STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

CHAPEL HILL, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 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

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AUDITOR'S TRANSMITTAL

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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State Auditor

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Chapel Hill (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the UNC Investment Fund, LLC, which represent 52.28 percent, 55.86 percent, and zero percent, respectively, of the assets, net position, and revenues of the University; nor the financial statements of The Medical Foundation of North Carolina, Incorporated, The Educational Foundation Scholarship Endowment Trust, and The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Incorporated, the University's discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the UNC Investment Fund, LLC, The Medical Foundation of North Carolina, Incorporated, The Educational Foundation Scholarship Endowment Trust, and The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Incorporated were not audited in accordance with *Government Auditing Standards*.

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

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

<u>Opinions</u>

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Chapel Hill, and its discretely presented component units, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

<u>Other Matters – Required Supplementary Information</u>

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

<u>Other Reporting Required by Government Auditing Standards</u>

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 20, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's Discussion and Analysis provides an overview of the financial position and activities of the University of North Carolina at Chapel Hill (the University) for the fiscal year ended June 30, 2016, with comparative information for the fiscal year ended June 30, 2015. Management has prepared the discussion and analysis to be read in conjunction with the financial statements and accompanying notes to the financial statements.

The University's vibrant people and programs attest to the University's long-standing place among leaders in higher education. It was chartered in 1789 and opened its doors for students in 1795 as the nation's first public university. The University is a constituent institution of the 17-campus University of North Carolina System (UNC System), a component unit of the State of North Carolina, and an integral part of the State's *Comprehensive Annual Financial Report (CAFR)*.

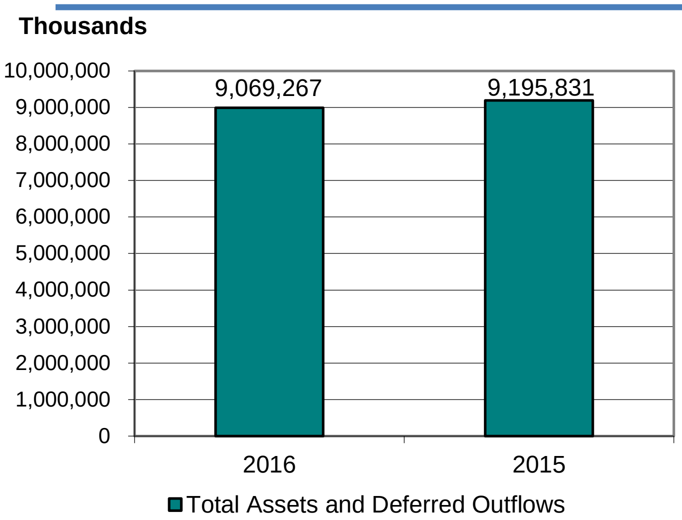
The financial reporting entity for the financial statements is comprised of the University and its component units. Certain component units are reported as if they were part of the University, and others are reported as discretely presented component units based on the nature and significance of their relationship to the University. Note 1A of the financial statements provides detailed information on the financial reporting entity.

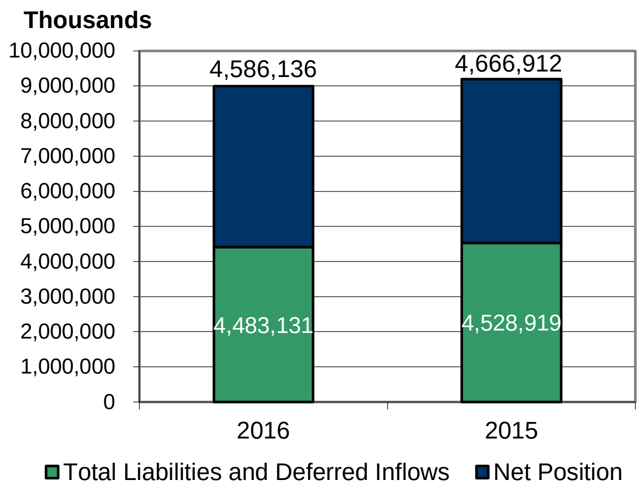
Financial Overview

The University is in a solid financial position at June 30, 2016. The current ratio at June 30, 2016, increased to 3.2 times from 3.1 times at June 30, 2015, reflecting a decrease in current liabilities. Net position, which represents the residual interest in the University's assets and deferred outflows after deducting liabilities and deferred inflows, was $4.6 billion at June 30, 2016. The University's total assets and deferred outflows were $9.1 billion at June 30, 2016.

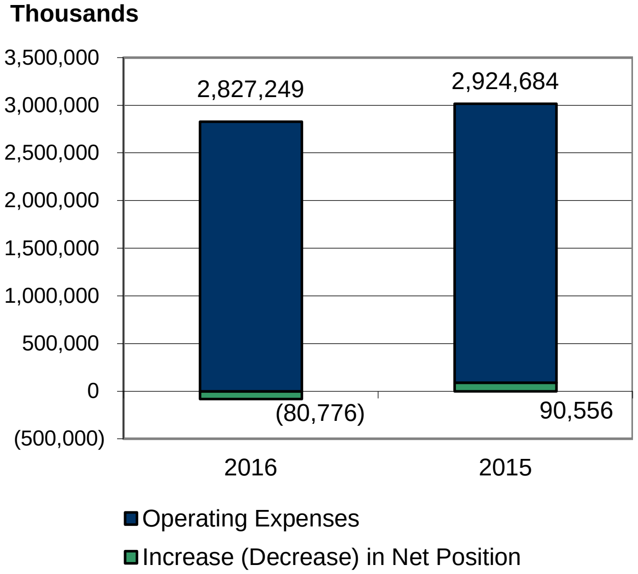
A comparison of the total assets and deferred outflows, liabilities and deferred inflows, and net position at June 30, 2016 and June 30, 2015, along with the major components of the changes in net position for the two fiscal years is presented below:

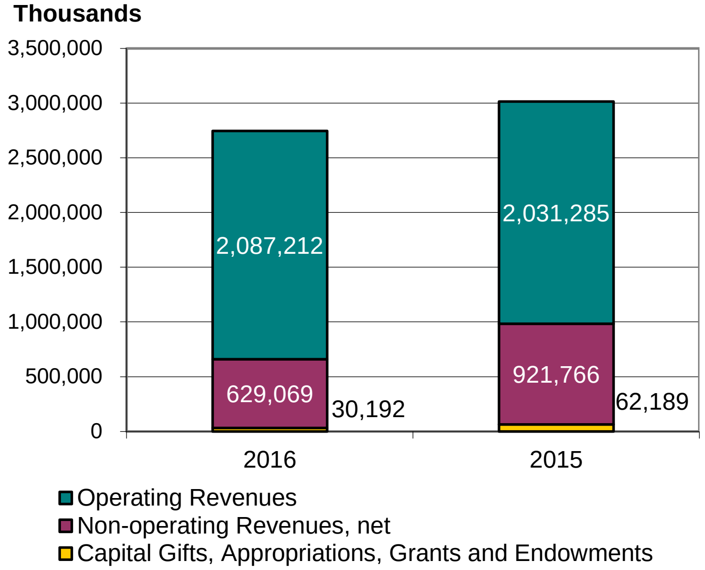
STATEMENT OF NET POSITION





STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION





Net position declined 1.7% at June 30, 2016 from the prior year balance. The major factor was a $246.4 million decrease in investment income from the prior year. Fiscal year 2016 was a difficult period for many endowment portfolios. Over the past couple of decades, university endowment funds have significantly increased their exposure to global equities, hedge funds, and energy-oriented investments which generated weak returns in fiscal year 2016 but were mitigated by traditional fixed income holdings which produced strong results during this fiscal year.

Total assets decreased by 2.0% from the prior year, while total liabilities remained relatively flat for the same period. Operating revenues for fiscal year 2016 increased 2.8% as compared to the prior year in large part due to an increase in patient service revenues, while operating expenses declined 3.3%. Net nonoperating revenues decreased 31.8% in fiscal year 2016 over the prior year, reflecting the significant decline in investment income and a reduction in gifts received.

State appropriations, tuition and fees, gifts, and sales and services from clinical services for patients and campus auxiliary operations continue to provide important resources to the University. As a major research university, funding from contracts and grants is also of key importance to the University's success in fulfilling its mission.

Using the Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the University as a whole. The full scope of the University's activities is a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

The University's financial statements include the following financial statements with related note disclosures and financial schedules with required supplementary information:

- *Statement of Net Position for the University*
- *Statement of Revenues, Expenses, and Changes in Net Position for the University*
- *Statement of Cash Flows for the University*
- *Statement of Financial Position for Component Units of the University*
- *Statement of Activities and Changes in Net Assets for Component Units of the University*
- *Schedule of the Proportionate Pension Liability for the Teachers' and State Employees' Retirement System*
- *Schedule of University Contributions for the Teachers' and State Employees' Retirement System*

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

Condensed Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year, includes all assets and deferred outflows, all liabilities and deferred inflows, and segregates the assets and liabilities into current and noncurrent components. The following table summarizes the University's assets and deferred outflows, liabilities and deferred inflows, and net position on June 30, 2016 and June 30, 2015.

