69,609,512</u>	<u>286,563,061</u>
Capital Assets, Depreciable				
Buildings	2,915,129,355	29,096,792	7,644,045	2,936,582,102
Machinery and Equipment	404,754,103	34,777,761	21,565,042	417,966,822
General Infrastructure	954,189,670	3,722,913	4,775,768	953,136,815
Computer Software	<u>52,094,089</u>	<u>69,579,150</u>		<u>121,673,239</u>
Total Capital Assets, Depreciable	<u>4,326,167,217</u>	<u>137,176,616</u>	<u>33,984,855</u>	<u>4,429,358,978</u>
Less Accumulated Depreciation/Amortization for				
Buildings	900,937,750	78,838,990	2,269,319	977,507,421
Machinery and Equipment	214,357,885	27,021,889	15,000,234	226,379,540
General Infrastructure	343,543,503	24,479,462		368,022,965
Computer Software	<u>11,348,591</u>	<u>6,152,325</u>		<u>17,500,916</u>
Total Accumulated Depreciation/Amortization	<u>1,470,187,729</u>	<u>136,492,666</u>	<u>17,269,553</u>	<u>1,589,410,842</u>
Total Capital Assets, Depreciable, Net	<u>2,855,979,488</u>	<u>683,950</u>	<u>16,715,302</u>	<u>2,839,948,136</u>
Capital Assets, Net	<u>\$ 3,149,039,991</u>	<u>\$ 63,796,020</u>	<u>\$ 86,324,814</u>	<u>\$ 3,126,511,197</u>

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Accounts Payable	\$ 215,030,224
Accrued Payroll	41,870,658
Contract Retainage	1,876,631
Intergovernmental Payables	4,461,393
Investment Derivatives Liability	3,619,867
Total Accounts Payable and Accrued Liabilities	\$ 266,858,773

NOTE 7 - SHORT-TERM DEBT

Short-term debt activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Draws	Repayments	Balance June 30, 2015
Commercial Paper Program	\$ 18,000,000	\$ 10,000,000	\$ 0	\$ 28,000,000

The University manages a commercial paper ("CP") program under the issuer name of the Board of Governors of the University of North Carolina that provides up to \$500,000,000 in short-term financing for the University's and North Carolina State University's ("NCSU") capital improvement programs. Under this CP program, the University is authorized to issue up to \$400,000,000 and NCSU is authorized to issue up to \$100,000,000. Contingent liquidity needs for the entire CP program are provided by the University of North Carolina at Chapel Hill and supported by a pledge of the University's available funds.

The University will typically utilize the commercial paper program for construction financing and will periodically issue long-term bonds to refund the outstanding balances under this program in order to provide permanent financing for these capital improvement projects.

At its June 2012 meeting, the Board of Governors for the University of North Carolina issued a resolution to limit the cumulative amount of outstanding commercial paper for the University of North Carolina at Chapel Hill under this program to \$250,000,000. This resolution does not impact NCSU.

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Revenue Bonds Payable	\$ 1,373,770,000	\$ 265,600,000	\$ 291,840,000	\$ 1,347,530,000	\$ 119,478,506
Plus: Unamortized Premium	28,763,541		10,811,754	17,951,787	
Less: Unamortized Discount	(11,649,226)		(2,911,664)	(8,737,562)	
Total Revenue Bonds, Net	1,390,884,315	265,600,000	299,740,090	1,356,744,225	119,478,506
Net Pension Liability	194,278,679	0	156,477,247	37,801,432	0
Notes Payable	44,828,961	14,445,000	1,148,719	58,125,242	1,082,034
Capital Leases Payable	484,864		293,192	191,672	101,269
Compensated Absences	139,696,404	82,488,772	72,291,698	149,893,478	7,731,188
Annuity and Life Income Payable	12,226,176	408,895	757,950	11,877,121	1,436,261
Total Long-Term Liabilities	\$ 1,782,399,399	\$ 362,942,667	\$ 530,708,896	\$ 1,614,633,170	\$ 129,829,258

Additional information regarding capital lease obligations is included in Note 10.

Additional information regarding the net pension liability is included in Note 13.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Accretion on Capital Appreciation Bonds	Principal Outstanding 42,185	See Table Below
General Revenue Bonds Payable								
	2001B	4.592%*	12/01/2025	\$ 54,970,000	\$ 30,340,000	\$ 0	\$ 24,630,000	
	2001C	3.209%*	12/01/2025	54,970,000	30,340,000		24,630,000	
	2005A	4.250 - 5.000%	12/01/2034	404,960,000	271,350,000		133,610,000	
	2007	4.450 - 5.000%	12/01/2036	298,475,000			298,475,000	
	2009A	3.250 - 5.000%	12/01/2028	97,735,000	19,305,000		78,430,000	
	2009B	5.757%**	12/01/2039	112,805,000			112,805,000	
	2012A	4.295%*	12/01/2018	100,000,000			100,000,000	
	2012B	5.125%*	12/01/2020	100,000,000			100,000,000	
	2012C	0.815 - 3.596%	12/01/2033	127,095,000	6,635,000		120,460,000	
	2012D	1.400%	06/01/2042	30,000,000			30,000,000	
	2014	0.759-3.847%	12/01/2034	265,600,000			265,600,000	
Total General Revenue Bonds				1,646,610,000	357,970,000		1,288,640,000	
Utilities System	1997	5.400 - 5.500%	08/01/2021	30,379,142	25,245,000	45,018,295	50,152,437	(1)
U.S. EPA Project	1991	9.050%	02/15/2015	36,678,921	58,125,000	21,446,079		
Total Revenue Bonds Payable (principal only)				\$ 1,713,668,063	\$ 441,340,000	\$ 66,464,374	1,338,792,437	
Less: Unamortized Discount							(56,448)	
Plus: Unamortized Premium							18,008,237	
Total Revenue Bonds Payable, Net							\$ 1,356,744,225	

* For variable rate debt, interest rates in effect at June 30, 2015 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

** The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 32%

The University has pledged future revenues, net of specific operating expenses, to repay revenue bonds as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	Current Year				Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest		
(1)	Utilities Revenue	\$ 58,890,000	\$ 28,212,895	\$ 8,415,000	\$ 0		6%

- C. Demand Bonds** - Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the University’s remarketing or paying agents.

With regards to the following demand bonds, the University has not entered into legal agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

General Revenue, Series 2001B and 2001C

In 2001 the University issued two series of variable rate demand bonds in the amount of \$54.97 million (2001B) and \$54.97 million (2001C) that each has a final maturity date of December 1, 2025. The bonds are subject to mandatory sinking fund redemption on the interest payment date on or immediately preceding each December throughout the term of the bonds. The proceeds of these issuances were used to provide funds to refund in advance of their maturity the following issues: Ambulatory Care Clinic, Series 1990; Athletic Facilities, Series 1998; Carolina Inn, Series 1994; School of Dentistry, Series 1995; Kenan Stadium, Series 1996; Housing System, Series 2000; and Parking System, Series 1997C. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days’ notice and delivery to the University’s Remarketing Agents; J.P. Morgan Securities, Inc. (2001B) and Merrill Lynch, Pierce, Fenner & Smith Incorporated (2001C). Effective September 23, 2008, J.P. Morgan Securities, Inc. replaced Lehman Brothers, Inc.

The University entered into line of credit agreements in the amount of \$200 million with Wells Fargo Bank, N.A. (“the Bank”), \$100 million with Royal Bank of Canada (“the Bank”) and \$100 million with U.S. Bank, N.A. (“the Bank”) on September 19, 2014. Under each line of credit agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on Variable Rate Demand Bonds (or Commercial Paper Bonds) delivered for purchase. Under each line of credit agreement, the University may, at any time and for any reason, reduce the commitment by any amount upon 30 days prior written notice to the Bank.

