

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



UNIVERSITY OF NORTH CAROLINA GENERAL ADMINISTRATION

CHAPEL HILL, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2016

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



NCOSA
The Taxpayers' Watchdog

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
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Governors, University of North Carolina General Administration

We have completed a financial statement audit of the University of North Carolina General Administration for the year ended June 30, 2016, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
COLLEGE EXHIBITS	
A-1 STATEMENT OF NET POSITION.....	10
A-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION.....	12
A-3 STATEMENT OF CASH FLOWS.....	13
NOTES TO THE FINANCIAL STATEMENTS	15
REQUIRED SUPPLEMENTARY INFORMATION	
B-1 SCHEDULE OF THE PROPORTIONATE NET PENSION LIABILITY (TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM)	40
B-2 SCHEDULE OF COLLEGE CONTRIBUTIONS (TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM)	41
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM).....	42
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 <i>GOVERNMENT AUDITING STANDARDS</i>	43
ORDERING INFORMATION	45



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
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the University of North Carolina General Administration (UNC GA), the administrative body of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise UNC GA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina General Administration, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 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 March 24, 2017 on our consideration of UNC GA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the UNC GA's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 24, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The University of North Carolina General Administration (UNC GA) provides this overview and management's discussion and analysis to assist in understanding the financial statements and notes to the financial statements presented herewith for the year ended June 30, 2016, and includes comparative data for the year ended June 30, 2015. This discussion describes important trends and events that have impacted the fiscal health of UNC GA and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of UNC GA's management along with the financial statements and the notes thereto. The report should be read and considered in its entirety.

Using the Annual Report

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

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

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

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

Reporting Entity

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

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

Financial Highlights

UNC GA's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2016. The condensed net position for UNC GA decreased by \$7,377,560.10 or (5.33%) compared to the prior year net position. UNC GA's endowment performance return in the UNC Investment Fund, LLC dropped to (2.18%) from 9.04% from last fiscal year.

Summary of Net Position

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

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

Condensed Statement of Net Position

	2016	2015	Increase/ (Decrease)	Percent Change
Assets:				
Current Assets	\$ 36,435,444.26	\$ 36,916,124.06	\$ (480,679.80)	(1.30%)
Noncurrent Assets:				
Other	81,256,490.38	87,535,024.99	(6,278,534.61)	(7.17%)
Capital Assets	36,559,828.43	37,570,366.10	(1,010,537.67)	(2.69%)
Total Assets	154,251,763.07	162,021,515.15	(7,769,752.08)	(4.80%)
Deferred Outflows Related to Pensions	1,915,210.00	1,933,694.00	(18,484.00)	(0.96%)
Liabilities:				
Current Liabilities	15,149,231.91	14,189,520.90	959,711.01	6.76%
Long-Term Liabilities	8,943,385.93	6,067,485.92	2,875,900.01	47.40%
Total Liabilities	24,092,617.84	20,257,006.82	3,835,611.02	18.93%
Deferred Inflows Related to Pensions	1,001,925.00	5,248,212.00	(4,246,287.00)	(80.91%)
Net Position:				
Net Investment in Capital Assets	35,950,993.53	37,243,111.65	(1,292,118.12)	(3.47%)
Restricted:				
Nonexpendable	15,110,373.47	36,438,465.84	(21,328,092.37)	(58.53%)
Expendable	57,252,046.82	43,507,504.90	13,744,541.92	31.59%
Unrestricted	22,759,016.41	21,260,907.94	1,498,108.47	7.05%
Total Net Position	\$ 131,072,430.23	\$ 138,449,990.33	(7,377,560.10)	(5.33%)

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

As of June 30, 2016, total UNC GA net position was \$131.07 million. UNC GA's net investment in capital assets of \$35.95 million represents 27.43% of total net position. The difference between the restricted nonexpendable and restricted expendable net position categories compared to last fiscal year is due to an endowment reclassification of accumulated fair market value. The restricted nonexpendable endowment has been adjusted to the values of the original gifts.

Total assets decreased by \$7.77 million or (4.80%) primarily due to a decrease in restricted and endowment investments from poor market investment performance. UNC GA's liabilities totaled \$24.09 million at June 30, 2016. Current liabilities, which include accounts payable, unearned revenue, and funds held for others, increased by \$0.96 million, or 6.76%, primarily due to the increase in unearned revenue related to new account receivable billings for the next fiscal year. Long-term liabilities of \$8.94 million represent net pension liability, notes payable, and compensated absences. Total long-term liabilities increased by \$2.88 million or 47.40% primarily due to the net pension liability increase of \$2.92 million or 200.67%. Details of both current and noncurrent liabilities are shown on the Statement of Net Position and in Notes 7 and 8. Deferred inflows related to pensions decreased by \$4.25 million or (80.91%) due primarily to the recognition of differences between projected and actual investment earnings of the defined benefit pension plan, in accordance with GASB Statement No. 68.