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

	2016	2015	Percent Change
Assets:			
Current Assets	$ 1,586,297	$ 1,807,887	(12.3)
Noncurrent Assets:			
Endowment, Restricted, and Other Investments	3,949,710	3,773,408	4.7
Capital Assets, Net	3,099,788	3,126,511	(0.9)
Other Noncurrent Assets	230,132	343,666	(33.0)
Total Assets	8,865,927	9,051,472	(2.0)
Deferred Outflows of Resources	203,340	144,359	40.9
Liabilities:			
Current Liabilities	502,380	587,615	(14.5)
Noncurrent Liabilities:			
Funds Held in Trust for Pool Participants	2,246,757	2,191,756	2.5
Long-Term Liabilities, Net	1,527,450	1,484,804	2.9
Other Noncurrent Liabilities	178,186	128,215	39.0
Total Liabilities	4,454,773	4,392,390	1.4
Deferred Inflows of Resources	28,359	136,529	(79.2)
Net Position:			
Net Investment in Capital Assets	1,662,753	1,686,949	(1.4)
Restricted	2,160,013	2,226,556	(3.0)
Unrestricted	763,370	753,407	1.3
Total Net Position	$ 4,586,136	$ 4,666,912	(1.7)

Current Assets and Liabilities

As derived from the Statement of Net Position, working capital was $1.1 billion at June 30, 2016, compared to $1.2 billion at June 30, 2015. Working capital is defined as current assets less current liabilities.

Endowment, Restricted and Other Investments

Investment assets - Total endowment, restricted, and other investments were $3.9 billion at June 30, 2016. Of the $3.9 billion invested, approximately $2.2 billion are not University assets, but are owned by other state agencies who have elected to pool their assets with the University's through the UNC Investment Fund, LLC. These funds are classified as funds held in trust for pool participants in the University's financial statements. The agencies choosing to invest in the pool are neither part of the University's reporting entity nor reported discretely in the University's financial statements.

The total invested assets of $3.9 billion is an increase of 4.7% from June 30, 2015. The increase is the net result of funds added to investments, realized earnings, scheduled payouts, fund withdrawals, and the decline in the market value of investments.

Endowment management - The endowment assets are invested with the University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund, or CHIF), further detailed in Note 1A. It is expected that all or substantially all the assets of the Chapel Hill Investment Fund will be invested in the UNC Investment Fund, LLC (UNC Investment Fund, or UNCIF), an investment pool organized by the Chapel Hill Investment Fund to allow the University, along with other constituent institutions of the UNC System and affiliated organizations, to pool investment resources.

Endowment distribution - The CHIF investment objective is to earn a long-term real (i.e. inflation-adjusted) rate of return of approximately 5.5%. This objective is intended to support the Chapel Hill Investment Fund's distribution policy providing a stable source of spending support that is sustainable over the long-term while preserving the purchasing power of the invested funds. The distribution rate is determined annually by its Board of Directors, and the distribution rate generally has ranged between 5.0% and 6.0% based on the beginning market value of the Chapel Hill Investment Fund. For the fiscal year ended June 30, 2016, the distribution rate was 5.0%.

Recognizing that severe market declines periodically occur, a University Statutory Endowment policy (established pursuant to NC General Statute 116-36) addresses the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The policy indicates that campus departments shall examine the endowment-supported activity for the upcoming fiscal year for possible deferment of program expenses, and if appropriate, pursue alternative funding for essential activities, and consult with donors regarding other funding options for program support. Invasion of endowment principal is an option of last resort and will only be done consistent with approved limitations to preserve the endowment principal's value.

Endowment performance - For fiscal year 2016, the UNC Investment Fund recorded a -2.0% return, representing the first fiscal year loss since fiscal year 2009. The return trailed both the SIPP return of -0.8% and the primary objective of earning a long-term real rate of return of at least 5.5% plus inflation. For the year ended June 30, 2016, only two of the seven primary asset classes generated a positive return with four out of seven exceeding their respective benchmarks.

Over a longer-term horizon, UNCIF's five-year annualized performance of 7.2% has surpassed the primary objective of providing an average annual real tare of return of at least 5.5% plus inflation. The Fund's 10-year annualized return of 6.5% fell slightly short of achieving this objective with CPI + 5.5% returning 7.2% during the period. However, on a relative basis, UNCIF's 10-year return outperformed both the SIPP benchmark of 6.1% and the Global 70/30 Index (comprised of 70% invested in the MSCI All Country World Index and 30% in the Barclay's U.S. Aggregate Bond Index) which returned 4.8%. During this time period, the Fund's performance continues to rank in the top quartile of the BNY Mellon Endowment & Foundation universe.

Capital Assets and Debt Management

Construction activity - Construction of Marsico Hall, the imaging research building and the University's largest capital project to date, is complete and fully occupied. Renovation of the Department of Psychology's Howell Hall was completed in summer 2016. Other major projects under construction include the comprehensive renovation of the Mary Ellen Jones Building, a 1978 medical research building, and the renovation of the original Hill Hall for the Department of Music and Carolina Performing Arts.

Current projects in design include: the new Medical Education Building, a $90 million facility to replace Berryhill Hall; a comprehensive renovation of Wilson Hall Annex for the Department of Biology; and various renovations at Beard Hall for the Eshelman School of Pharmacy.

Facilities planning - The University has initiated a comprehensive University Master Plan to guide future development of University and Endowment properties. This process is anticipated to conclude at the end of 2017. An assessment is currently underway to identify the key program drivers and space needs. The plan will reflect priorities identified by the University's Strategic Framework and integrate the campus' strategic plan for sustainability. The physical plan will develop land use principles and include examination of facility utilization and space metrics, infrastructure, environmental resources, and economic impact.

A summary of changes in capital assets is disclosed in Note 6. Capital assets, net of accumulated depreciation and amortization, at June 30, 2016 and June 30, 2015, were as follows:

Capital Assets (dollars in thousand)

	2016	2015	Percent Change
Capital Assets:			
Construction in Progress	$ 51,961	$ 99,526	(47.8)
Land and Other Nondepreciable Assets	194,829	187,037	4.2
Buildings, (Net)	1,965,431	1,959,075	0.3
General Infrastructure, (Net)	600,875	585,114	2.7
Machinery, Equipment, and Computer Software, (Net)	286,692	295,759	(3.1)
Total	$ $3,099,788	$ $3,126,511	(0.9)

Completed construction projects of $91.9 million were moved from CIP to other asset categories during fiscal year 2016, and $44.3 million was added to CIP. Additions to buildings and general infrastructure were $126.1 million during fiscal year 2016, offset by annual depreciation of $104.0 million. Retirements of machinery and equipment and annual depreciation caused the net decrease in the machinery, equipment, and computer software category.

Capital financing - During fiscal year 2016, the University continued to use its commercial paper program to provide low-cost bridge financing for capital projects and in anticipation of an external bond issue. Commercial paper debt was $33.0 million at June 30, 2016 and $28.0 million at June 30, 2015. On November 19, 2015, the University issued $100.0 million of tax-exempt commercial paper to fund the November 21, 2015 redemption of General Revenue Bonds Series 2012A.

On behalf of the University, the Board of Governors for the University of North Carolina System issued General Revenue Bonds Series 2016ABC on March 1, 2016. Proceeds of Series 2016A were used to refund $100.0 million of tax-exempt commercial paper; proceeds of Series 2016B were used to refund $50.0 million of General Revenue Bonds Series 2005A; and, proceeds of Series 2016C were used to refund the balance of General Revenue Bonds Series 2005A and advance refund all of General Revenue Bonds Series 2007.

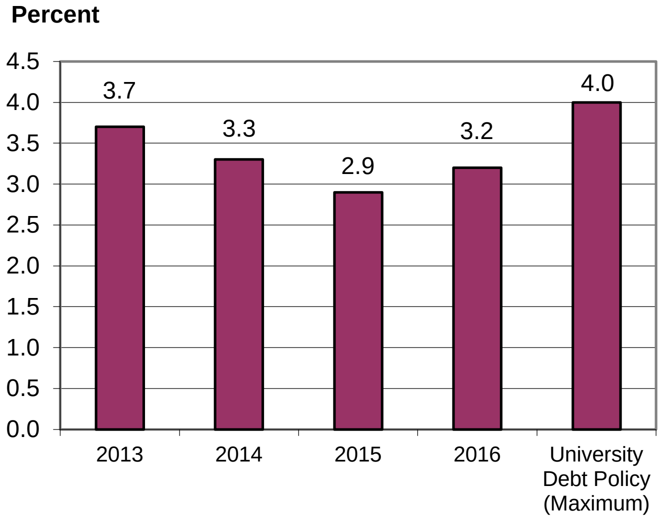
On October 3, 2013, a separate University component unit closed on a bank note that provides up to $30.0 million in funding for the construction of a capital project. Outstanding draws against the note were $30.0 million at June 30, 2016 and $19.2 million at June 30, 2015. The note, although an extension is anticipated, currently expires on October 2, 2016 and is reflected as a current liability. The University of North Carolina at Chapel Hill Foundation, a blended component unit of the University, has a line of credit agreement issued by Bank of America to finance the costs of projects benefiting the Foundation and/or University, subject to the approval of the Board of Directors of the Foundation. On May 20, 2015, the Foundation renewed the line of credit, modifying the commitment amount up to $4.0 million with a new maturity date of April 30, 2018. On October 16, 2015, the Foundation drew on the line and $3.9 million is outstanding as of June 30, 2016.

Debt management - The University maintains a combination of variable and fixed-rate debt, consistent with its debt management policy. The interest rate on the commercial paper program for fiscal year 2016 ranged from 0.02% to 0.48% and for fiscal year 2015 ranged from 0.04% to 0.14%. Interest rates on the University's variable-rate, long-term bonds ranged from 0.01% to 1.06% for fiscal year 2016 and ranged from 0.01% to 0.87% for fiscal year 2015. Interest rates on fixed-rate, long-term bonds are disclosed in Note 10 of the financial statements. These rates reflect direct interest rates and do not reflect any impact from the interest rate swaps as referenced in Note 11.