The University is required to pay a quarterly facility fee for each line of credit in the amount shown below in the table per annum based on the

size of the commitment. If a long-term debt rating assigned by Standard & Poor's (S&P), Fitch Ratings (Fitch) or Moody's Investors Service (Moody's) is lowered, the facility fee assigned to the rating in the below table shall apply. In the event of a split rating (i.e., one or more of the rating agency's ratings is at a different level than the rating of either of the other rating agencies), the facility fee rate shall be determined as follows: (i) if two of the three ratings appear in the same level, the facility fee rate shall be based on that level; (ii) if no two ratings appear in the same level, the facility fee rate shall be based on the level which includes the middle of the three ratings.

S&P	Fitch	Moody's	Facility Fee		
			Wells Fargo	Royal Bank of Canada	U.S. Bank
AA+ or higher	AA+ or higher	Aa1 or higher	0.35%	0.27%	0.25%
AA	AA	Aa2	0.40%	0.32%	0.35%
AA-	AA-	Aa3	0.50%	0.37%	0.45%
A+	A+	A1	0.60%	0.47%	0.55%
A	A	A2	0.70%	0.57%	0.65%
A- or lower	A- or lower	A3 or lower	1.70%	1.57%	1.65%

The University will pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the bank rate multiplied by the ratio of the number of days from the date of purchase of the bonds until the date of payment of the accrued interest to 365 days.

Under each line of credit agreement, draws to purchase bonds will accrue interest at the bank rate payable on the same interest date as provided in the Series Indenture for the original bonds. The University is required to begin making a series of six fully amortizing semiannual principal payments on bonds held by the Bank six months after the date of funding. Commercial Paper Bonds held by the Bank may be rolled over for a period of 180 days and must be reduced by 1/6th of the original amount of the Commercial Paper Bonds for a period of up to five rollovers. All outstanding principal and accrued but unpaid interest is due in full at the maturity of the line of credit.

The line of credit agreement with U.S. Bank, N.A., Wells Fargo Bank, N.A., and Royal Bank of Canada expire on September 19, 2017, September 19, 2018 and September 18, 2019, respectively. These agreements are subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's. At June 30, 2015, no purchase drawings had been made under the line of credit.

General Revenue, Series 2012D

On December 14, 2012, the University issued a bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond

(Kenan Stadium Improvements Phase II), Series 2012D" (the "2012D Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to Kenan Stadium on the University's campus known as "Kenan Stadium Improvements, Phase II - Carolina Student Athlete Center for Excellence". On June 1, 2015, the terms of the 2012D Bond were modified, changing the principal amount to \$30 million and extending the maturity to June 1, 2042. All other terms listed below remained the same.

Interest will be payable on the 2012D Bond on the maturity date or, if sooner, the prepayment date of the 2012D Bond as permitted under the tender option or the prepayment options as referenced below. The unpaid principal balance of the 2012D Bond, together with all accrued and unpaid interest thereon will be due and payable in full on the maturity date in the event that the tender option or prepayment option is not exercised in advance of the maturity date.

The University shall be responsible for calculating the interest due on the 2012D Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). Payments of principal and interest on the 2012D Bond shall be made directly by the University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The University shall promptly notify the Trustee in writing of any such payments. Any payments of principal of and interest on the 2012D Bond made directly by the University to the Owner of the 2012D Bond will be credited against The Board of Governors of the University of North Carolina's (the "Board") obligation to cause payments to be made with respect to the 2012D Bond to the Debt Service Fund under the General Indenture.

The 2012D Bond may be tendered by the Owner of the 2012D Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the University and the Trustee.

The 2012D Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the Owner and the Trustee.

When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of Commercial Paper at the time of the payment to fund the obligation under the bond.

The unpaid principal balance of the 2012D Bond outstanding from time to time will bear interest at the Adjusted London Interbank Offered Rate (LIBOR) Rate. "Adjusted LIBOR Rate" means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by adding (1) the one month LIBOR plus (2) 1% per annum, which shall be adjusted monthly on the first day of

each LIBOR interest period; provided, however, for any particular LIBOR interest period, the Adjusted LIBOR Rate will not be less than 1.4% per annum.

With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take out agreements.

D. Capital Appreciation Bonds - The University's Series 1997 Utility System and the Series 1991 U.S. Environmental Protection Agency Project bond issues include capital appreciation bonds with an original issue amount of \$30,379,142 and \$3,828,921, respectively. These bonds are recorded in the amounts of \$50,152,438 (\$84,135,000 ultimate maturity less \$8,737,562 discount less \$25,245,000 principal paid) and \$0 (\$25,275,000 ultimate maturity less \$25,275,000 principal paid), respectively, which is the accreted value at June 30, 2015. The Series 1997 Utility System bond matures in 2021. The Series 1991 U.S. Environmental Protection Agency Project bond matured in 2015 and is paid in full.

E. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2015, are as follows:

Fiscal Year	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net*	Principal	Interest
2016	\$ 43,881,667	\$ 45,829,383	\$ 9,764,372	\$ 1,082,034	\$ 2,004,240
2017	60,918,333	45,254,106	8,606,848	20,281,345	1,880,877
2018	77,140,000	44,610,208	7,203,333	1,182,524	1,764,850
2019	77,745,000	43,920,197	4,662,703	1,236,076	1,711,298
2020	60,603,333	43,099,585	2,809,353	1,291,893	1,655,481
2021-2025	162,266,667	204,448,339	3,324,890	33,051,371	2,551,157
2026-2030	189,590,000	173,723,260	65,399		
2031-2035	478,405,000	108,749,383			
2036-2040	166,980,000	15,927,048			
2041-2045	30,000,000	805,000			
Total Requirements	\$ 1,347,530,000	\$ 726,366,509	\$ 36,436,898	\$ 58,125,243	\$ 11,567,903

Interest on the variable rate General Revenue Bonds 2001B is calculated at 0.03% at June 30, 2015.

Interest on the variable rate General Revenue Bonds 2001C is calculated at 0.02% at June 30, 2015.

Interest on the variable rate General Revenue Bonds 2012A is calculated at 0.58% at June 30, 2015.

Interest on the variable rate General Revenue Bonds 2012B is calculated at 0.88% at June 30, 2015.

Interest rates on General Revenue Bonds 2001 Series B and Series C are reset each week by the remarketing agent based upon a combination of the University's credit rating and market conditions.

Interest rates on General Revenue Bonds 2012 Series A and Series B are based on 67% of the 1-month LIBOR index rate plus an interest rate spread of 45 and 75 basis points for 2012 Series A and Series B, respectively.

This schedule also includes the debt service requirements for debt associated with interest rate swaps.

More detailed information about interest rate swaps is presented in Note 9 Derivative Instruments.

*Computed using (5.240% - 0.050%) x (\$22,000,000 - annual swap reduction); (3.314% - 0.1250%) x \$82,365,000 notional amount; and, (4.375% - 0.1250%) x \$150,000,000 notional amount.

The fiscal year 2016 principal requirements include demand bonds principal payments due for 2016 only. This differs from the amount disclosed as current in Note 8A Changes in Long-term Liabilities as the current portion of bonds payable includes all outstanding principal for the demand bonds. See Note 8C Demand Bonds.

The 2012AB Bonds have a maturity date of December 1, 2041. However, the bonds are issued initially in the Index Mode extending to the initial index tender dates of December 1, 2015 for Series 2012A and December 1, 2017 for Series 2012B. While in this mode, the bonds will bear interest at the index rate, which will be the rate per annum determined monthly equal to 67.0% of One Month LIBOR plus an applicable spread of 0.45% (45 basis points) for the 2012A Bonds and 0.75% (75 basis points) for the 2012B Bonds.