UNC GA's current assets of \$36.44 million covered the current liabilities of \$15.15 million, at a ratio of 2.41 (\$2.41 in current assets for every \$1.00 in current liabilities).

Summary of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. UNC GA's dependency on state aid, certain grants, and gifts will result in operating deficits since the GASB requires that state appropriations, certain grants, and gifts be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

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

Statement of Revenues, Expenses, and Changes in Net Position

	2016	2015	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Sales and Services	\$ 6,239,583.97	\$ 5,436,782.94	\$ 802,801.03	14.77%
Other	12,548.69	9,891.61	2,657.08	26.86%
Total Operating Revenues	6,252,132.66	5,446,674.55	805,458.11	14.79%
Operating Expenses:				
Salaries and Benefits	37,891,793.84	36,527,782.01	1,364,011.83	3.73%
Supplies and Materials	2,828,419.09	3,287,839.87	(459,420.78)	(13.97%)
Services	27,678,844.55	25,763,354.08	1,915,490.47	7.43%
Utilities	1,860,046.93	1,724,702.42	135,344.51	7.85%
Depreciation	3,125,151.43	3,325,172.57	(200,021.14)	(6.02%)
Total Operating Expenses	73,384,255.84	70,628,850.95	2,755,404.89	3.90%
Operating Loss	(67,132,123.18)	(65,182,176.40)	1,949,946.78	2.99%
Nonoperating Revenues (Expenses)				
State Appropriations	279,837,967.61	266,248,523.92	13,589,443.69	5.10%
Noncapital Grants	42,222,421.60	40,938,764.46	1,283,657.14	3.14%
Noncapital Gifts, Net	12,529,277.81	12,950,568.48	(421,290.67)	(3.25%)
Investment Income (Loss), Net	(1,229,981.32)	6,681,823.63	(7,911,804.95)	(118.41%)
Interest and Fees on Debt	(12,342.73)	(3,575.58)	8,767.15	245.20%
Grants, Aid and Subsidies	(274,581,502.45)	(261,000,438.67)	13,581,063.78	5.20%
Other Nonoperating Expenses	(86,277.44)	(444,287.98)	(358,010.54)	(80.58%)
Net Nonoperating Revenues	58,679,563.08	65,371,378.26	(6,691,815.18)	(10.24%)
Income (Loss) Before Other Revenues	(8,452,560.10)	189,201.86	(8,641,761.96)	(4567.48%)
Capital Contributions	1,075,000.00		1,075,000.00	100.00%
Additions to Endowments		25,000.00	(25,000.00)	(100.00%)
Increase (Decrease) in Net Position	(7,377,560.10)	214,201.86	(7,591,761.96)	(3544.21%)
Net Position				
Net Position - July 1	138,449,990.33	138,235,788.47	214,201.86	0.15%
Net Position - June 30	\$ 131,072,430.23	\$ 138,449,990.33	(7,377,560.10)	(5.33%)
Total Revenues	340,686,818.36	332,291,355.04	8,395,463.32	2.53%
Total Expenses	349,294,359.78	332,077,153.18	17,217,206.60	5.18%

The Statement of Revenues, Expenses, and Changes in Net Position shows a decrease in net position of \$7,377,560.10 for the fiscal year. The total operating loss for fiscal year 2016 was \$67.13 million. Since the State of North Carolina appropriation is not included within operating revenue per GASB, UNC GA shows a significant operating loss.

The state appropriations are received through an allotment and requisition system through the North Carolina Office of State Budget and Management and the North Carolina Office of State Controller. For the fiscal year ending June 30, 2016, appropriations from the State for UNC GA increased by \$13.59 million or 5.10% for operations. The increase is primarily due to an increase in funding for the Opportunity Scholarships, UNC Need Based Financial Aid Program, Principal Preparation Grant Program, and Special Education Scholarships.

Grants, aids, and subsidies increased by \$13.58 million or 5.20% primarily due to the increase of funds available for the Opportunity Scholarships, UNC Need Based Financial Aid Program, Principal Preparation Grant Program, and Special Education Scholarships. Noncapital gifts decreased by \$0.42 million or (3.25%) due to a decrease in private gifts. Due to poor market investment performance, current year investment activity resulted in a loss of \$1.23 million, compared to prior year investment income of \$6.68 million, a decrease of \$7.91 million, or (118.41%).

Operating revenues include sales and services (including academic affairs private college licensure fees, New Teacher Support Program, Go Global exchange programs (formerly known as NC Center for International Understanding), School Leadership Development training and conferencing services, etc.) and other operating revenues. For fiscal year 2016 sales and services increased by \$802,801.03 or 14.77% due to increased collection of revenue for the Senior Administrative Retirement Program and New Teacher Support Program.