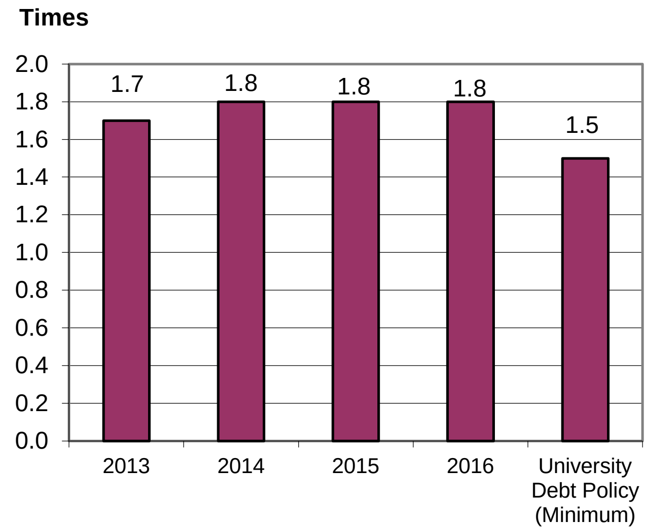
The University's debt policy uses two key ratios to measure debt capacity, financial health, and credit quality. The *debt service to operations ratio* provides an indicator of the University's ability to repay annual principal and interest relative to its overall operating expenses. The *expendable resources to debt ratio* measures unrestricted, expendable restricted, and temporarily restricted net position to funded debt and serves as a relative indicator of financial health, or cushion. Each ratio is compared to the University's debt policy standard. At June 30, 2016, the *expendable resources to debt ratio* was 1.8 times, and the *debt service to operations ratio* was 3.2%. Results of both ratios comply with the University's debt policy and indicate healthy coverage of debt requirements.

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

DEBT SERVICE TO OPERATIONS



EXPENDABLE RESOURCES TO DEBT



Other Noncurrent Assets and Liabilities

Excluding investments and capital assets, discussed above, noncurrent assets were $230.1 million at June 30, 2016 and $343.7 million at June 30, 2015, a 33.0% decrease. Other noncurrent assets include restricted cash and cash equivalents, receivables, notes receivable, and investments in joint ventures. The decline is due to a decrease in restricted cash and cash equivalents of 42.9% and receivables of 29.8%. Overall, University cash and cash equivalents increased with a shift from noncurrent to current related to an increase in the current portion of long-term liabilities; an increase in expendable funds of University foundations, and other factors. The receivables decrease was due a decline in noncurrent pledges receivable resulting from an installment payment on a major contribution.

Noncurrent liabilities were $4.0 billion at June 30, 2016 and $3.8 billion at June 30, 2015, and include funds held in trust for the University's affiliated foundations and other campuses in the UNC System and their affiliates of $2.2 billion at each year-end. These entities are not part of the University's financial reporting entity and are not discretely presented, but the entities do invest in the UNC Investment Fund.

Net Position

Net position represents the value of the University's assets and deferred outflows after liabilities and deferred inflows are deducted. The University's net position was $4.6 billion at June 30, 2016 and $4.7 billion at June 30, 2015.

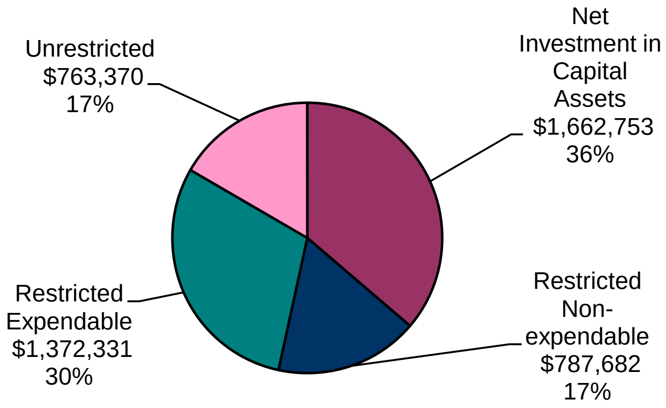
Net Investment in Capital Assets - This category of net position represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included.

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

Expendable Restricted - This category of net position includes resources in which the University is legally obligated to spend the resources in accordance with restrictions provided by external parties.

Unrestricted - This category of net position is not subject to externally imposed stipulations; however, most of these resources have been designated for particular academic, research, or other programs, as well as capital projects.

2016 NET POSITION: $4,586,136
(IN THOUSANDS)



CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statements of Revenues, Expenses, and Changes in Net Position present the University's results of operations. The statements for the fiscal year ended June 30, 2016 and the prior year are summarized as follows:

University Operations (dollars in thousands)

	2016	2015	Percent Change
Operating Revenues:			
Student Tuition and Fees, Net	$ 405,808	$ 395,005	2.7
Grants and Contracts	829,498	840,553	(1.3)
Sales and Services, Net	832,824	785,280	6.1
Other	19,082	10,447	82.7
Total Operating Revenues	2,087,212	2,031,285	2.8
Operating Expenses	2,827,249	2,924,684	(3.3)
Operating Loss	(740,037)	(893,399)	(17.2)
Nonoperating Revenues (Expenses):			
State Appropriations	493,923	479,186	3.1
Noncapital Gifts and Grants	219,019	279,894	(21.7)
Investment Income (Loss), Net	(50,950)	195,407	(126.1)
Interest and Fees on Debt	(62,561)	(67,459)	(7.3)
Federal Interest Subsidy on Debt	2,118	2,107	0.5
Other Nonoperating Revenues	27,520	32,631	(15.7)
Net Nonoperating Revenues	629,069	921,766	(31.8)
Income (Loss) Before Other Revenues	(110,968)	28,367	(491.2)
Capital Appropriations	8,767	1,600	447.9
Capital Grants	8,997	29,631	(69.6)
Capital Gifts		11,261	(100.0)
Additions to Permanent Endowments	12,428	19,697	(36.9)
Increase (Decrease) in Net Position	(80,776)	90,556	(189.2)
Net Position – July 1	4,666,912	4,576,356	2.0
Net Position – June 30	$ $4,586,136	$ $4,666,912	(1.7)

Fiscal year 2015-2016 revenues and other changes total $2,859,984 and expenses total $2,940,760.
Fiscal year 2014-2015 revenues and other changes total $3,082,700 and expenses total $2,992,143.

Operating Revenues

The operating revenues represent resources generated by the University in fulfilling its instruction, research, and public service missions. Net student tuition and fees for fiscal year 2016 increased 2.7% over the prior year. Student tuition and fees are reported net of scholarship discounts, which totaled $102.9 million for fiscal year 2016 and $97.4 million for the prior year. Tuition rates for fiscal year 2016 increased 3.5% for undergraduate residents, 0.7% for undergraduate nonresidents, 5.2% for graduate residents, and 1.7% for graduate nonresidents.

Revenues from sponsored grants and contracts are close to the same level as the prior year. In terms of the pipeline for future research funding, faculty secured $846.7 million in research funding during fiscal year 2016, as compared to $796.2 million the previous year reflecting a continuing strong success rate. This funding comes in contracts and grants awarded by federal and state agencies, foundations, nonprofit organizations, corporations, and associations, with the federal government providing the majority of the awards. Securing research funding has become an increasingly competitive endeavor, particularly as the portion of the federal government budget allocable to research is constrained. A key factor in dealing with such competitive pressures is diversifying funding sources and bringing in more awards from foundations and private industry and business.

The National Institutes of Health (NIH) remained the University's largest funding source, with awards exceeding $400.0 million. NIH's strong and ongoing support reflects positively on the University's health-related professional schools (dentistry, medicine, nursing, pharmacy and public health), UNC Health Care and its teaching hospitals, and basic and social science units in the College of Arts and Sciences.

The University's other top funders were the National Science Foundation at $31.8 million; the Department of Health and Human Services, excluding NIH, $27.8 million; and U.S. Agency for International Development, $53.1 million. The University's multidisciplinary research centers and institutes continue to play a growing role in bringing research funding to North Carolina, accounting for approximately $173.0 million of total awards in fiscal year 2016, over 20.0% of the total.

New, innovative research facilities and infrastructure have made ground-breaking interdisciplinary scientific research possible and contribute to obtaining research awards. Noteworthy among such opportunities is the partnership between UNC and GlaxoSmithKline (GSK), a global and pharmaceutical healthcare company, through which GSK is investing $20.0 million over five years in pursuit of a cure for HIV. With this investment, a research team from GSK moved to Chapel Hill to be co-located with University researchers. The University is matching this investment by providing world-class laboratory space on its medical campus for the HIV Cure Center and the new company. GSK will be contributing its expertise and knowledge in medicines discovery, development, and manufacturing, and the University will bring its research and translational medicine capabilities and talent, as well as access to patients and funding.

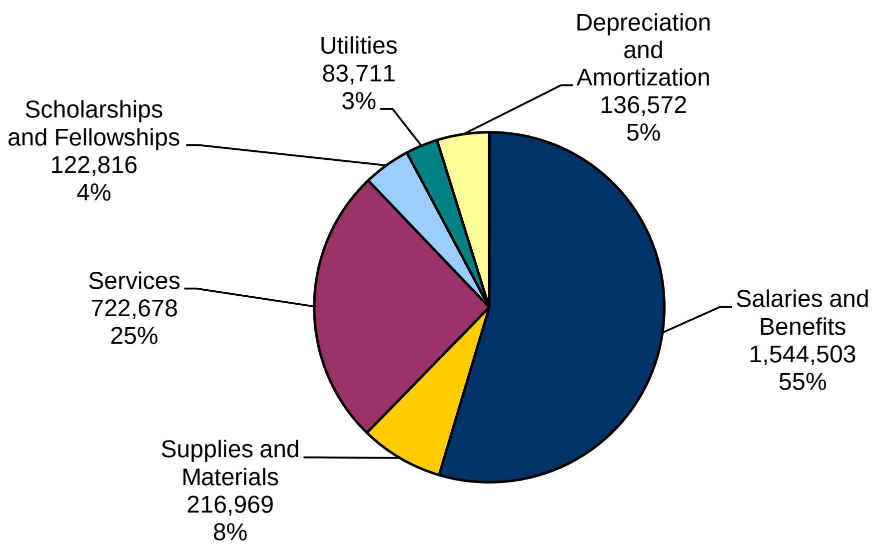
Sales and services increased 6.1% in fiscal year 2016 and include the revenues of campus auxiliary operations such as student housing, student stores, student health services, the utilities system, and parking and transportation, as well as revenues from patient services provided by the professional healthcare clinics. The revenue component of sales and services from the professional healthcare clinics rose 28.8% based on increased and more efficient patient processing and collection of additional Medicare Upper Payment Limit income. Other revenues represent operating resources not separately identified.