The 2012AB Bonds of each series in an Index Mode are subject to redemption, at the option of the University, in whole or in part, on any business day during the period beginning six months prior to the index tender date for such 2012AB Bonds, to and including such index tender date, at a redemption price equal to 100% of the principal amount of 2012AB Bonds called for redemption, plus accrued interest, if any, to the date of redemption. In addition, and also at the discretion of the University during the period beginning six months prior to the index tender date for such 2012AB Bonds, the interest rate can be reset which would trigger a redemption requirement and a remarketing.

If the funds available to purchase 2012AB Bonds of a series tendered on an index tender date are not sufficient to pay the purchase price of all such 2012AB Bonds, a Delayed Remarketing Period will commence on such index tender date and the failure to purchase such tendered 2012AB Bonds will not constitute an event of default under the Indentures. The Delayed Remarketing Period will continue to (but not include) the earlier of (a) the date on which all such 2012AB Bonds are successfully remarketed or (b) the date on which all of such 2012AB Bonds have been deemed to have been paid and are no longer outstanding.

During a Delayed Remarketing Period for a Series of 2012AB Bonds, unless the 2012AB Bonds of such Series have been remarketed, the 2012AB Bonds of such Series shall be subject to special mandatory redemption. Beginning with the first such June 1 or December 1 that occurs not less than six months following the date of commencement of the applicable Delayed Remarketing Period and ending on the sixth June 1 or December 1, the 2012AB Bonds shall be repaid in six equal (or as equal as possible) semiannual installments on the special mandatory redemption date established herein. The final installment will be due and payable no later than the sixth special mandatory redemption date after the commencement of the applicable Delayed Remarketing Period.

The Annual Requirements presents the 2012AB Bonds as amortizing in six semiannual payments as set forth in the Delayed Remarketing Period,

to be fully paid off in a period of three years after the respective index tender date established herein. If the bonds are successfully remarketed or refunded into a new bond in the future, and, therefore, not subject to the three-year amortization schedule after the initial index tender date, the total principal payments due in 2016 will reduce by \$16,666,667 to \$27,215,000, total principal payments in 2017 will reduce by \$33,333,333 to \$27,585,000, total principal payments in 2018 will reduce by \$50,000,000 to \$27,140,000, total principal payments in 2019 will reduce by \$50,000,000 to \$27,745,000, total principal payments in 2020 will reduce by \$33,333,333 to \$27,270,000, and total principal payments in 2021 will reduce by \$16,666,667 to \$27,045,000.

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

General Revenue Bonds, Series 2005 - On October 9, 2014, the University issued \$265,600,000 in The University of North Carolina at Chapel Hill Taxable General Revenue Refunding Bonds, Series 2014, refunding bonds with an average interest rate of 3.87%. The bonds were issued to advance refund \$250,000,000 of outstanding The University of North Carolina at Chapel Hill General Revenue Bonds, Series 2005A, bonds with an average interest rate of 4.99%. The net proceeds of the refunding bonds, along with additional University resources, were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by \$26,934,799 over the next 21 years and resulted in an economic gain of \$21,900,783. At June 30, 2015, the outstanding balance was \$250,000,000 for the defeased The University of North Carolina at Chapel Hill General Revenue Bonds, Series 2005A bonds.

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

Purpose	Financial Institution	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015
Real Property Purchase	Bank of America	3.550%	02/14/2024	\$ 9,250,000	\$ 4,818,348	\$ 4,431,652
Real Property Purchase	Bank of America	1.337%	04/30/2018	411,896	411,896	
Real Property Purchase	Aviva	5.000%	01/01/2022	36,500,000	1,956,410	34,543,590
Real Property Purchase	Wells Fargo	0.787%	10/02/2016	19,150,000		19,150,000
Total Notes Payable				<u>\$ 65,311,896</u>	<u>\$ 7,186,654</u>	<u>\$ 58,125,242</u>

The UNC-Chapel Hill Foundation, part of the University's reporting entity, has a line of credit agreement issued by Bank of America to finance the costs of projects benefiting the Foundation and/or the University, subject to the approval of the Board of Directors of the Foundation. The initial

amount of commitment was up to \$3,000,000. Prior to the original maturity date of June 30, 2013, the Foundation renewed the line of credit in the same commitment amount and with a new maturity date of June 30, 2015. Prior to the maturity date of June 30, 2015, the Foundation renewed the line of credit with a new commitment amount of up to \$4,000,000 and with a new maturity date of April 30, 2018. Under the commitment, advances under the line of credit accrue interest at the variable rate of the LIBOR Market Index plus 1.15%. An unused commitment fee is due each quarter calculated as 0.24% of the difference between the commitment amount and the average balance outstanding for the quarter and paid in arrears on a quarterly basis. If the Foundation utilizes the line of credit to purchase an asset on behalf of the University, and later sells such asset to the University, the University reimburses the Foundation the principal amount of the draw and all accrued interest and associated transaction expenses.

On July 1, 2009, the UNC Chapel Hill Foundation, Inc. and Chapel Hill Foundation Real Estate Holdings Inc., (collectively, the "Borrowers"; individually, the "Foundation", former, or "Real Estate Holdings", the latter), entered into a loan agreement with the Bank of America, N.A. for \$45,750,000 to fund the acquisition of student housing and rental real property.

On December 15, 2011, Real Estate Holdings transferred the condominiumized unit of Granville Towers to a newly established single asset limited liability corporation Granville Towers, LLC of which Real Estate Holdings is the sole member. On the same date, Granville Towers LLC obtained a loan from Aviva Life and Annuity Company in the amount of \$36,500,000 (Aviva Loan) for which the proceeds were used to pay down the referenced purchase financing with Bank of America in the original amount of \$45,750,000. This Aviva loan is secured by a first deed of trust on the condominium unit of Granville Towers. In general, the loan is non-recourse to both Real Estate Holdings and the Foundation, except for in the following instances: fraud, misrepresentation; delinquent taxes or other assessments; misapplication of potential condemnation awards or loss between the difference in the loan amount and insurance proceeds; environmental issue on the property; and a bankruptcy filing. Loan payments are based upon a 30-year amortization, but the loan carries an actual maturity date of January 1, 2022. During the committed term of this loan, the interest rate is fixed at 5%, and the monthly payments of principal and interest in the combined amount of \$195,939.89; all outstanding principal and accrued but unpaid interest is due at said maturity.

On December 15, 2011, the Borrowers executed a modification agreement with Bank of America with respect to the above loan in the original amount of \$45,750,000. The original principal balance of \$45,750,000 was paid down by \$36,500,000 with proceeds from the Aviva loan; the original maturity date of July 1, 2012, was extended to December 15, 2014; and the interest rate was changed to LIBOR plus 1.37%. Interest payments are made quarterly, and the principal balance

of the loan is due at maturity. The loan is unsecured, but is governed by a loan agreement with financial and other covenants on the Borrowers.

On February 14, 2014, the Borrowers executed another modification agreement with Bank of America with respect to the above loan in the original amount of \$45,750,000. The original principal balance of \$45,750,000 was paid down by \$36,500,000 with proceeds from the Aviva loan; the original maturity date of July 1, 2012, was extended to December 15, 2014; and the interest rate was changed to LIBOR plus 1.37%. This loan was then paid down by \$4,250,000. The remaining \$5,000,000 was then refinanced with a fixed interest rate of 3.550% and a final maturity date of February 14, 2024. Interest and principal payments are made monthly.