Operating expenses, including depreciation of \$3.13 million, totaled \$73.38 million. Of this total, \$37.89 million was used for salaries and benefits and \$27.68 million was for services. Services consisted of contractual agreements, data processing services, travel, and communication expenses. Services increased by \$1.92 million or 7.43% mainly due to a UNCTV contract to outsource IT operations and other IT and consulting contracted service agreements.

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

Capital Assets

The primary capital projects for fiscal year 2016 were the UNC Center of Public Television HVAC and digital equipment upgrades and UNC GA HVAC assessment and C.D. Spangler building elevator replacement. Total capital assets, net of accumulated depreciation, at June 30, 2016 were \$36.56 million. For more detailed information about asset holdings, see Note 6 of the notes to the financial statements.

Factors Impacting Future Periods

Management believes that UNC GA is well positioned to continue its level of excellence in service to UNC constituent institutions, students, the community, and governmental agencies. UNC GA's ongoing efforts toward maximizing the state's resources with efficiency and effectiveness measures will enable it to provide the necessary resources to support this level of excellence. However, fluctuations in state appropriation will continue to impact the ability of UNC GA to maintain resources to provide programs and services, including financial aid, to meet the growing demands of the state and its citizens.

A major initiative from fiscal year 2013 was the development of a five year strategic directions plan. During fiscal year 2016 work plans for tasks have been established and tracked for "The UNC Compact with North Carolina: Strategic Directions 2013-2018". Although, the plan was not fully funded, UNC GA has continued key projects for execution

within available resources. To read more about the strategic directions initiative, go to <https://www.northcarolina.edu/content/our-time-our-future>.

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

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

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



FINANCIAL STATEMENTS

University of North Carolina General Administration
Statement of Net Position
June 30, 2016

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 8,072,903.14
Restricted Cash and Cash Equivalents	20,604,863.88
Receivables, Net (Note 5)	5,232,806.70
Inventories	44,911.77
Prepaid Items	2,479,958.77
Total Current Assets	<u>36,435,444.26</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	3,622,898.60
Endowment Investments	67,718,384.50
Restricted Investments	9,915,207.28
Capital Assets - Nondepreciable (Note 6)	1,051,482.06
Capital Assets - Depreciable, Net (Note 6)	35,508,346.37
Total Noncurrent Assets	<u>117,816,318.81</u>
Total Assets	<u>154,251,763.07</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	<u>1,915,210.00</u>
---------------------------------------	---------------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	3,139,508.58
Due to Primary Government	16,299.57
Funds Held for Others	4,569,828.33
Unearned Revenue	7,226,721.71
Interest Payable	903.13
Long-Term Liabilities - Current Portion (Note 8)	195,970.59
Total Current Liabilities	<u>15,149,231.91</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 8)	<u>8,943,385.93</u>
Total Liabilities	<u>24,092,617.84</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	<u>1,001,925.00</u>
--------------------------------------	---------------------

University of North Carolina General Administration
Statement of Net Position
June 30, 2016

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	35,950,993.53
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	14,080,017.13
Departmental Uses	48,813.30
Other	981,543.04
Expendable:	
Scholarships and Fellowships	22,503,967.50
Endowed Professorships	117,218.03
Departmental Uses	32,469,466.53
Capital Projects	1,497,165.22
Other	664,229.54
Unrestricted	<u>22,759,016.41</u>
Total Net Position	<u><u>\$ 131,072,430.23</u></u>

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

University of North Carolina General Administration
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2016

Exhibit A-2

REVENUES

Operating Revenues:	
Sales and Services	\$ 6,239,583.97
Other Operating Revenues	12,548.69
Total Operating Revenues	<u>6,252,132.66</u>

EXPENSES

Operating Expenses:	
Salaries and Benefits	37,891,793.84
Supplies and Materials	2,828,419.09
Services	27,678,844.55
Utilities	1,860,046.93
Depreciation	3,125,151.43
Total Operating Expenses	<u>73,384,255.84</u>
Operating Loss	<u>(67,132,123.18)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	279,837,967.61
Noncapital Grants	42,222,421.60
Noncapital Gifts, Net (Note 10)	12,529,277.81
Investment Loss (Includes Investment Expense of \$366,318.67)	(1,229,981.32)
Interest and Fees on Debt	(12,342.73)
Grants, Aid and Subsidies	(274,581,502.45)
Other Nonoperating Expenses	(86,277.44)
Net Nonoperating Revenues	<u>58,679,563.08</u>
Loss Before Other Revenues	(8,452,560.10)
Capital Appropriations	<u>1,075,000.00</u>
Decrease in Net Position	(7,377,560.10)

NET POSITION

Net Position - July 1, 2015	<u>138,449,990.33</u>
Net Position - June 30, 2016	<u><u>\$ 131,072,430.23</u></u>