Operating Expenses

The University's operating expenses were $2.8 billion for the fiscal year ended June 30, 2016, a decrease of 3.3% from the prior year.

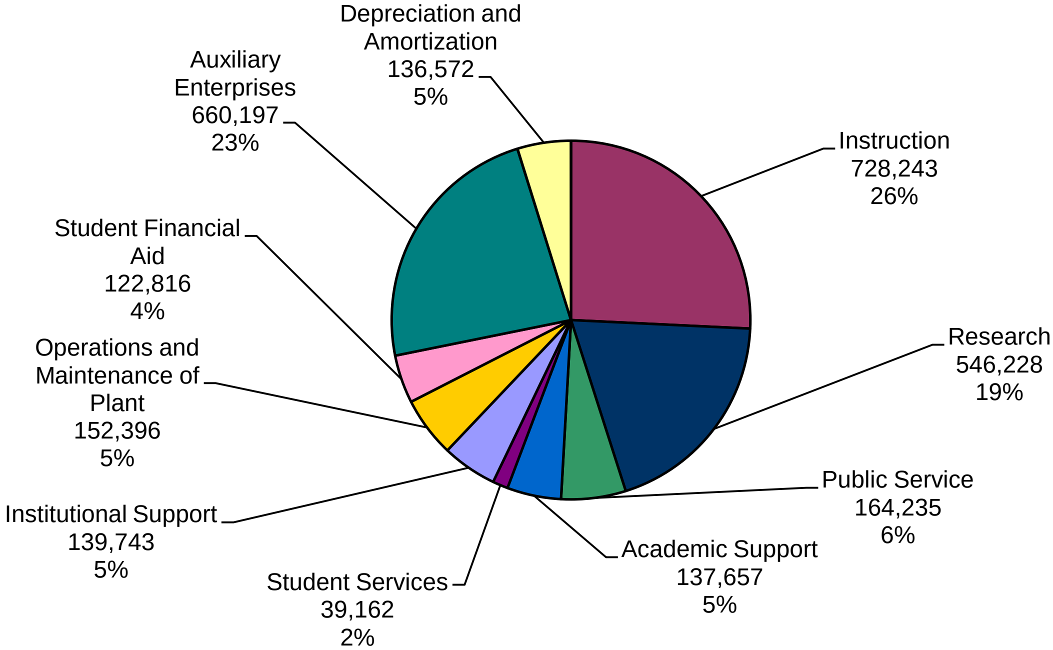
The following graph illustrates the University's operating expenses by natural classification.

2016 OPERATING EXPENSES BY NATURE: $2,827,249
(dollars in thousands)



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

2016 OPERATING EXPENSES BY FUNCTION: $2,827,249
(dollars in thousands)



Operating Expenses by Natural Classification
(Dollars in thousands)

	2016	2015	Percent Change
Salaries and Benefits	$ 1,544,503	$ 1,505,426	2.6%
Supplies and Materials	216,969	188,308	15.2%
Services	722,677	886,631	-18.5%
Scholarships and Fellowships	122,816	119,453	2.8%
Utilities	83,711	88,373	-5.3%
Depreciation / Amortization	136,573	136,493	0.1%
Total Operating Expenses	$ 2,827,249	$ 2,924,684	-3.3%

Operating Expenses by Function
(Dollars in thousands)

	2016	2015	Percent Change
Instruction	$ 728,243	$ 683,793	6.5%
Research	546,228	714,093	-23.5%
Public Service	164,235	152,661	7.6%
Academic Support	137,657	110,417	24.7%
Student Services	39,162	35,845	9.3%
Institutional Support	139,743	130,905	6.8%
Operations and Maintenance of Plant	152,396	162,016	-5.9%
Student Financial Aid	122,816	119,453	2.8%
Auxiliary Enterprises	660,197	662,094	-0.3%
Depreciation / Amortization	136,572	136,493	0.1%
Pension Expense		16,914	-100.0%
Total Operating Expenses	$ 2,827,249	$ 2,924,684	-3.3%

Operating expense categories changed at varying rates between FY15 and FY16, but experienced an overall decrease of 3.3%. Continued efforts to control expenses contributed to the reduction in expenditures. Instruction and Research have historically represented the largest non-auxiliary functional categories: 45.1% of total operating expenditures in FY16 and 47.8% in FY15. The next largest functional category, auxiliary expenses, represented 23.4% of total operating expenditures in FY16 and 22.6% in FY15. Across all functional categories, Salaries and Benefits represent the largest component, followed by Services.

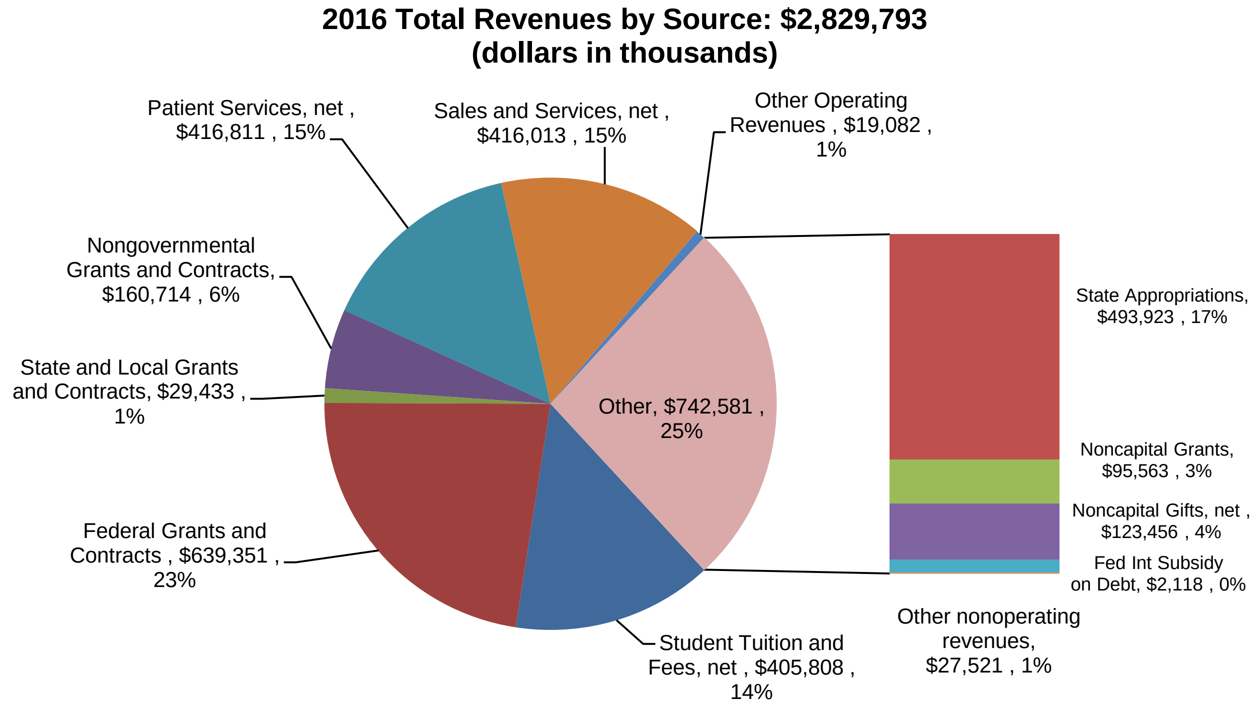
<u>Nonoperating Revenues and Expenses</u>

State appropriations, noncapital gifts and grants, and investment income are considered nonoperating because they were not generated by the University's principal, ongoing operations. State appropriations were not generated by the University but were provided to help fund operating expenses. State appropriations revenue totaled $493.9 million for fiscal year 2016, a net increase of 3.1% from the $479.2 million received during the prior year. Increases include $8.0 million for an Area Health Education Center, $5.3 million for compensation and benefits, $1.0 million for the Medical Scholars Program, and $0.9 million for tuition waivers for nonresident veterans. Decreases included a $4.0 million management flexibility reduction.

Noncapital gifts and grants decreased 21.7% to $219.0 million and include expendable gifts and federal government and other awards that are not considered to be operating revenues. Investment income was a positive $195.4 million for fiscal year 2015, but dropped to a $51.0 million loss for fiscal year 2016. Refer to the Endowment Performance sub-section in the Endowment, Restricted and Other Investments section for additional discussion and analysis. Investment income includes investment yield and realized and unrealized gains and losses, net of investment management fees.

<u>Total Operating and Nonoperating Revenues</u>

Operating and nonoperating revenues such as state appropriations, noncapital grants, noncapital gifts, and investment income are used to fund University operations. The following chart illustrates the University's operating and nonoperating revenues, which total $2.8 billion for fiscal year 2016.



Other Changes in Net Position

Capital appropriations for fiscal year 2016 were $8.8 million as compared with $1.6 million for the prior year and were used to fund construction projects that were not self-liquidating. Capital grants for capital construction projects were $9.0 million for fiscal year 2016 and $29.6 million for fiscal year 2015. There were no capital gifts for fiscal year 2016 as compared with $11.3 million for the prior year. Capital gifts include funding for construction projects and contributed improvements to facilities. Nonexpendable gifts and funds from the state's program to match gifts for distinguished professorship endowments resulted in additions to permanent endowments of $12.4 million during fiscal year 2016 and $19.7 million during fiscal year 2015.