In addition, on October 3, 2013, the Kenan-Flagler Business School Foundation, part of the University's reporting entity, entered into a line of credit agreement with Wells Fargo Bank, N.A. in the aggregate principal amount up to \$30,000,000 to finance the construction of the Paul J. Rizzo Conference Center Phase III addition. Advances under the line of credit note accrue interest at the variable rate of the LIBOR Market Index Rate plus 0.60%. The line of credit note has a maturity date of October 2, 2016. At June 30, 2015, the total amount of draws against the line of credit note was \$19,150,000.

- H. **Annuities Payable** - The University participates in split-interest agreements with donors that require benefits payments for a specified period to a designated beneficiary out of assets held in trust for this purpose. At the end of the predetermined period (e.g., the lifetime of the beneficiary specified by the donor), the remaining assets of the trust revert to the University for its use or for a purpose specified by the donor. At the end of each fiscal year, annuities and life income payable to the beneficiaries is calculated using IRS issued 90CM table, taking into consideration beneficiary's age and the amount of the gift, and using IRS issued Life Table 90CM.

NOTE 9 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2015 are as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2015	
		Classification	Increase (Decrease)	Classification	Asset (Liability)
Hedging Derivative Instruments					
Cash Flow Hedges					
Pay-Fixed Interest Rate Swap	\$ 100,000,000	Deferred Outflow of Resources	\$ (4,248,982)	Hedging Derivative Liability	\$ (24,814,739)
Pay-Fixed Interest Rate Swap	150,000,000	Deferred Outflow of Resources	(9,366,938)	Hedging Derivative Liability	(71,991,262)
			<u>\$ (13,615,920)</u>		<u>\$ (96,806,001)</u>
Investment Derivative Instruments					
Pay Fixed Interest Rate Swap 2001B Bonds	16,895,000	Investment Income	\$ 208,612	Accounts Payable	\$ (3,619,867)
Foreign Equities Futures	(a)	Investment Income	3,444,577	Other Investments	11,019,312
U.S Dollar Equity Futures	48,072,960	Investment Income	8,340,464	Other Investments	49,156,842
Foreign Exchange Futures	(b)	Investment Income	(760,215)	Other Investments	19,239,785
Foreign Currency Futures	(157,717,950)	Investment Income	16,500,067	Other Investments	21,875,450
			<u>\$ 27,733,505</u>		<u>\$ 97,671,522</u>

(a) 1.2 Billion Yen

(b) 16.8 Million Euro

Hedging derivative instruments held at June 30, 2015 are as follows:

Type	Objective	Notional Amount	Effective Start Date	Termination End Date	Terms
Pay-Fixed Interest Rate Swap	Hedge Changes in Cash Flows on Variable Rate Debt	\$100,000,000	12/01/07	12/01/36	Pay 3.314%, Receive 67% 1 Mo. LIBOR
Pay-Fixed Interest Rate Swap	Hedge Changes in Cash Flows on Variable Rate Debt	\$150,000,000	12/01/11	12/01/41	Pay 4.375%, Receive 67% 1 Mo. LIBOR

The fair values of interest rate swaps at the University of North Carolina at Chapel Hill were provided by their financial advisor. The method used by their financial advisor calculated the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then

discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Hedging Derivative Risks

Interest Rate Risk: The University is exposed to interest rate risk on its interest rate swaps which is largely offset (or expected to be offset) by rates paid on variable-rate debt. In addition, the fair values of these instruments are highly sensitive to changes in interest rates. Because rates have declined significantly since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2015. The fair values are calculated as of June 30, 2015. As rates rise, the value of the swaps will increase, and as rates fall the fair value of the swaps will decrease.

Basis Risk: The University is exposed to basis risk on the swaps to the extent there is a mismatch between variable bond rates paid and swap index rates received.

Termination Risk: The swap agreements use the International Swaps and Derivatives Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swaps may mandatorily terminate if the University fails to perform under terms of the contract.

Investment Derivative Risks

Interest Rate Risk: The University is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. Because rates have changed since the effective date of the swap, the swap has a negative fair value of \$3,619,867 as of June 30, 2015. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The negative fair value is the calculated value as of June 30, 2015. As the yield curve rises, the value of the swap will increase and as rates fall, the value of the swap decreases. The University pays 5.24% and receives the Securities Industry and Financial Markets Association (SIFMA) Swaps Index rate. On June 30, 2015, SIFMA was 0.07%. The interest rate swap has a notional amount of \$16,895,000 and matures November 1, 2025.

Foreign Currency Risk: Foreign currency forward contracts are utilized from time to time to minimize the risk and exposure to fluctuations in the exchange rates of foreign currencies. Futures contracts based in foreign currency obligate the buyer to purchase an asset (or seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. See Note 2 Deposits and Investments for further information about the University's exposure to foreign currency risk.

NOTE 10 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations related to machinery and equipment 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, 2015:

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 200,937
Total Minimum Lease Payments	200,937
Amount Representing Interest (4.380% - 4.834% Rate of Interest)	9,265
Present Value of Future Lease Payments	<u>\$ 191,672</u>

Machinery and equipment acquired under capital lease amounted to \$1,081,131 at June 30, 2015. Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$294,904 at June 30, 2015.

- B. Operating Lease Obligations** - Future minimum lease payments under non-cancelable operating leases for equipment, buildings and land consist of the following at June 30, 2015:

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 6,153,928
2017	4,703,528
2018	3,710,470
2019	2,572,412
2020	2,344,305
2021-2025	5,313,395
Total Minimum Lease Payments	<u>\$ 24,798,038</u>

Rental expense for all operating leases during the year was \$27,947,827.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Less Indigent Care and Contractual Adjustments	Net Revenues
Operating Revenues						
Student Tuition and Fees	\$ 492,587,070	\$ 0	\$ 97,360,604	\$ 221,251	\$ 0	\$ 395,005,215
Patient Services	\$ 815,147,449	\$ 0	\$ 0	\$ 3,083,247	\$ 488,364,069	\$ 323,700,133
Sales and Services						
Professional Income	\$ 153,396,109	\$ 4,410,756	\$ 0	\$ 0	\$ 0	\$ 148,985,353
Residential Life	78,408,791		10,270,739			68,138,052
Athletic	57,815,777	23,175				57,792,602
Dining	34,881,975					34,881,975
Utilities	130,599,119	102,288,375				28,310,744
Parking	25,671,479	1,318,575				24,352,904
Student Stores	26,742,152	4,467,182	979,561			21,295,409
Other	54,442,045	33,974,482	250,726			20,216,837
UNC Management Company	11,604,305					11,604,305
Health, Physical Education, and Recreation Services	8,158,780		160,229			7,998,551
Telecommunications	18,808,308	11,124,342				7,683,966
Trademark License Program	7,317,731					7,317,731
Gene Therapy Center	6,117,931	204,380				5,913,551
School of Government	4,298,990					4,298,990
KFBS Center	2,434,924					2,434,924
Rental Property	2,424,150					2,424,150
Performing Arts Series	2,400,287					2,400,287
Doubletree Carolina Inn	1,640,400					1,640,400
Printing/Carolina Copy	2,196,932	625,893				1,571,039
ERP Student Fees	1,399,750					1,399,750
Repairs and Maintenance	26,993,939	26,639,449				354,490
Materials Management and Distribution	3,290,441	2,987,869				302,572
Student Union Services	446,916	186,099				260,817
Total Sales and Services	\$ 661,491,231	\$ 188,250,577	\$ 11,661,255	\$ 0	\$ 0	\$ 461,579,399
Nonoperating - Noncapital Gifts	\$ 156,120,869	\$ 0	\$ 0	1,055,776	\$ 0	\$ 155,065,093