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

University of North Carolina General Administration
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,242,145.30
Payments to Employees and Fringe Benefits	(39,411,933.74)
Payments to Vendors and Suppliers	(33,616,660.29)
Other Payments	(367,670.49)
Net Cash Used by Operating Activities	(68,154,119.22)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	279,837,967.61
Noncapital Grants	42,150,151.47
Noncapital Gifts	12,422,858.81
Grants, Aid and Subsidies	(274,581,502.45)
Net Cash Provided by Noncapital Financing Activities	59,829,475.44

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	305,747.00
Capital Appropriations	1,075,000.00
Proceeds from Sale of Capital Assets	22,466.41
Acquisition and Construction of Capital Assets	(2,246,363.20)
Principal Paid on Capital Debt and Leases	(19,145.27)
Interest and Fees Paid on Capital Debt and Leases	(11,902.80)
Net Cash Used by Capital Financing and Related Financing Activities	(874,197.86)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	2,803,953.33
Investment Income	488,125.29
Purchase of Investments and Related Fees	(479,871.43)
Net Cash Provided by Investing Activities	2,812,207.19
Net Decrease in Cash and Cash Equivalents	(6,386,634.45)
Cash and Cash Equivalents - July 1, 2015	38,687,300.07
Cash and Cash Equivalents - June 30, 2016	\$ 32,300,665.62

University of North Carolina General Administration
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (67,132,123.18)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,125,151.43
Pension Expense	461,116.00
Miscellaneous Pension Adjustments	18,802.00
Nonoperating Other Expenses	(22,567.44)
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(2,406,786.83)
Inventories	(7,206.01)
Prepaid Items	(1,076,926.58)
Accounts Payable and Accrued Liabilities	(45,873.51)
Due to Primary Government	(175.91)
Funds held for others	(345,103.05)
Unearned Revenue	1,396,799.47
Deferred Outflows for Contributions Subsequent to the Measurement Date	(1,791,837.00)
Compensated Absences	(327,388.61)
Net Cash Used by Operating Activities	<u>\$ (68,154,119.22)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 8,072,903.14
Restricted Cash and Cash Equivalents	20,604,863.88
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>3,622,898.60</u>
Total Cash and Cash Equivalents - June 30, 2016	<u>\$ 32,300,665.62</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 20,472.17
Change in Fair Value of Investments	(1,351,787.94)
Loss on Disposal of Capital Assets	(63,710.00)
Increase in Receivables Related to Nonoperating Income	178,689.13

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 General Administration (UNC GA) is the administrative body of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to UNC GA and its component unit. UNC GA is the organizational structure established, pursuant to *North Carolina General Statutes* 116-3 through 116-22, to support and assist the President of the University System in fulfilling his responsibilities to the Board of Governors in meeting overall responsibilities for administering the University System. The President, as chief administrative and executive officer, is responsible for (1) communication between the Board and persons inside and outside the University System, (2) preparation, presentation, and execution of the budget for the University System, and (3) establishment and supervision of administrative divisions to comply with policies of the Board. These responsibilities are accomplished through offices which address academic affairs, financial administration, long-range planning, student services and special programs, research, communications, and public affairs. UNC GA's component unit is blended in UNC GA's financial statements. See below for further discussion of UNC GA's component unit.

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

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

benefit the University System, its financial statements have been blended with those of UNC GA.

Separate financial statements for the Foundation may be obtained from the UNC GA Services Office, 140 Friday Center Drive, Chapel Hill, NC, or by calling (919) 962-3992.

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

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

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

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

- E. Investments** – To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

- F. Receivables** – Receivables consist of amounts due from the federal government, state and local governments, other universities, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied, and accrued interest receivable from investments. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies and postage, are valued at cost using the last invoice cost method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	15-100 years
Machinery & Equipment	5-25 years
General Infrastructure	5-50 years

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

- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability, notes payable, and compensated absences, that will not be paid within the next fiscal year.

The net pension liability represents UNC GA's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report*. This liability represents UNC GA's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding UNC GA's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

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

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

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

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

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

Restricted Net Position - Expendable - Expendable restricted net position includes resources for which UNC GA is legally or contractually

obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at UNC GA. Both restricted and unrestricted net positions include consideration of deferred outflows and inflows of resources.

- M. Revenue and Expense Recognition** – UNC GA classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with UNC GA's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as sales and services of auxiliary enterprises. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9 - *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Cash on hand at June 30, 2016 was \$900.00. The carrying amount of the UNC GA's deposits not with the State Treasurer was \$1,630,366.10 and the bank balance was \$1,631,208.89. Custodial credit risk is the risk that in the event of a bank failure, UNC GA's deposits may not be returned to it. UNC GA does not have a deposit policy for custodial credit risk. As of June 30, 2016, \$1,380,366.10 of UNC GA's bank balance was uninsured and uncollateralized.

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

Additionally, UNC GA has also been delegated authority by the President of The University of North Carolina pursuant to G.S. 116-36.1 and Section 600.2.4.1 of the Policy Manual of the University of North Carolina to invest its trust funds in the same manner as the State Treasurer is required to invest, as discussed below.