Economic Outlook

The University of North Carolina at Chapel Hill remains financially sound with a robust and diverse revenue base, a healthy endowment, strong tradition of private giving, expense management, and a commitment to excellence.

Tuition rates for fiscal year 2017 increased 3.5% for undergraduate residents and 0.7% for undergraduate nonresidents. For graduate residents, tuition rates increased 5.5%, and for graduate nonresidents there was an increase of 1.9%. The University continues to return a portion of tuition revenue to students in the form of need-based aid and continues to provide 100% of documented need-based financial aid to students.

State appropriations for fiscal year 2017 are budgeted at $489.6 million. Initiatives funded by the UNC System such as faculty recruitment and retention, campus scholarship awards, department-based research, and other programs may increase the state appropriations budget during the 2017 fiscal year.

Consistency and growth in sponsored awards is a proven and reliable source in support of the University's research mission.

The University's research enterprise has doubled in the last decade, reaching nearly $850.0 million in extramural support in fiscal year 2016. It directly supports more than 10,000 positions statewide. In a 2014 report titled *The Top American Research Universities*, the University was ranked one of the top nine public universities. The report, produced by the Center for Measuring University Performance, assessed areas such as research, private support, faculty strength, and advanced training. Among international universities, Carolina was ranked 63rd in the world by the London-based *Times Higher Education* magazine in 2016. Strong financial support from North Carolina's elected officials has helped build the infrastructure that enabled this growth, as have strong collaborative ties to Duke University and NC State University in the Research Triangle Park region.

Philanthropic efforts continue to be successful as demonstrated by the recent announcement that fiscal year 2016 was the second consecutive record fundraising year. The University raised $495.0 million in commitments eclipsing the prior fiscal year's record by nearly $50.0 million. This performance is a result of generous contributions by nearly 68,000 donors. Contributions from 12 donors of $5.0 million or more accounted for $139.0 million of the $495.0 million total, with support ranging from student financial aid and merit scholarships to cancer care and library support.

Commitments included a $10.0 million gift to support promising, leading-edge cancer research at the University's Lineberger Comprehensive Cancer Center; a $1.0 million grant for Carolina Performing Arts to launch and develop the *DisTIL* (Discovery Through Iterative Learning) Fellowship Program; a charitable commitment to establish a community service scholarship and a community service fellowship program, both of which will support undergraduate students dedicated to public service; a $7.5 million bequest for the College of Arts and Sciences to create several distinguished professorships in the college's communication and history departments; and a $1.1 million grant to enable the Center for Community Capital to develop innovative strategies and solutions to help under-resourced communities become more vibrant and economically inclusive across the nation.

Endowment funds provide an important distribution of earnings in support of the University's mission. Approximately $2.8 billion is invested with the UNC Investment Fund. The University continues to assess and modify, when necessary, the Fund's asset allocation, paying attention to the continued evolution of the Diversifying Strategies allocation. Given the current risks and uncertainties in financial markets, the strategy focuses on capital preservation and downside protection as the most prudent near term course of action. This strategy, coupled with the notion that virtually no major asset class is "cheap" on an historical basis, and with the forward looking return profile for most asset classes tending to be muted, has led the University to favor those investment opportunities that provide modest returns with less volatility rather than more aggressive strategies.

Continued effective leadership and commitment to financial health will fortify the University as it continues to thrive. While it is not possible to predict future results, management believes that the University's financial position will remain strong.

FINANCIAL STATEMENTS

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	37,135,456
Restricted Cash and Cash Equivalents		320,927,017
Short-Term Investments		706,683,781
Restricted Short-Term Investments		135,382,220
Receivables, Net (Note 5)		324,422,439
Due from Primary Government		1,365,691
Due from State of North Carolina Component Units		24,240,712
Inventories		23,745,512
Notes Receivable, Net (Note 5)		6,756,172
Other Assets		5,637,675
Total Current Assets		1,586,296,675
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		140,808,969
Receivables, Net (Note 5)		30,650,342
Restricted Due from Primary Government		327,656
Endowment Investments		1,745,046,912
Restricted Investments		2,180,915,329
Other Investments		23,747,732
Notes Receivable, Net (Note 5)		47,060,384
Investment in Joint Venture		11,284,973
Capital Assets - Nondepreciable (Note 6)		246,789,545
Capital Assets - Depreciable, Net (Note 6)		2,852,998,614
Total Noncurrent Assets		7,279,630,456
Total Assets		8,865,927,131
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding		12,519,357
Accumulated Decrease in Fair Value of Hedging Derivatives		146,643,409
Deferred Outflows Related to Pensions		44,177,453
Total Deferred Outflows of Resources		203,340,219
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		159,780,911
Due to State of North Carolina Component Units		22,736,431
Deposits Payable		5,775,592
Funds Held for Others		65,135,361
Unearned Revenue		46,652,378
Interest Payable		13,529,890
Obligations Under Reverse Repurchase Agreements		15,255,000
Short-Term Debt		33,000,000
Long-Term Liabilities - Current Portion (Note 10)		140,514,221
Total Current Liabilities		502,379,784
Noncurrent Liabilities:		
U. S. Government Grants Refundable		31,543,252
Funds Held in Trust for Pool Participants		2,246,756,990
Hedging Derivative Liability		146,643,409
Long-Term Liabilities, Net (Note 10)		1,527,449,714
Total Noncurrent Liabilities		3,952,393,365
Total Liabilities		4,454,773,149

DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	28,358,552
NET POSITION	
Net Investment in Capital Assets	1,662,752,823
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	177,314,262
Research	21,613,479
Endowed Professorships	357,208,550
Departmental Uses	145,923,379
Loans	22,666,398
Other	62,955,613
Expendable:	
Scholarships and Fellowships	171,404,373
Research	16,645,001
Endowed Professorships	416,215,144
Departmental Uses	401,656,369
Capital Projects	210,214,543
Debt Service	88,817,904
Other	67,378,225
Unrestricted	763,369,586
Total Net Position	$ 4,586,135,649

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

The University of North Carolina at Chapel Hill
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

Exhibit A-2

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 13)	$ 405,808,354
Patient Services, Net (Note 13)	416,811,591
Federal Grants and Contracts	639,350,719
State and Local Grants and Contracts	29,432,614
Nongovernmental Grants and Contracts	160,714,422
Sales and Services, Net (Note 13)	416,012,618
Interest Earnings on Loans	1,449,722
Other Operating Revenues	17,631,796
Total Operating Revenues	2,087,211,836
EXPENSES	
Operating Expenses:	
Salaries and Benefits	1,544,503,269
Supplies and Materials	216,969,075
Services	722,677,144
Scholarships and Fellowships	122,815,639
Utilities	83,711,025
Depreciation/Amortization	136,572,434
Total Operating Expenses	2,827,248,586
Operating Loss	(740,036,750)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	493,923,004
Noncapital Grants - Student Financial Aid	19,607,307
Noncapital Grants	75,955,561
Noncapital Gifts, Net (Note 13)	123,455,737
Investment Loss (Includes Investment Expense of $16,400,556)	(50,950,284)
Interest and Fees on Debt	(62,561,118)
Federal Interest Subsidy on Debt	2,118,403
Other Nonoperating Revenues	27,520,415
Net Nonoperating Revenues	629,069,025
Loss Before Other Revenues	(110,967,725)
Capital Appropriations	8,766,500
Capital Grants	8,997,299
Additions to Endowments	12,428,037
Decrease in Net Position	(80,775,889)
NET POSITION	
Net Position - July 1, 2015	4,666,911,538
Net Position - June 30, 2016	$ 4,586,135,649

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

The University of North Carolina at Chapel Hill
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 2,196,189,317
Payments to Employees and Fringe Benefits	(1,607,307,094)
Payments to Vendors and Suppliers	(1,155,791,440)
Payments for Scholarships and Fellowships	(122,815,639)
Loans Issued	(6,174,609)
Collection of Loans	5,389,858
Interest Earned on Loans	1,349,572
Other Payments	(57,986,377)
Net Cash Used by Operating Activities	(747,146,412)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	493,923,004
Noncapital Grants - Student Financial Aid	19,607,307
Noncapital Grants	75,955,561
Noncapital Gifts	139,418,878
Additions to Endowments	12,428,037
William D. Ford Direct Lending Receipts	169,250,827
William D. Ford Direct Lending Disbursements	(173,399,973)
Related Activity Agency Receipts	1,395,802,036
Related Activity Agency Disbursements	(1,199,712,664)
Other Receipts	50,128,276
Net Cash Provided by Noncapital Financing Activities	983,401,289
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	670,700,000
Capital Appropriations	8,766,500
Capital Grants	8,931,086
Acquisition and Construction of Capital Assets	(119,424,241)
Principal Paid on Capital Debt and Leases	(662,984,217)
Interest and Fees Paid on Capital Debt and Leases	(64,132,031)
Federal Interest Subsidy on Debt Received	2,118,403
Net Cash Used by Capital Financing and Related Financing Activities	(156,024,500)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	3,209,128,700
Investment Income	66,868,741
Purchase of Investments and Related Fees	(3,300,272,582)
Change in Obligations Under Reverse Repurchase Agreements	2,879,000
Net Cash Used by Investing Activities	(21,396,141)
Net Increase in Cash and Cash Equivalents	58,834,236
Cash and Cash Equivalents - July 1, 2015	440,037,206
Cash and Cash Equivalents - June 30, 2016	$ 498,871,442

The University of North Carolina at Chapel Hill
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