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation and Amortization	Total
Instruction	\$ 531,344,803	\$ 21,650,672	\$ 130,323,817	\$ 0	\$ 473,777	\$ 0	\$ 683,793,069
Research	295,040,390	44,439,463	374,569,644		43,355		714,092,852
Public Service	73,806,847	12,273,988	66,339,537		240,136		152,660,508
Academic Support	77,404,591	9,547,258	23,321,545		143,612		110,417,006
Student Services	20,240,653	840,216	14,763,932		575		35,845,376
Institutional Support	74,438,401	11,826,069	44,590,917		49,624		130,905,011
Operations and Maintenance of Plant	48,191,877	10,762,050	30,165,808		72,896,708		162,016,443
Student Financial Aid				119,452,837			119,452,837
Auxiliary Enterprises	368,044,806	76,968,522	202,555,828		14,525,017		662,094,173
Depreciation and Amortization						136,492,666	136,492,666
Pension Expense	16,913,662						16,913,662
Total Operating Expenses	\$ 1,505,426,030	\$ 188,308,238	\$ 886,631,028	\$ 119,452,837	\$ 88,372,804	\$ 136,492,666	\$ 2,924,683,603

NOTE 13 - PENSION PLANS**A. Defined Benefit Plan**

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also

have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The University's contributions to the pension plan were \$41,292,272, and employee contributions were \$27,076,900 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *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.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the University reported a liability of \$37,801,432 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the University's proportion was 3.22%, which was an increase of 0.75% from its proportion measured as of June 30, 2013.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term

expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$271,364,896	\$37,801,432	(\$159,408,887)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the University recognized pension expense of \$16,913,662. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0	\$ 8,811,310
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		127,717,222
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	2,777,007	
Contributions Subsequent to the Measurement Date	41,292,272	
Total Deferred Inflows and Outflows of Resources Related to Pensions	\$ 44,069,279	\$ 136,528,532

\$41,292,272 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2016	\$ (33,521,490)
2017	(33,521,490)
2018	(33,521,490)
2019	(33,187,055)
2020	-
Total	\$ (133,751,525)

B. Defined Contribution Plan - The Optional Retirement Program (Program) is a defined contribution pension 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, 2015, 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 \$1,253,300,237, of which \$560,642,732 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$38,347,963 and \$33,638,564, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of \$1,332,015.

NOTE 14 - 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 (TSERS) or the Optional Retirement Program (ORP). 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 TSERS 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 5.49% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.40% and 5.30%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were \$55,554,649, \$53,247,759, and \$51,582,373, 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 TSERS and ORP. 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, 2015, the University made a statutory contribution of .41% of covered payroll under TSERS and ORP to the DIPNC. The required contribution rate for the years ended June 30, 2014, and 2013, was .44% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were \$4,148,890, \$4,338,706, and \$4,282,310, 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 15 - 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.

Public Officers and Employees Liability Insurance – 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 per employee through a contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

UNC Investment Fund, LLC (blended component unit) Liability Insurance – The UNC Investment Fund, LLC (UNC Investment Fund) is exposed to various risks of loss related to torts, theft of assets, and errors and omissions. The UNC Management Company, Inc. (Management Company) is a separate legal entity from The University of North Carolina System and the University. However, the Management Company's employees conduct UNC Investment Fund's affairs. Therefore, exposures to loss are handled by the purchase of commercial insurance by the Management Company. This insurance is independent of the risk management programs of The University of North Carolina System and the University.

Fire and Other Property Loss – 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. The University has opted to purchase additional coverages offered by the Fund. Examples of this additional coverage include special form (all-risk) and business interruption insurance for certain property exposures. 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.

Automobile Liability Insurance – 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.

Employee and Computer Fraud – 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.

Other authorized coverage not handled by the North Carolina Department of Insurance is purchased through the state's insurance agent of record. Examples include, but are not limited to, fine arts, boiler and machinery, medical professional liability, and study abroad health insurance.

Comprehensive Major Medical Plan – 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.

Liability Insurance Trust Fund – The University participates in the Liability Insurance Trust Fund (Trust Fund), a claims-servicing public entity risk pool for healthcare professional liability protection. The Trust Fund services professional liability claims, managing separate accounts for each participant from which the losses of that participant are paid. Although participant assessments are determined on an actuarial basis, ultimate liability for claims remains with the participants and, accordingly, the insurance risks are not transferred to the Trust Fund.

The Trust Fund is an unincorporated entity created by Chapter 116, Article 26, of the *North Carolina General Statutes* and The University of North Carolina Board of Governors Resolution of June 9, 1978. The Trust Fund is a self-insurance program established to provide professional medical malpractice liability covering The University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) and The University of North Carolina at Chapel Hill Faculty Physicians (UNC Faculty Physicians), the program participants. The Trust Fund provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of program participants. The Trust Fund is exempt from federal and state income taxes, and is not subject to regulation by the North Carolina Department of Insurance.

Participation in the Trust Fund is open to the University of North Carolina, any constituent institution of the University of North Carolina, the UNC Hospitals, and any health care institution, agency or entity that has an affiliation agreement with the University of North Carolina, with a constituent institution of the University of North Carolina, or with the UNC Hospitals. Only UNC Faculty Physicians and UNC Hospitals have participated in the Trust Fund to date. Participants provide management and administrative services to the Trust Fund at no cost.

The Trust Fund is governed by the Liability Insurance Trust Fund Council (the Council). The Council consists of 13 members as follows: one member each appointed by the State Attorney General, the State Insurance Commissioner, the Director of the Office of State Budget and Management, the State Treasurer (each serving at the pleasure of the appointer); and nine members appointed by the UNC System's Board of Governors.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future expenses and claim adjustment expenses) that have been reported but not settled and of claims incurred but not reported. Claim liabilities are recomputed annually based on an independent actuary's study to produce current estimates that reflect recent settlements, claims frequency, inflation, and other factors. Participant assessments are determined at a level to fund claim liabilities, discounted for future investment earnings. Each participant is required by statute to maintain a fund balance of \$100,000 at all times. Participants are subject to additional premium assessments in the event of deficiencies.

For the period July 1, 2014 through June 30, 2015, the Trust Fund provided coverage on an occurrence basis of \$3,000,000 per individual and \$7,000,000 in the aggregate per claim. Effective July 1, 2006, in lieu of purchasing commercial reinsurance, participants contributed approximately \$10,000,000 to a reimbursement fund for future losses. Prior to July 1, 2006, the Trust Fund entered into an excess of loss agreement with an unaffiliated reinsurer.

For the fiscal year ending June 30, 2015, the Trust Fund purchased a direct insurance policy to cover the first \$1,000,000 per occurrence and \$3,000,000 in the aggregate for dental residents. North Carolina General Statutes Chapter 116 was amended during 1987 to authorize the Trust Fund to borrow necessary amounts up to \$30,000,000, in the event that the Trust Fund may have insufficient funds to pay existing and future claims. Any such borrowing would be repaid from the assets and revenues of program participants. No line of credit or borrowing has been established pursuant to this authorization. The Council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

The Trust Fund has purchased annuity contracts to settle claims for which the claimant has signed an agreement releasing the Fund from further obligation. The related claim liabilities have been removed from estimated malpractice costs.

The Council may choose to terminate the Trust Fund, or the respective participants may choose to terminate their participation. In the event of such termination by either the Council or a participant, an updated actuarial study will be performed to determine amounts due to or from the participants based on loss experience up to the date of termination.

At June 30, 2015, University assets in the Trust Fund totaled \$26,842,273 while University liabilities totaled \$20,156,344 resulting in net assets of \$6,685,929.

Additional disclosures about the funding status and obligations of the Trust Fund are set forth in the Audited Financial Statements of the Liability Insurance Trust Fund. Copies of this report may be obtained from The University of North Carolina Health Care System, 211 Friday Center Drive, Hedrick Building, Room 2029, Chapel Hill, NC 27517.