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

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

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

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

Investments are subject to the following risks:

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

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, UNC GA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. UNC GA does not have a formal policy for custodial credit risk.

Short-Term Investment Fund - At June 30, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$30,669,399.52 which represents UNC GA's equity position in the State Treasurer's Short-Term Investment Fund (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 and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at 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 on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

UNC Investment Fund, LLC - At June 30, 2016, UNC GA's investments include \$77,553,249.67 which represents UNC GA's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2016, for UNC GA's non-pooled investments.

Investment Type	Investment Maturities (in Years)	
	Amount	Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 30,792.11	<u>\$ 30,792.11</u>
Other Securities		
UNC Investment Fund	77,553,249.67	
Investments in Real Estate	<u>49,550.00</u>	
Total Non-Pooled Investments	<u>\$ 77,633,591.78</u>	

At June 30, 2016, UNC GA's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa
Money Market Mutual Funds	<u>\$ 30,792.11</u>	<u>\$ 30,792.11</u>

Rating Agency: Standard & Poors, Moody's

At June 30, 2016, UNC GA's non-pooled investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty	Held by Counterparty's Trust Dept or Agent not in UNC GA's Name
Money Market Mutual Funds	<u>\$ 30,792.11</u>	<u>\$ 0.00</u>

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for UNC GA as of June 30, 2016, is as follows:

Cash on Hand	\$ 900.00
Amount of Deposits with Private Financial Institutions	1,630,366.10
Deposits in the Short-Term Investment Fund	30,669,399.52
Investments in the UNC Investment Fund	77,553,249.67
Investments in Money Market Mutual Funds	30,792.11
Investments in Real Estate	49,550.00
Total Deposits and Investments	\$ 109,934,257.40
Deposits	
Current:	
Cash and Cash Equivalents	\$ 8,072,903.14
Restricted Cash and Cash Equivalents	20,604,863.88
Noncurrent:	
Restricted Cash and Cash Equivalents	3,622,898.60
Total Deposits	32,300,665.62
Investments	
Noncurrent:	
Endowment Investments	67,718,384.50
Restricted Investments	9,915,207.28
Total Investments	77,633,591.78
Total Deposits and Investments	\$ 109,934,257.40

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, UNC GA's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
---------	---

Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following table summarizes UNC GA's investments, including the Short-Term Investment Fund within the fair value hierarchy at June 30, 2016:

	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Other Securities				
Short-Term Investment Fund	\$ 30,669,399.52	\$ 0.00	\$ 30,669,399.52	\$ 0.00
UNC Investment Fund	77,553,249.67			77,553,249.67
Investments in Real Estate	49,550.00			49,550.00
Total Investments by Fair Value Level	<u>\$ 108,272,199.19</u>	<u>\$ 0.00</u>	<u>\$ 30,669,399.52</u>	<u>\$ 77,602,799.67</u>

Short-Term Investment Fund - Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

UNC Investment Fund - Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund's operating procedures.

Investments in Real Estate - These investments of donated real estate held for profit are valued at fair market value. The fair market values were estimated using recent appraisals, tax values, and purchase price.

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of UNC GA's endowment funds is predicated on the total return concept (yield plus appreciation). Annual distributions from UNC GA's endowment funds are based on an adopted spending policy and are subject

to a maximum of 5% of the aggregate endowment fund's average market value for the previous year. Under this policy, annual distributions are calculated by comparing cash associated with the endowment fund to the projected expenses for programs associated with the fund. To the extent that the total return for the current year exceeds the distribution, the excess is added to principal. If current year earnings do not meet the distribution requirements, UNC GA uses accumulated income and appreciation to fund the difference. At June 30, 2016, net appreciation of \$35,904,542.97 was available to be spent, of which \$18,911,068.30 was classified in net position as Restricted/Expendable - Scholarships and Fellowships, \$4,609,065.31 as Restricted/Expendable - Departmental Uses, and \$502,580.88 as Restricted/Expendable - Other. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Accounts	\$ 3,285,090.84	\$ 0.00	\$ 3,285,090.84
Intergovernmental	659,003.86		659,003.86
Pledges	2,194,203.00	905,491.00	1,288,712.00
Total Current Receivables	<u>\$ 6,138,297.70</u>	<u>\$ 905,491.00</u>	<u>\$ 5,232,806.70</u>