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

Operating Loss	$	(740,036,750)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/Amortization Expense		136,572,434
Allowances, Write-Offs, and Amortizations		9,962,193
Pension Expense		11,165,916
Nonoperating Other Expenses		(50,505)
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		27,471,520
U.S. Government Grants Refundable		133,154
Inventories		(3,999,903)
Notes Receivable, Net		(4,824,801)
Accounts Payable and Accrued Liabilities		(132,323,885)
Due to Primary Government		(3,091,794)
Unearned Revenue		28,776,052
Deferred Outflows for Contributions Subsequent to the Measurement Date		(42,133,165)
Compensated Absences		(29,719,494)
Other Assets		(5,047,384)
Net Cash Used by Operating Activities	$	(747,146,412)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	37,135,456
Restricted Cash and Cash Equivalents		320,927,017
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		140,808,969
Total Cash and Cash Equivalents - June 30, 2016	$	498,871,442

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$	(118,084,394)
Loss on Disposal of Capital Assets		(10,196,073)
Amortization of Bond Premiums/Discounts and Deferred Loss on Refunding		(1,102,109)

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

The University of North Carolina at Chapel Hill Foundations
Statement of Financial Position
June 30, 2016

Exhibit B-1

	The University of North Carolina at Chapel Hill Arts and Sciences Foundation Incorporated	The Educational Foundation Scholarship Endowment Trust	The Medical Foundation of North Carolina Incorporated
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 16,651,644	$ 10,929,509	$ 30,826,273
Promises to Give, Net	9,308,115	2,249,368	6,725,114
Contribution Receivable from Split-Interest Agreements		3,584,863	
Accounts Receivable	596,313		
Funds Held in Trust	2,131,988		
Other Receivables	1,812		
Other Current Assets			763,279
Total Current Assets	28,689,872	16,763,740	38,314,666
Property and Equipment:			
Capital Assets, Net	5,675,430		286,470
Total Property and Equipment	5,675,430		286,470
Other Assets:			
Investments	204,548,230	201,679,453	234,175,489
Real Estate			
Promises to Give, Net	13,703,152		10,121,809
Split-Interest Agreements	1,456,300		
Cash Surrender Value of Life Insurance		1,753,837	
Other Assets			3,517,684
Total Other Assets	219,707,682	203,433,290	247,814,982
Total Assets	$ 254,072,984	$ 220,197,030	$ 286,416,118
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	$ 670,308	$ 0	$ 532,119
Annuities Payable		47,626	
Current Portion of Loan Payable	57,086		
Total Current Liabilities	727,394	47,626	532,119
Long-Term Liabilities			
Deferred Revenue			167,932
Loan Payable	1,942,914		
Liabilities Under Charitable Remainder Trusts			54,489
Total Long-Term Liabilities	1,942,914		222,421
Total Liabilities	2,670,308	47,626	754,540
NET ASSETS			
Unrestricted	44,884,892		9,560,996
Temporarily Restricted	94,488,574	103,123,215	170,944,964
Permanently Restricted	112,029,210	117,026,189	105,155,618
Total Net Assets	251,402,676	220,149,404	285,661,578
Total Liabilities and Net Assets	$ 254,072,984	$ 220,197,030	$ 286,416,118

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

The University of North Carolina at Chapel Hill Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2016

Exhibit B-2

	The University of North Carolina at Chapel Hill Arts and Sciences Foundation Incorporated	The Educational Foundation Scholarship Endowment Trust	The Medical Foundation of North Carolina Incorporated
SUPPORT AND REVENUES			
Support:			
Contributions	$ 18,228,210	$ 2,829,670	$ 27,429,412
Development Assessment Fee	3,013,506		
Change in Value of Split-Interest Agreements	(811,600)		(291,222)
Contributed Services and Facilities	82,675		1,646,370
Actuarial Adjustment of Annuities Payable	.	8,463	
Endowment Investment Return Designated for Current Operations		10,144,302	
Total Support	20,512,791	12,982,435	28,784,560
Revenue:			
Interest and Dividends			2,391,599
Net Unrealized and Realized Gains on Investments	(3,403,872)		(6,040,311)
Investment Income	14,900		
Other Income	2,211		663,560
Total Renenue	(3,386,761)		(2,985,152)
Total Support and Revenue	17,126,030	12,982,435	25,799,408
EXPENSES			
Program Services:			
Grants	15,207,660		14,846,194
Scholarship Expense Distribution		10,137,519	
Annuity Payments		6,783	
Other Expense		265,000	
Total Program Services	15,207,660	10,409,302	14,846,194
Supporting Services			
Fundraising	3,987,517		3,789,320
Management, Administrative, and General	786,881		1,656,370
Total Supporting Services	4,774,398		5,445,690
Bad Debt	261,792		
Total Expenses and Bad Debt	20,243,850	10,409,302	20,291,884
OTHER CHANGES			
Endowment Investment Return in Excess of Amounts Designated for Current Operations		(15,093,123)	
CHANGE IN NET ASSETS			
Unrestricted	3,881,143		(220,384)
Temporarily Restricted	(10,812,420)	(15,084,660)	(5,396,346)
Permanently Restricted	3,813,457	2,564,670	11,124,254
Total Changes in Net Assets	(3,117,820)	(12,519,990)	5,507,524
Net Assets at Beginning of Year	254,520,496	232,669,394	280,154,054
Net Assets at End of Year	$ 251,402,676	$ 220,149,404	$ 285,661,578

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Chapel Hill Investment Fund is a North Carolina non-profit corporation exempt from income tax pursuant to Section 501(c)(3). It was established in January 1997 and is classified as a governmental external investment pool. The fund is governed by a board consisting of eight to eleven ex-officio directors and two to four elected directors. Ex-officio directors include all of the members of the Board of Trustees of the Endowment Fund of the University, which includes the Chair of the University Board of Trustees, the Chancellor, the Vice Chancellor for Finance and Administration, and the Vice Chancellor for University

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

The UNC Investment Fund is a non-profit limited liability company exempt from income tax pursuant to Section 501(c)(3) organized under the laws of the State of North Carolina. The fund was organized by the Chapel Hill Investment Fund to allow the University, the UNC System, other constituent institutions of the UNC System, and certain eligible affiliated foundations, associations, trusts, and endowments that support the University and the UNC System, to pool their resources and invest collectively in investment opportunities identified, structured, and managed by the Management Company. The membership interests are offered only to eligible government entities or tax-exempt organizations that are controlled by or support the University, the UNC System, or other constituent institutions of the UNC System. The Chapel Hill Investment Fund contributed and assigned all of its assets to the UNC Investment Fund effective January 1, 2003, in exchange for its membership interest in the UNC Investment Fund. Upon such contribution and assignment, and in consideration thereof, the UNC Investment Fund has assumed all liabilities and obligations of the Chapel Hill Investment Fund in respect of such contributed assets. At June 30, 2016, the Chapel Hill Investment Fund membership interest was approximately 61% of the UNC Investment Fund total membership interests. Because the Chapel Hill Investment Fund is the organizer and controlling member of the UNC Investment Fund, the financial statements of the UNC Investment Fund have been blended with those of the University.

The UNC Intermediate Fund was organized in May 2013 by the University to make available an intermediate-term investment fund for eligible participants. The University is the controlling member. The UNC Intermediate Fund is classified as governmental external investment pool. Eligible participants in the fund include not only the University but also the UNC System, its constituent institutions, and/or affiliates and supporting organizations of the UNC System or such constituent institutions. The University has retained the Management Company to serve as the investment manager of the fund. Because the University is the organizer and controlling member of the UNC Intermediate Fund, the financial statements of the UNC Intermediate Fund have been blended with those of the University.

The Management Company is a North Carolina non-profit corporation organized and operated exclusively to support the educational mission of the University. The Management Company provides investment management and administrative services to the University, UNC System, and institutions and affiliated tax-exempt organizations, and performs other functions for and generally carries out the purposes of the University. The Management Company is governed by five ex-officio directors and one to three additional directors as fixed or changed from time to time by the board, elected by the ex-officio directors. The ex-officio directors consist of the Chancellor, the Vice Chancellor for Finance and Administration, the Chair of the University Board of Trustees, the Chair of the Board of Directors of the Chapel Hill Investment Fund, and the President of the Management Company. Because members of the Board of Directors of the Management Company are officials or appointed by officials of the University and the Management Company's primary purpose is to benefit the University and other organizations operated primarily to support the University, its financial statements have been blended with those of the University.

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

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

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

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

WUNC is governed by a board consisting of nine members. Seven members of the board, at least two of which are members of the Board of Trustees of the University, are appointed by the Board of Trustees of the University. The remaining two board members are the University's Vice Chancellor of Communications and the General Manager of the noncommercial educational radio station WUNC-FM. The purposes of WUNC are to support the University by holding FCC licenses of non-commercial radio stations and operating and conducting programming of those radio stations and NC Public Radio, WUNC-FM, furthering the University's efforts to extend knowledge-based and educational services to the citizens of NC and to enhance the quality of life for the people of the State. Because members of the Board of Directors of WUNC are officials or appointed by officials of the University and the primary purpose of WUNC is to benefit the University, its financial statements have been blended with those of the University.

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

Condensed combining information regarding blended component units is provided in Note 21.

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

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

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

The Educational Foundation Trust is governed by The Educational Foundation Scholarship Endowment Trust Agreement which designates the voting members of the Investment Committee of The Educational Foundation, Inc. as trustees. The Investment Committee consists of five members elected from the membership of The Educational Foundation, Inc. The Educational Foundation Trust operates solely to assist the University in providing financial assistance to students at the University. On an annual basis, the Board of Trustees of the Educational Foundation Trust appropriates a portion of the net appreciation on its assets to The Educational Foundation, Inc. in its capacity as agent for the Educational

Foundation Trust. The distribution from the Educational Foundation Trust to The Educational Foundation, Inc. is then forwarded by The Educational Foundation, Inc. to the University to provide financial assistance to students at the University. Although the University does not control the timing or amount of receipts from the Educational Foundation Trust, the majority of resources or income that the Educational Foundation Trust holds and invests is restricted to the students of the University by the donors. Because these restricted resources held by the Educational Foundation Trust can only be used for the benefit of the students of the University, the Educational Foundation Trust is considered a component unit of the University.