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 16 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has commitments of \$57,841,632 for various capital improvements projects that include construction and completion of new buildings, and renovations of existing buildings.

The UNC Investment Fund, LLC (UNC Investment Fund) has entered into agreements with limited partnerships to invest capital. These agreements represent the funding of capital over a designated period of time and are subject to adjustments. As of June 30, 2015, the UNC Investment Fund had approximately \$866,162,660 unfunded committed capital.

- B. Pending Litigation and Claims** – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management believes that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

- C. 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:

Purpose	Amount
Pledges to Permanent Endowments	\$ 31,173,491

NOTE 17 - RELATED PARTIES

There are 14 separately incorporated non-profit foundations associated with the University. These foundations are the Botanical Garden Foundation, Inc., The Dental Alumni Association, Inc., The Dental Foundation of North Carolina, Inc., The Educational Foundation, Inc., The General Alumni Association, The School of Government Foundation, Inc., The Morehead-Cain Scholarship Fund, UNC Eshelman School of Pharmacy Foundation, The School of Journalism and Mass Communication Foundation of North Carolina, Inc., The University of North Carolina at Chapel Hill Public Health Foundation, Inc., The University of North Carolina at Chapel Hill School of Nursing Foundation, Inc., The School of Social Work Foundation, Inc., James B. Hunt, Jr. Institute for Educational Leadership and Policy Foundation, Inc. and Carolina for Kibera, Inc. Some of these organizations serve, in conjunction with the University's component units (See Note 1A), as the primary fundraising arm of the University through which 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. The alumni associations provide educational opportunities or other services to alumni. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of these organizations, except for support from each organization to the University. This support totaled \$41,600,066 for the year ended June 30, 2015.

NOTE 18 - INVESTMENT IN JOINT VENTURES

The University is a member of the Southern Observatory for Astronomical Research Consortium (SOAR), a joint venture accounted for under the equity method and valued \$8,318,917. The University is partners with Michigan State University, U.S. National Optical Astronomy Observatory, and the Ministry of Science and Technology of the Federal Republic of Brazil. SOAR designed, constructed, and now operates a 4.1 meter telescope with instrumentation and related support buildings located at Cerro Pachon, a mountain in central Chile. The SOAR agreement allocates the University 16.7% of observing time until 2023. The audited financial statements for SOAR may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of the Carolina Vascular Access Center, a joint venture accounted for under the ongoing financial responsibility method and valued at \$1,214,218. The University is partners with Capital Nephrology and Durham Nephrology and has a 40.0% share. This joint venture provides dialysis services to patients in Orange, Durham and Wake counties. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of the Carolina Behavioral Health Alliance, a joint venture accounted for under the ongoing financial responsibility method and

valued at \$167,500. The University is partners with Wake Forest Baptist Medical Center and East Carolina University and has a 33.3% share. The joint venture specializes in managed mental health benefit plans serving the Winston-Salem and Charlotte areas. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

NOTE 19 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2015, is presented as follows:

*Condensed Statement of Net Position
June 30, 2015*

	The University of North Carolina at Chapel Hill	UNC Investment Fund, LLC	The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	The University of North Carolina at Chapel Hill Foundation, Inc.	UNC Intermediate Pool, LLC	Other Blended Component Units*	Eliminations	Total
ASSETS								
Current Assets	\$ 1,645,755,896	\$ 17,626,711	\$ 0	\$ 31,102,155	\$ 72,222,276	\$ 41,179,601	\$ 0	\$ 1,807,886,639
Capital Assets	3,058,812,492			42,983,811		24,714,894		3,126,511,197
Other Noncurrent Assets	(1,097,854,821)	4,718,246,805	2,885,459,966	347,831,122	412,036,834	142,987,397	(3,291,633,432)	4,117,073,871
Total Assets	3,606,713,567	4,735,873,516	2,885,459,966	421,917,088	484,259,110	208,881,892	(3,291,633,432)	9,051,471,707
TOTAL DEFERRED OUTFLOWS OF RESOURCES	144,358,897							144,358,897
LIABILITIES								
Current Liabilities	553,795,833	15,392,686	1,542,135	10,940,406	213,405	7,272,456	(1,542,135)	587,614,786
Noncurrent Liabilities	1,620,539,468			85,324,332		24,553,340	2,074,358,608	3,804,775,748
Total Liabilities	2,174,335,301	15,392,686	1,542,135	96,264,738	213,405	31,825,796	2,072,816,473	4,392,390,534
TOTAL DEFERRED INFLOWS OF RESOURCES	136,528,532							136,528,532
NET POSITION								
Net Investment in Capital Assets	1,664,589,180			20,349,415		2,009,980		1,686,948,575
Restricted - Nonexpendable	(2,201,304,858)	4,720,480,830	2,883,917,831	140,288,492	484,045,705	110,570,399	(5,364,449,905)	773,548,494
Restricted - Expendable	1,291,296,767			120,178,679		41,532,145		1,453,007,591
Unrestricted	685,627,542			44,835,764		22,943,572		753,406,878
Total Net Position	\$ 1,440,208,631	\$ 4,720,480,830	\$ 2,883,917,831	\$ 325,652,350	\$ 484,045,705	\$ 177,056,096	(5,364,449,905)	\$ 4,666,911,538

*Other Blended Component Units include UNC Management Company, Inc., The Kenan-Flagler Business School Foundation, U.N.C. Law Foundation, Inc., and The University of North Carolina at Chapel Hill School of Education Foundation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2015

	The University of North Carolina at Chapel Hill	UNC Investment Fund, LLC	The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	The University of North Carolina at Chapel Hill Foundation, Inc.	UNC Intermediate Pool, LLC	Other Blended Component Units *	Eliminations	Total
OPERATING REVENUES								
Sales and Services	\$ 1,143,156,753	\$ 0	\$ 0	\$ 11,695,467	\$ 0	\$ 25,432,527	\$ 0	\$ 1,180,284,747
Other Operating Revenues	841,276,481			8,834,162		889,391		851,000,034
Total Operating Revenues	1,984,433,234			20,529,629		26,321,918		2,031,284,781
OPERATING EXPENSES								
Operating Expenses	2,726,621,560			36,482,012		25,087,365		2,788,190,937
Depreciation	136,492,666							136,492,666
Total Operating Expenses	2,863,114,226			36,482,012		25,087,365		2,924,683,603
Operating Income (Loss)	(878,680,992)			(15,952,383)		1,234,553		(893,398,822)
NONOPERATING REVENUES (EXPENSES)								
Investment Income, Net	82,064,117	394,804,136	255,602,667	24,643,552	15,587,112	8,387,396	(585,682,243)	195,406,737
Other, Net	666,149,528	103,086,688	(11,719,325)	(6,248,788)	(1,307,112)	7,170,389	11,719,325	768,850,705
Net Nonoperating Revenues (Expenses)	748,213,645	497,890,824	243,883,342	18,394,764	14,280,000	15,557,785	(573,962,918)	964,257,442
Additions to Endowments	11,473,705			5,296,089		2,927,498		19,697,292
Increase (Decrease) in Net Position	(118,993,642)	497,890,824	243,883,342	7,738,470	14,280,000	19,719,836	(573,962,918)	90,555,912
NET POSITION								
Net Position, July 1, 2014 (As Restated)	1,559,202,273	4,222,590,006	2,640,034,489	317,913,880	469,765,705	157,336,260	(4,790,486,987)	4,576,355,626
Net Position, June 30, 2015	\$ 1,440,208,631	\$ 4,720,480,830	\$ 2,883,917,831	\$ 325,652,350	\$ 484,045,705	\$ 177,056,096	\$ (5,364,449,905)	\$ 4,666,911,538

*Other Blended Component Units include UNC Management Company, Inc., The Kenan-Flagler Business School Foundation, U.N.C. Law Foundation, Inc., and The University of North Carolina at Chapel Hill School of Education Foundation, Inc.