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land	\$ 802,658.00	\$ 0.00	\$ 0.00	\$ 802,658.00
Construction in Progress	1,216,497.28	734,286.58	1,701,959.80	248,824.06
Total Capital Assets, Nondepreciable	<u>2,019,155.28</u>	<u>734,286.58</u>	<u>1,701,959.80</u>	<u>1,051,482.06</u>
Capital Assets, Depreciable:				
Buildings	87,724,029.31	1,110,771.71	721,722.78	88,113,078.24
Machinery and Equipment	11,624,314.81	2,052,584.99	718,037.62	12,958,862.18
General Infrastructure	21,511,558.29	5,106.69	8,911.80	21,507,753.18
Total Capital Assets, Depreciable	<u>120,859,902.41</u>	<u>3,168,463.39</u>	<u>1,448,672.20</u>	<u>122,579,693.60</u>
Less Accumulated Depreciation for:				
Buildings	67,192,552.95	1,711,454.14	666,547.51	68,237,459.58
Machinery and Equipment	8,135,779.24	850,663.89	692,520.63	8,293,922.50
General Infrastructure	9,980,359.40	563,033.40	3,427.65	10,539,965.15
Total Accumulated Depreciation	<u>85,308,691.59</u>	<u>3,125,151.43</u>	<u>1,362,495.79</u>	<u>87,071,347.23</u>
Total Capital Assets, Depreciable, Net	<u>35,551,210.82</u>	<u>43,311.96</u>	<u>86,176.41</u>	<u>35,508,346.37</u>
Capital Assets, Net	<u>\$ 37,570,366.10</u>	<u>\$ 777,598.54</u>	<u>\$ 1,788,136.21</u>	<u>\$ 36,559,828.43</u>

During the year ended June 30, 2016, UNC GA incurred \$11,918.75 in interest costs related to the acquisition and construction of capital assets. Of this total, \$4,998.33 was charged in interest expense, and \$6,920.42 was capitalized.

UNC GA has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (agreement) dated September 1, 2014. The value of the energy savings improvement assets associated with the agreement is \$594,109.08 and is subject to security provisions in the agreement to ensure timely debt service payments. Additional information regarding the UNC System Energy Savings Installment Financing Agreement can be found in Note 8.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 2,080,731.52
Accrued Payroll	1,029,608.16
Contract Retainage	29,168.90
	<hr/>
Total Current Accounts Payable and Accrued Liabilities	<u><u>\$ 3,139,508.58</u></u>

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, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Net Pension Liability	\$ 1,453,102.00	\$ 2,915,884.00	\$ 0.00	\$ 4,368,986.00	\$ 0.00
Notes Payable	301,761.00	305,747.00	19,145.27	588,362.73	77,757.88
Compensated Absences	4,509,396.40	2,435,365.29	2,762,753.90	4,182,007.79	118,212.71
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Long-Term Liabilities	<u><u>\$ 6,264,259.40</u></u>	<u><u>\$ 5,656,996.29</u></u>	<u><u>\$ 2,781,899.17</u></u>	<u><u>\$ 9,139,356.52</u></u>	<u><u>\$ 195,970.59</u></u>

Additional information regarding the net pension liability is included in Note 12.

- B. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2016, are as follows:

Fiscal Year	Annual Requirements Notes Payable	
	Principal	Interest
2017	\$ 77,757.88	\$ 10,304.54
2018	80,543.19	8,854.31
2019	83,907.21	7,347.62
2020	87,370.97	5,778.26
2021	90,936.84	4,144.47
2022-2026	167,846.64	3,119.67
Total Requirements	\$ 588,362.73	\$ 39,548.87

- C. Notes Payable** – UNC GA 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, 2016	Principal Outstanding June 30, 2016
Energy Services Agreement	Banc of America Public Capital Corp	1.84%	02/14/2023	<u>\$ 607,508.00</u>	<u>\$ 19,145.27</u>	<u>\$ 588,362.73</u>

NOTE 9 - OPERATING LEASE OBLIGATIONS

UNC GA entered into operating leases for tower sites and office and storage facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

Fiscal Year	Amount
2017	\$ 266,056.00
2018	168,614.00
2019	143,751.00
2020	116,482.00
2021	71,129.00
2022-2026	258,683.00
2027-2031	63,921.00
2032-2036	94.00
2037-2041	1,280.00
Total Minimum Lease Payments	\$ 1,090,010.00

Rental expense for all operating leases during the year was \$247,987.06.

NOTE 10 - REVENUES

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

	Gross Revenues	Allowance for Uncollectibles	Net Revenues
Noncapital Gifts, Net	\$ 12,695,681.81	\$ 166,404.00	\$ 12,529,277.81

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Utilities	Depreciation	Total
Instruction	\$ 1,076,634.61	\$ 32,047.51	\$ 1,629,089.52	\$ 2,261.39	\$ 0.00	\$ 2,740,033.03
Research	110,977.92		32,056.12			143,034.04
Public Service	12,926,009.53	1,752,660.07	17,092,989.54	1,478,427.81		33,250,086.95
Institutional Support	23,763,247.78	899,172.46	8,811,254.11	379,357.73		33,853,032.08
Operations and Maintenance of Plant		144,539.05	108,768.10			253,307.15
Student Financial Aid	14,924.00		4,687.16			19,611.16
Depreciation					3,125,151.43	3,125,151.43
Total Operating Expenses	\$ 37,891,793.84	\$ 2,828,419.09	\$ 27,678,844.55	\$ 1,860,046.93	\$ 3,125,151.43	\$ 73,384,255.84

NOTE 12 - 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 annual pay. 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. UNC GA's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. UNC GA's contributions to the pension plan were \$1,791,837.05, and employee contributions were \$1,174,975.11 for the year ended June 30, 2016.