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

During the year ended June 30, 2016, the Medical Foundation, the Arts and Sciences Foundation, and the Educational Foundation Trust distributed $40,191,373 to the University for both restricted and unrestricted purposes. Complete financial statements for the Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust can be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

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

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

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

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

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

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

E. **Investments** – 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. Investments for which a readily determinable fair value does not exist include investments in hedge funds and limited partnerships. These investments are carried at net asset value (NAV) per share as provided by the respective fund managers of these investments or third party administrators. The Management Company reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the NAV of such investments. 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 or decrease in the fair value of investments is recognized as a component of investment income.

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

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

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

F. Receivables - Receivables consist primarily of tuition and fees charged to students and charges to patients for services provided by the UNC Faculty Physicians and the Dental Faculty Practices. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, 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. Students, patients, pledges, contracts and grants, and notes receivable are recorded net of estimated uncollectible amounts. The accounts and other receivables are shown at book value with no provision for doubtful accounts considered necessary.

G. Inventories - Inventories held by the University are priced at cost or average cost except for the Student Stores inventory, which is valued at the lower of cost or market. Inventories consist of expendable supplies, postage, fuel held for consumption, textbooks, and other merchandise for resale.

H. Capital Assets - Capital assets are stated at cost at date of acquisition or 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.

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

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

The University’s historic property, artworks, and literary collections are capitalized at cost, acquisition value at the date of donation, or fair value at date of donation for assets acquired prior to July 1, 2015. These collections are considered inexhaustible and therefore are not depreciated.

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

J. **Funds Held in Trust for Pool Participants** - Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2. The assets associated with this liability are included in restricted investments, cash, and other similar asset accounts.

K. **Funds Held in Trust by Others** - Funds held in trust by others are resources neither in the possession nor the control of the University, but held and administered by an outside organization, with the University deriving income from such funds. Such funds established under irrevocable trusts where the University has legally enforceable rights or claims have not been recorded on the accompanying financial statements. The value of these assets at June 30, 2016 is $31,851,515.

L. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, net pension liability, notes payable, annuity and life income payable, and compensated absences that will not be paid within the next fiscal year.

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

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report.* This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 15 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

M. **Compensated Absences** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

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

N. **Net Position** - The University's net position is classified as follows:

Net Investment in Capital Assets - This represents the University's total investment in capital assets, net of outstanding 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. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Cash on hand at June 30, 2016 was $170,451. The carrying amount of the University's deposits not with the State Treasurer was $204,242,783 and the bank balance was $106,611,949. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2016, $104,394,539 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

B. Investments

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

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

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

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

Investments of the University's component units, UNC-Chapel Hill Foundation, UNC Management Company, Chapel Hill Investment Fund, UNC Intermediate Pool, UNC Investment Fund, Business School Foundation, Law Foundation, School of Education Foundation, Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. The UNC Management Company does not hold endowment funds.

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

Investments are subject to the following risks.

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

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

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

Short-Term Investment Fund - At June 30, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes $294,458,208 which represents the University'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 by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Temporary Investment Pool (Temporary Pool) – The Temporary Pool is a fixed income portfolio managed by the Management Company and Novant Asset Management, LLC. It operates in conjunction with the University's Bank of America disbursing account for all special funds, funds received for services rendered by health care professionals, and endowment revenue funds (internal portion) and funds of affiliated foundations (external portion). Because of the participation in the Temporary Pool by affiliated foundations, it is considered a governmental external investment pool. The external portion of the Temporary Pool is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants. Fund ownership of the University's Temporary Pool is measured using the unit value method. Under this method, participant activity is recorded on a cost basis in the UNC-Chapel Hill Money Market System. This is the official means of recording activity in the Temporary Pool. The Temporary Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the University Board of Trustees. The University has not provided legally binding guarantees during the period to support the value of the pool's investments. There are no involuntary participants in the Temporary Pool.

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

Participants' cash balances are automatically invested in the Temporary Pool. Income distribution is calculated based on the Average Daily Balance (ADB) and distributed monthly. The rate earned by an account is dependent upon its account classification. The rates are set by policy and approved by the Vice Chancellor for Finance and Administration.

The following table presents the Temporary Pool investments by type and investments subject to interest rate risk at June 30, 2016.

Temporary Pool Investments

		Investment Maturities (in Years)			
	Amount	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 105,271,350	$ 20,046,200	$ 85,225,150	$ 0	$ 0
U.S. Agencies	78,687,253	3,064,841	4,756,261	3,915,834	66,950,317
Mortgage Pass Throughs	10,429				10,429
Collateralized Mortgage Obligations	5,073,103				5,073,103
Asset-backed Securities	781,515				781,515
Money Market Mutual Funds	57,878,126	57,878,126			
Domestic Corporate Bonds	13,816,522	4,005,700	9,557,506		253,316
Total Debt Securities	261,518,298	$ 84,994,867	$ 99,538,917	$ 3,915,834	$ 73,068,680
Other Securities					
Domestic Stocks	30,000				
Total Temporary Pool Investments	$ 261,548,298				

The University has elected to invest $112,915,415 of Temporary Pool assets in the UNC Chapel Hill Investment Fund. The disclosures for these investments are not included in the preceding table. Rather, the disclosures for this portion of the Temporary Investment Pool are included in those for UNC Chapel Hill Investment Fund, Inc.

At June 30, 2016, investments in the Temporary Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB, Ba and below	Unrated
U.S. Agencies	$ 78,687,253	$ 0	$ 3,002,340	$ 0	$ 0	$ 0	$ 75,684,913
Collateralized Mortgage Obligations	5,073,103				15,582	2,193,823	2,863,698
Asset-backed Securities	781,515					781,515	
Mortgage Pass Throughs	10,429					10,429	
Money Market Mutual Funds	57,878,126	57,878,126					
Domestic Corporate Bonds	13,816,522	1,317,588	9,226,118	3,019,500		253,316	
Total	$ 156,246,948	$ 59,195,714	$ 12,228,458	$ 3,019,500	$ 15,582	$ 3,239,083	$ 78,548,611

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

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

The Temporary Investment Pool's Statement of Net Position and Statement of Operations and Changes in Net Position as of and for the period ended June 30, 2016, are as follows:

Statement of Net Position
June 30, 2016

		Amount
Assets:		
Cash in Bank	$	2
State Treasurer Investment Fund		5,000,000
Accounts Receivable		401,972
Accrued Investment Income		545,385
Chapel Hill Investment Fund		112,915,415
Investments		261,548,298
Total Assets	$	380,411,072
Liabilities:		
Accounts Payable	$	$9,444
Total Liabilities		9,444
Net Position As Held in Trust for All Pool Participants:		
Internal Portion		278,796,353
External Portion		101,605,275
Total Net Position		380,401,628
Total Liabilities and Net Position	$	380,411,072

Statement of Operations and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

		Amount
Increase in Net Position from Operations:		
Revenues:		
Investment Income	$	10,065,460
Expenses:		
Investment Management		(314,167)
Net Increase in Net Position Resulting from Operations		9,751,293
Distributions to Participants:		
Distributions Paid and Payable		(9,751,293)
Share Transactions:		
Net Share Purchases		(56,555,225)
Total Decrease in Net Position		(56,555,225)
Net Position:		
Beginning of Year		436,956,853
End of Year	$	380,401,628

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

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

Purchase and sale of participation shares occur at the beginning of the month. As calculated by the Management Company, returns net of fees and expenses are to be allocated 85% to the Intermediate Pool participants and 15% to the University. Statements are to be provided by the Management Company to each participant on a monthly basis reflecting the participants' balance and investment activity. However, as noted above, the University is currently the only participant in the Intermediate Pool.

The following table presents the investments by type and investments subject to interest rate risk at June 30, 2016.

Intermediate Pool Investments

		Investment Maturities (in Years)	
	Amount	Less Than 1	1 to 5
Investment Type			
Debt Securities			
Debt Mutual Funds	$ 7,681,045	$ 0	$ 7,681,045
Money Market Mutual Funds	7,855,246	7,855,246	
Total Intermediate Pool Investments	$ 15,536,291	$ 7,855,246	$ 7,681,045

At June 30, 2016, investments in the Intermediate Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	A
Debt Mutual Funds	$ 7,681,045	$ 5,265,700	$ 2,415,345
Money Market Mutual Funds	7,855,246	7,855,246	
Total	$ 15,536,291	$ 13,120,946	$ 2,415,345

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

At June 30, 2016, the Intermediate Investment Pool had investments of $18,649,339 in the Chapel Hill Investment Fund. The disclosures for these investments are not included here. The disclosures for this portion of the Intermediate Investment Pool can be found under the heading UNC Chapel Hill Investment Fund, Inc.

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

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

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

As of June 30, 2016, the University's membership interest was approximately 92% of the UNC Intermediate Fund's total membership interests. An affiliated organization, not included in the University's reporting entity, held the remaining 8% membership interest. This external portion of the UNC Intermediate Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants.

The following table presents the UNC Intermediate Fund investments by type and investments subject to interest rate risk at June 30, 2016.