Condensed Statement of Cash Flows June 30, 2015

	The University of North Carolina at Chapel Hill	The University of North Carolina at Chapel Hill Foundation, Inc.	Other Blended Component Units *	Total
Net Cash Provided (Used) by Operating Activities	\$ (707,216,514)	\$ (9,211,942)	\$ 3,749,047	\$ (712,679,409)
Net Cash Provided (Used) by Noncapital Financing Activities	938,214,239	3,476,438	(528,659)	941,162,018
Net Cash Provided (Used) by Capital and Related Financing Activities	(181,072,143)	(3,615,452)	1,046,230	(183,641,365)
Net Cash Provided (Used) by Investing Activities	(316,266,595)	10,079,431	3,749,844	(302,437,320)
Net Increase (Decrease) in Cash and Cash Equivalents	(266,341,013)	728,475	8,016,462	(257,596,076)
Cash and Cash Equivalents, July 1, 2014	646,817,273	29,393,462	21,422,547	697,633,282
Cash and Cash Equivalents, June 30, 2015	\$ 380,476,260	\$ 30,121,937	\$ 29,439,009	\$ 440,037,206

*Other Blended Component Units include UNC Management Company, Inc., The Kenan-Flagler Business School Foundation, U.N.C. Law Foundation, Inc., and The University of North Carolina at Chapel Hill School of Education Foundation, Inc.

NOTE 20 - NET POSITION RESTATEMENTS

As of July 1, 2014, net position as previously reported was restated as follows

	Amount
July 1, 2014 Net Position as Previously Reported	\$ 4,772,846,849
Restatements:	
Correct Understated Accounts Payable for Federal Direct Loans	(73,762,558)
Erroneously Recognized as Revenue	
Clarification of Ownership of Ackland Art Collection - Recognized as Capital Asset	31,910,630
Record the University's Net Pension Liability and Pension-Related	
Deferred Outflows of Resources Per GASB 68 Requirements.	(154,639,295)
July 1, 2014 Net Position as Restated	\$ 4,576,355,626

NOTE 21 - SUBSEQUENT EVENTS

General Revenue Bonds 2012A in the amount of \$100,000,000 were initially issued in an Index Mode, with an initial tender date of December 1, 2015. On or before that date, the University plans to draw Commercial Paper Bonds to fund a redemption of the entire series of General Revenue 2012A Bonds.

On October 30, 2015, the Board of Governors of the University of North Carolina System approved the issuance of General Revenue Bonds not to exceed \$593,000,000. The issued amount is expected to refund up to \$128,580,000 of General Revenue Bonds 2005A, up to \$298,475,000 General Revenue Bonds 2007, and up to \$133,000,000 of outstanding Commercial Paper Bonds. The Commercial Paper Bonds under refund consideration includes \$100,000,000 used to fund the redemption of the General Revenue Bonds 2012A, in addition to up to \$33,000,000 of outstanding Commercial Paper Bonds. The University plans to issue the 2016 Series General Revenue Bonds in February 2016.



REQUIRED SUPPLEMENTARY INFORMATION

**The University of North Carolina at Chapel Hill
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years**

Exhibit C-1

	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	3.22%	3.20%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 37,801,432	\$ 194,278,679
Covered-Employee Payroll	\$ 457,366,996	\$ 460,281,538
Net Pension Liability as a Percentage of Covered-Employee Payroll	8.27%	42.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

**The University of North Carolina at Chapel Hill
Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years**

Exhibit C-2

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contribution	\$ 41,292,272	\$ 39,745,192	\$ 38,341,452	\$ 33,975,672	\$ 23,308,729
Contributions in Relation to the					
Contractually Determined Contribution	<u>41,292,272</u>	<u>39,745,192</u>	<u>38,341,452</u>	<u>33,975,672</u>	<u>23,308,729</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-Employee Payroll	\$ 451,281,663	\$ 457,366,996	\$ 460,281,538	\$ 456,662,258	\$ 472,793,699
Contributions as a Percentage of					
Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually Required Contribution	\$ 16,632,618	\$ 15,756,451	\$ 13,032,159	\$ 10,668,088	\$ 8,587,084
Contributions in Relation to the					
Contractually Determined Contribution	<u>16,632,618</u>	<u>15,756,451</u>	<u>13,032,159</u>	<u>10,668,088</u>	<u>8,587,084</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-Employee Payroll	\$ 465,899,657	\$ 468,941,991	\$ 427,283,896	\$ 401,055,925	\$ 366,969,405
Contributions as a Percentage of					
Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

***The University of North Carolina at Chapel Hill
Replied Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015***

Changes of Benefit Terms:

<u>Cost of Living Increase</u>								
<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
The University of North Carolina at Chapel Hill
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 at Chapel Hill, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated January 13, 2016. Our report includes a reference to other auditors who audited the financial statements of the UNC Investment Fund, LLC, and the discretely presented component units, as described in our report on the University's financial statements. The financial statements of the UNC Investment Fund, LLC and the discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the UNC Investment Fund, LLC and the discretely presented component units.

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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or

significant deficiencies may exist that were not identified. However, as described in the accompanying Audit Findings and Responses section, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Audit Findings and Responses section to be material weaknesses.

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*.

University's Response to Findings

The University's response to the finding identified in our audit are described in the accompanying Audit Findings and Responses section. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

January 13, 2016



FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent deficiencies in internal control.

FINANCIAL STATEMENTS CONTAINED SIGNIFICANT MISSTATEMENTS AND OMISSIONS

Financial statements and notes prepared by the University and submitted for audit, as well as submitted to Office of State Controller for inclusion in the State's *Comprehensive Annual Financial Report*, contained significant misstatements and omissions that were corrected as a result of our audit as follows:

- A. The University did not ensure that the implementation of the new financial system would not affect their ability to produce fairly stated financial statements and required disclosures in a timely and accurate manner. The University:
- Did not have the ability to produce queries¹ and reports necessary for financial reporting until after year-end.
 - Failed to complete the data conversion in the new system within the Office of Sponsored Research resulting in incomplete and inaccurate information used in preparing the financial statements.

The following misstatements resulted from the implementation errors noted above and were identified and corrected as a result of the audit:

Account	Overstated/ (Understated)	Percentage *
Current Restricted Cash	\$ 242,638,749	133%
Noncurrent Restricted Cash	(242,734,494)	99%
Services Expense	117,268,922	13%
Intergovernmental Receivables	(83,547,761)	45%
Federal Grants and Contracts Revenue	60,064,884	8%
Nongovernmental Grants and Contracts Revenue	(23,173,566)	22%
Noncapital Grants - Student Financial Aid Revenue	16,228,140	45%
State and Local Grants and Contracts Revenue	15,503,030	90%

* Percentage of the overstatement or understatement to the final audited account balance

- B. The University made errors in the process to “blend” certain component units² required to be reported as part of the University reporting entity when preparing the financial statements.

¹ Queries are used as a reporting tool to retrieve a visual representation of the information from the system database.