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 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> 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 2015 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, UNC GA reported a liability of \$4,368,986.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. UNC GA's proportion of the net pension liability was based on the present value of future salaries for UNC GA relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, UNC GA's proportion was 0.11855%, which was an increase of 0.00539 from its proportion measured as of June 30, 2014.

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	12/31/2014
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, 2014 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, 2015 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 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:

<u>Net Pension Liability (Asset)</u>		
<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
\$ 13,149,443.00	\$ 4,368,986.00	\$ (3,082,244.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, UNC GA recognized pension expense of \$461,116.00. At June 30, 2016, UNC GA 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	\$ 0.00	\$ 496,754.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	0.00	473,343.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	123,373.00	31,828.00
Contributions Subsequent to the Measurement Date	1,791,837.00	0.00
Total	<u>\$ 1,915,210.00</u>	<u>\$ 1,001,925.00</u>

The amount of \$1,791,837.00 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, 2017. 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
2017	\$ (533,468.00)
2018	(533,468.00)
2019	(524,799.00)
2020	713,183.00
Total	<u>\$ (878,552.00)</u>

- 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 UNC GA may join the Program instead of the TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment

products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2016, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. UNC GA assumes no liability other than its contribution.

For the current fiscal year, UNC GA had a total payroll of \$30,721,146.14, of which \$9,074,787.16 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$620,715.44 and \$544,487.23, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** – UNC GA participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (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 UNC GA contributed 5.60% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.40%, respectively. UNC GA made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were \$1,604,831.52, \$1,484,191.03, and \$1,414,713.01, respectively. UNC GA assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** – UNC GA participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of 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, 2016, UNC GA made a statutory contribution of 0.41% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were 0.41% and 0.44%, respectively. UNC GA made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were \$117,496.59, \$110,841.22, and \$115,272.91, respectively. UNC GA assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 14 - RISK MANAGEMENT

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

A. Employee Benefit Plans**1. State Health Plan**

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

2. Death Benefit Plan of North Carolina

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.

B. Other Risk Management and Insurance Activities**1. Automobile, Fire, and Other Property Losses**

UNC GA is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to UNC GA for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. UNC GA has elected to purchase additional "all risk" coverage for all computers, equipment, buildings, and contents. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. UNC GA pays premiums to the North Carolina Department of Insurance for the coverage. Auto policy is subject to a \$500 per occurrence deductible.

UNC GA purchased other authorized coverage from private companies through the North Carolina Department of Insurance. These purchased coverages are: leased computer equipment (stated value with \$500 deductible) and fine art (stated value with \$2,500 deductible).

2. 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 via contract with a private insurance company. UNC GA pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

UNC GA is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. UNC GA is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$100,000 deductible.

4. Statewide Workers' Compensation Program

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

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 15 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** – UNC GA has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$40,129.56 at June 30, 2016.
- B. Pending Litigation and Claims** – The University of North Carolina, which includes UNC GA as a component, 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. UNC GA management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of UNC GA.

NOTE 16 - BLENDED COMPONENT UNIT

Condensed combining information for UNC GA's blended component unit for the year ended June 30, 2016, is presented as follows:

Condensed Statement of Net Position
June 30, 2016

	University of North Carolina General Administration	The University of North Carolina Foundation, Inc.	Total
ASSETS			
Current Assets	\$ 36,116,049.61	\$ 319,394.65	\$ 36,435,444.26
Capital Assets, Net	36,559,828.43		36,559,828.43
Other Noncurrent Assets	81,256,490.38		81,256,490.38
Total Assets	153,932,368.42	319,394.65	154,251,763.07
Total Deferred Outflows of Resources	1,915,210.00		1,915,210.00
LIABILITIES			
Current Liabilities	15,149,231.91		15,149,231.91
Long-Term Liabilities	8,943,385.93		8,943,385.93
Total Liabilities	24,092,617.84		24,092,617.84
Total Deferred Inflows of Resources	1,001,925.00		1,001,925.00
NET POSITION			
Net Investment in Capital Assets	35,950,993.53		35,950,993.53
Restricted - Nonexpendable	15,110,373.47		15,110,373.47
Restricted - Expendable	57,130,144.00	121,902.82	57,252,046.82
Unrestricted	22,561,524.58	197,491.83	22,759,016.41
Total Net Position	\$ 130,753,035.58	\$ 319,394.65	\$ 131,072,430.23

NOTES TO THE FINANCIAL STATEMENTS

*Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2016*

	University of North Carolina General Administration	The University of North Carolina Foundation, Inc.	Total
OPERATING REVENUES			
Sales and Services	\$ 6,239,583.97	\$ 0.00	\$ 6,239,583.97
Other	12,548.69		12,548.69
Total Operating Revenues	6,252,132.66		6,252,132.66
OPERATING EXPENSES			
Operating Expenses	68,859,345.69	1,399,758.72	70,259,104.41
Depreciation	3,125,151.43		3,125,151.43
Total Operating Expenses	71,984,497.12	1,399,758.72	73,384,255.84
Operating Loss	(65,732,364.46)	(1,399,758.72)	(67,132,123.18)
NONOPERATING REVENUES (EXPENSES)			
State Appropriations	279,837,967.61		279,837,967.61
Noncapital Grants	42,222,421.60		42,222,421.60
Noncapital Gifts, Net	11,150,779.81	1,378,498.00	12,529,277.81
Investment Income (Loss), net	(1,231,858.03)	1,876.71	(1,229,981.32)
Grants, Aid and Subsidies	(274,572,495.11)	(9,007.34)	(274,581,502.45)
Other Nonoperating Expenses	(98,620.17)		(98,620.17)
Net Nonoperating Revenues	57,308,195.71	1,371,367.37	58,679,563.08
Capital Contributions	1,075,000.00		1,075,000.00
Decrease in Net Position	(7,349,168.75)	(28,391.35)	(7,377,560.10)
NET POSITION			
Net Position, July 1, 2015	138,102,204.33	347,786.00	138,449,990.33
Net Position, June 30, 2016	<u>\$ 130,753,035.58</u>	<u>\$ 319,394.65</u>	<u>\$ 131,072,430.23</u>

*Condensed Statement of Cash Flows
June 30, 2016*

	University of North Carolina General Administration	The University of North Carolina Foundation, Inc.	Total
Net Cash Used by Operating Activities	\$ (66,759,251.02)	\$ (1,394,868.20)	\$ (68,154,119.22)
Net Cash Provided by Noncapital Financing Activities	58,459,984.78	1,369,490.66	59,829,475.44
Net Cash Used by Capital and Related Financing Activities	(874,197.86)		(874,197.86)
Net Cash Provided by Investing Activities	2,810,330.48	1,876.71	2,812,207.19
Net Decrease in Cash and Cash Equivalents	(6,363,133.62)	(23,500.83)	(6,386,634.45)
Cash and Cash Equivalents, July 1, 2015	38,345,181.07	342,119.00	38,687,300.07
Cash and Cash Equivalents, June 30, 2016	<u>\$ 31,982,047.45</u>	<u>\$ 318,618.17</u>	<u>\$ 32,300,665.62</u>

NOTE 17 - CHANGES IN FINANCIAL REPORTING AND ACCOUNTING

For the fiscal year ended June 30, 2016, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specific within a source of authoritative GAAP.



REQUIRED SUPPLEMENTARY INFORMATION

University of North Carolina General Administration
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Three Fiscal Years

Exhibit B-1

	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.11855%	0.12394%	0.12468%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 4,368,986	\$ 1,453,102	\$ 7,569,190
Covered-Employee Payroll	\$ 19,305,120	\$ 19,638,164	\$ 19,499,999
Net Pension Liability as a Percentage of Covered-Employee Payroll	22.63%	7.40%	38.82%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

University of North Carolina General Administration
Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit B-2

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 1,791,837	\$ 1,766,418	\$ 1,706,556	\$ 1,624,350	\$ 1,440,220
Contributions in Relation to the					
Contractually Determined Contribution	<u>1,791,837</u>	<u>1,766,418</u>	<u>1,706,556</u>	<u>1,624,350</u>	<u>1,440,220</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-Employee Payroll	\$ 19,582,919	\$ 19,305,120	\$ 19,638,164	\$ 19,499,999	\$ 19,357,794
Contributions as a Percentage of					
Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contribution	\$ 982,192	\$ 699,297	\$ 682,057	\$ 652,946	\$ 587,949
Contributions in Relation to the					
Contractually Determined Contribution	<u>982,192</u>	<u>699,297</u>	<u>682,057</u>	<u>652,946</u>	<u>587,949</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-Employee Payroll	\$ 19,922,767	\$ 19,588,152	\$ 20,299,330	\$ 21,408,072	\$ 22,103,333
Contributions as a Percentage of					
Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

University of North Carolina General Administration
Notes to Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

<u>Cost of Living Increase</u>									
<u>2015*</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>
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

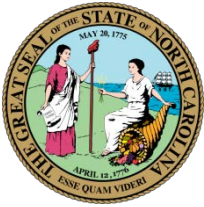
Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also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

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report*, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.



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
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of North Carolina General Administration (UNC GA), the administrative body of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise UNC GA's basic financial statements, and have issued our report thereon dated March 24, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 24, 2017

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

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

To report alleged incidents of fraud, waste or abuse in state government contact the
Office of the State Auditor Fraud Hotline: **1-800-730-8477**
or download our free app.



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