² See Note 1 Significant Accounting Policies in the University's Notes to the Financial Statements

The following misstatements resulted from the blending errors noted above and were identified and corrected as a result of the audit:

Account	Overstated/ (Understated)	Percentage*
Investment Income, Net	\$ 98,881,857	51%
Funds Held in Trust for Pool Participants	(88,926,829)	4%
Accounts Payable	99,394,406	46%
Accounts Receivable	72,526,871	185%
Other Nonoperating Revenue	(36,801,663)	91%

* Percentage of the overstatement or understatement to the final audited account balance

- C. The Statement of Cash Flows, Management's Discussion and Analysis, and the required blended component unit note disclosure (Note 19) were not included as part of the financial statement package submitted for audit. These items were submitted significantly later. Further, in addition to the misstatements listed above, the University made other significant errors and omissions requiring correction in the financial statements as follows:

Account	Overstated/ (Understated)	Percentage*
Total Net Position	\$ 56,214,127	1%
Restricted Nonexpendable Departmental Uses	154,853,472	106%
Restricted Expendable Departmental Uses	(68,023,139)	15%
Unrestricted Net Position	(24,501,879)	3%
Restricted Nonexpendable Scholarships and Fellowships	24,102,149	15%
Restricted Expendable Scholarships and Fellowships	(21,647,738)	11%
Restricted Expendable Research	(12,133,390)	75%
Accounts Payable	(73,762,555)	34%
Beginning Net Position	73,762,555	2%
Restricted Short-Term Investments	(20,049,489)	7%
Restricted Investments	12,805,556	1%
Short-Term Investments	6,919,824	1%
Patient Receivables	(17,187,091)	36%
Accounts Receivables	17,187,091	44%
Patient Services Revenue	10,411,861	3%
Professional Income	(10,411,861)	7%
Scholarships and Fellowships Expense	14,140,910	12%
Student Tuition and Fees Revenue	12,624,037	3%

* Percentage of the overstatement or understatement to the final audited account balance

Without these error corrections and inclusion of all required statements and disclosures, users of the financial statements could be misinformed about the University's financial condition, including sufficiency and flexibility of resources, asset performance, debt management and operating results.

The omissions and errors in financial reporting occurred and were not detected and corrected by the University, in part because:

- The University did not adequately assess the impact of the implementation of a new financial accounting system on the financial reporting process. Further, the University did not provide sufficient and appropriate resources necessary for timely, accurate, and complete year-end reporting.
- The University did not fully understand the blending process in the new accounting system related to the component units that are reported as part of the University.
- The University did not perform a complete and thorough review of the financial statements prior to submission for audit.

The University's management is responsible for the fair presentation of the financial statements and related notes to the financial statements in conformity with accounting principles generally accepted in the United States of America. Additionally, the Committee of Sponsoring Organizations (COSO) *Internal Control – Integrated Framework*³ states that organizations develop information systems to source, capture, and process large volumes of data into meaningful and actionable information. Management establishes information management policies with clear responsibility and accountability for the quality of information. COSO further states that maintaining quality of information is necessary to an effective internal control system.

Further, best practices require management to periodically review and analyze financial information. The Government Accountability Office (GAO) recommends that senior management should regularly review actual performance against prior period results. The GAO also recommends that “financial and program managers review and compare financial, budgetary, and operational performance to planned or expected results.”⁴

Recommendations

The University should ensure that appropriate and adequate resources are provided to ensure:

- The impact of implementation and/or modifications of systems on financial reporting are adequately considered,
- Employees are provided with a sufficient understanding of the new or modified systems and their impact on the financial reporting process,
- A knowledgeable individual, or group of individuals, perform a complete and thorough review of the financial statements and related information to ensure timely, accurate, and complete year-end reporting.

University Response

See pages 92-94 for The University of North Carolina at Chapel Hill's response.

³ Committee of Sponsoring Organizations, *Internal Control – Integrated Framework*, May 2013

⁴ Government Accountability Office, *Internal Control Management and Evaluation Tool*, 2001



THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

CAROL L. FOLT
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February 5, 2016

Ms. Beth A. Wood, CPA
State Auditor
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600

Dear Ms. Wood:

I am writing in response to your January 19 letter that outlines your audit findings for the University of North Carolina at Chapel Hill's financial statement for fiscal 2015. I would like to thank you and your team for the time you have spent with the University during the audit process, and I greatly appreciate your cooperation.

As we have agreed, the university's position remains strong as evidenced by our financial statements, and these financials are accurate, as affirmed by your unqualified opinion. I want to assure you, however, that I am holding our team accountable to make certain that the errors and omissions that you identified, and we corrected during the audit period, do not occur again. I will outline in more detail the numerous steps we have taken in response to your recommendations.

Many of the issues were directly related to the timing and ongoing nature of implementation of a new financial, accounting, human resources and grant management system that was urgently needed to replace more than 25 years of outdated technology on our campus. We should have better anticipated that an undertaking of that size would come with significant challenges. We also transitioned to the new system midway through the fiscal year and encountered problems with conversions. Additionally, we had to address the unexpected retirement of the University's controller of almost 22 years. These factors created enormous challenges for us, but I assure you that this was a one-time incident. Carolina has a long history of timely audits and unqualified opinions, and we fully intend to restore that record.

We agree with your office's findings and recommendations and have outlined our response below.

Auditor's recommendation: Ensure that appropriate and adequate resources are provided to ensure the impact of implementation and/or modifications of systems on financial reporting are adequately considered.

In response, we have:

- Fully transitioned to a new financial, accounting, human resources and grant management system, so conversion issues will not continue to be a factor.
- Engaged Huron Consulting Group, a nationally recognized firm, to conduct an organizational review of our structure and staffing levels and develop a proactive action plan to maximize efficiency and effectiveness under the new system.
- Significantly increased the staffing in the Finance Business Analysis unit, a group that serves as the dedicated liaison between the central accounting functions and Information Technology Services for the financial, accounting, human resources and grant management system.
- Hired a new Director of Campus Financial Reporting, Analytics, and Business Intelligence to support data-driven review and analyses of financial operations and activities. This person has expertise in designing financial reporting tools and analyzing financial data.
- Launched a national search for a new University Controller. This person will have expertise in generally accepted accounting principles, GASB standards, external financial reporting, audit procedures, providing support to an audit staff, and managing an accounting team in a complex business environment.
- Appointed an interim controller to provide leadership during the transition period.
- Established a cross-functional governance structure from the areas of finance and accounting, the Finance Business Analysis unit and Information Technology Services. Representatives from each group meet weekly to assess the needs associated with the financial, accounting, human resources and grant management system and the impact on financial reporting.

Auditor's recommendation: The University should ensure that appropriate and adequate resources are provided to ensure employees are provided with a sufficient understanding of the new or modified systems and their impact on the financial reporting process.

The University has and will continue to:

- Improve and expand classroom and computer-based training to all users of the financial system.
- Offer advanced training on specialized tools, such as data integrity and reconciliations.
- Hold weekly meetings within finance and accounting and with the Office of Sponsored Research to discuss accounting and reporting issues and how to address them.

Auditor's recommendation:

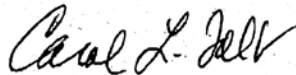
The University should ensure that appropriate and adequate resources are provided to ensure a knowledgeable individual, or group of individuals, perform a complete and thorough review of the financial statements and related information to ensure timely, accurate, and complete year-end reporting.

Under the direct oversight of Vice Chancellor of Finance and Administration, we will:

- Review accounting entries and year-end processes and reconciliations to ensure the general ledger is closed and accounts are analyzed in a timely manner.
- Examine the accounts for all component units included in the blending process to ensure the blended financial statements are accurately presented.
- Plan the year-end close and preparation of the financial statements within a timetable that will allow effective review and preparation of all required statements and disclosures prior to them being submitted to the State Auditor's office.

We take seriously our responsibility to report accurate financials in a timely manner. Moving forward, we will continue to evaluate the steps we have taken and implement other initiatives as needed to ensure that Carolina remains in a strong financial position. We deeply value every investment made in Carolina, and we are committed to doing everything we can to preserve and protect its sound financial future and to work with you and your staff in a very collaborative manner.

Sincerely,



Carol L. Folt
Chancellor

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