UNC Intermediate Fund Investments

	Amount	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 53,782,126	$ 4,820,693	$ 27,830,919	$ 21,130,514	$ 0
U.S. Agencies	3,990,893			311,892	3,679,001
Mortgage Pass Throughs	17,279,153				17,279,153
Collateralized Mortgage Obligations	17,644,984		796,141	874,745	15,974,098
Asset-backed Securities	36,045,536		2,380,120	13,122,174	20,543,242
Debt Mutual Funds	165,272,134	33,955,308	58,397,423	67,146,716	5,772,687
Money Market Mutual Funds	6,229,103	6,229,103			
Domestic Corporate Bonds	9,208,695	656,838	5,036,248	2,957,332	558,277
Foreign Corporate Bonds	21,647,550	497,308	11,035,007	7,077,611	3,037,624
Foreign Government Bonds	612,250		405,250	207,000	
Total Debt Securities	331,712,424	$ 46,159,250	$ 105,881,108	$ 112,827,984	$ 66,844,082
Other Securities					
Real Estate Investment Trusts	229,288				
Total Intermediate Fund Investments	$ 331,941,712				

The University has elected to invest $108,480,922 of assets of the UNC Intermediate Fund in the UNC Investment Fund. The disclosures for these investments are not included in the preceding table. Rather, the disclosures for this portion of UNC Intermediate Fund investments are included in those for UNC Investment Fund

At June 30, 2016, investments in UNC Intermediate Fund had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB, Ba and below	Unrated
U.S. Agencies	$ 3,990,893	$ 3,990,893	$ 0	$ 0	$ 0	$ 0	$ 0
Mortgage Pass Throughs	17,279,153	1,497,915	934,058	2,024,839	3,731,992	9,090,349	
Collateralized Mortgage Obligations	17,644,984		250,000	1,114,025	201,785	16,079,174	
Asset-backed Securities	36,045,536	8,309,984	1,408,298	6,767,099	10,170,151	5,081,249	4,308,755
Debt Mutual Funds	165,272,134		27,197,091	71,829,435	155,653	58,204,551	7,885,404
Money Market Mutual Funds	6,229,103	6,229,103					
Domestic Corporate Bonds	9,208,695		264,146	1,588,907	3,490,949	3,856,293	8,400
Foreign Corporate Bonds	21,647,550		192,199	942,238	11,416,939	8,702,198	393,976
Foreign Government Bonds	612,250				405,250		207,000
Total	$ 277,930,298	$ 20,027,895	$ 30,245,792	$ 84,266,543	$ 29,572,719	$ 101,013,814	$ 12,803,535

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

UNC Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund) – Chapel Hill Investment Fund is a North Carolina non-profit corporation exempt from income tax pursuant to Section 501(c)(3). It was established in January 1997 and is classified as a governmental external investment pool. The pool is utilized to manage the investments for charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The University's Endowment, UNC-Chapel Hill Foundation, Business School Foundation, School of Education Foundation, Law Foundation, Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust are participants in the Chapel Hill Investment Fund and are included in the University's reporting entity (internal portion). Other affiliated organizations (external portion) in the Chapel Hill Investment Fund are not included in the University's reporting entity. Fund ownership of the Chapel Hill Investment Fund is measured using the unit value method. Under this method, each participant's investment balance is determined on a market value basis. The external portion of the Chapel Hill Investment Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants.

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

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

The Chapel Hill Investment Fund consists of an approximate 61.2% membership in the UNC Investment Fund categorized below.

UNC Investment Fund, LLC (UNC Investment Fund) – The UNC Investment Fund is a non-profit limited liability company exempt from income tax pursuant to Section 501(c)(3) organized under the laws of the State of North Carolina. It was established in December 2002 by the Chapel Hill Investment Fund and is classified as a governmental external investment pool. The pool is utilized to manage the investments for The University of North Carolina, its constituent institutions, and affiliates of the constituent institutions. This includes charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support these institutions. As previously noted, the Chapel Hill Investment Fund, with an approximate 61.2% membership interest as of June 30, 2016, is the predominant member of the UNC Investment Fund.

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

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

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

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

The following table presents the UNC Investment Fund investments by type and investments subject to interest rate risk at June 30, 2016.

UNC Investment Fund Pool Investments

		Investment Maturities (in Years)			
	Amount	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 18,468,086	$ 0	$ 12,476,435	$ 3,781,105	$ 2,210,546
U.S. Agencies	55,621,626		1,544,841	1,427,212	52,649,573
Collateralized Mortgage Obligations	61,374,473			5,278,055	56,096,418
Asset-backed Securities	33,108,935				33,108,935
Debt Mutual Funds	1,816,478	4,904	442,494	724,775	644,305
Money Market Mutual Funds	183,123,043	183,123,043			
Domestic Corporate Bonds	4,254,360	1,004,945	2,058,475	509,585	681,355
Domestic Municipal Bonds	3,204,096				3,204,096
Total Debt Securities	360,971,097	$ 184,132,892	$ 16,522,245	$ 11,720,732	$ 148,595,228
Other Securities					
Equity Index Funds	5,897,247				
Real Estate Investment Trusts	39,477,001				
Long/Short Hedge Funds	922,255,112				
Diversifying Hedge Funds	328,625,515				
Hedge Funds in Liquidation	7,826,769				
Credit-Based Commingled Hedge Funds	107,501,693				
Long Only Equity Funds	907,682,806				
Private Equity Limited Partnerships	1,413,818,129				
Real Assets Limited Partnerships	277,180,733				
Domestic Stocks	227,113,280				
Foreign Stocks	18,319,891				
Total UNC Investment Fund Pool	$ 4,616,669,273				

At June 30, 2016, investments in the UNC Investment Fund Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB, Ba & Below	Unrated
U.S. Agencies	$ 55,621,626	$ 51,912,522	$ 3,709,104	$ 0	$ 0	$ 0	$ 0
Collateralized Mortgage Obligations	61,374,473		503,105			53,613,898	7,257,470
Asset-backed Securities	33,108,935	5,327,154			799,795	20,109,273	6,872,713
Debt Mutal Funds	1,816,478			1,814,843			1,635
Money Market Mutual Funds	183,123,043	183,123,043					
Domestic Corporate Bonds	4,254,360		509,585	2,716,445	517,690	510,640	
Domestic Municipal Bonds	3,204,096					3,204,096	
Total	$ 342,503,011	$ 240,362,719	$ 4,721,794	$ 4,531,288	$ 1,317,485	$ 77,437,907	$ 14,131,818

Foreign Currency Risk: At June 30, 2016, the UNC Investment Fund Pool's exposure to foreign currency risk is as follows:

Investment	Currency	Amount (U.S. dollars)
Private Equity Limited Partnerships	Euro	$ 82,565,266
Real Assets Limited Partnerships	Euro	12,277,255
Other Hedge Funds	Euro	68,576,732
Total Euro		163,419,253
Private Equity Limited Partnerships	British Pound Sterling	31,780,079
Total British Pound Sterling		31,780,079
Real Assets Limited Partnerships	Canadian Dollar	7,113,881
Foreign Stocks	Canadian Dollar	2,993,788
Total Canadian Dollar		10,107,669
Private Equity Limited Partnerships	Australian Dollar	793,082
Hedge Funds	Chinese Yuan Renminbi	25,600,000
Total Other		26,393,082
Total		$ 231,700,083

Investment Derivatives: At June 30, 2016, the UNC Investment Fund is invested in a foreign currency futures contracts with a value of $18,560,829 and in a foreign currency forward contract with a fair value of ($454,702). Additional information is provided in Note 11 Derivative Instruments.

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

Non-Pooled Investments

	Amount	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 136,581	$ 0	$ 0	$ 75,934	$ 60,647
U.S. Agencies	316	316			
Mortgage Pass Throughs	141				141
Collateralized Mortgage Obligations	34,217				34,217
Debt Mutual Funds	6,581,082		295,016	5,823,117	462,949
Money Market Mutual Funds	57,543,072	56,512,577	399,212	631,283	
Domestic Corporate Bonds	340,840		32,611	180,116	128,113
Domestic Municipal Bonds	61,451				61,451
Foreign Corporate Bonds	1,172,984				1,172,984
Foreign Government Bonds	33,694				33,694
Total Debt Securities	$ 65,904,378	$ 56,512,893	$ 726,839	$ 6,710,450	$ 1,954,196
Other Securities					
Equity Index Funds	61,575				
Equity Mutual Funds	7,395,389				
Investments in Real Estate	962,913				
Real Estate Investment Trusts	3,042,964				
Private Equity Limited Partnerships	4,501,160				
Long/Short Hedge Funds	51,804				
Domestic Stocks	15,910,574				
Foreign Stocks	4,801,952				
Other	5,363,262				
Total Non-Pooled Investments	$ 107,995,971				

At June 30, 2016, the University's Non-Pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BB, Ba and below	Unrated
U.S. Agencies	$ 316	$ 81	$ 0	$ 0	$ 0	$ 235
Mortgage Pass Throughs	141					141
Collateralized Mortgage Obligations	34,217					34,217
Debt Mutual Funds	6,581,082	2,340,452	2,413,473	1,174,001	283,216	369,940
Money Market Mutual Funds	57,543,072	559,928	899,467			56,083,677
Domestic Corporate Bonds	340,840	103,739	71,067	37,921		128,113
Domestic Municipal Bonds	61,451				61,451	
Foreign Corporate Bonds	1,172,984	1,172,984				
Foreign Government Bonds	33,694					33,694
Total	$ 65,767,797	$ 4,177,184	$ 3,384,007	$ 1,211,922	$ 344,667	$ 56,650,017

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

Foreign Currency Risk: At June 30, 2016, the University had nominal direct exposure to foreign currency risk in Non-Pooled Investments. In terms of indirect exposure, the University had approximately $6 million of Non-Pooled investments in foreign domains where the investments were denominated in U.S. dollars.

Total Investments – The following table presents total investments at June 30, 2016.

	Amount
Investment Type	
Debt Securities	
U.S. Treasuries	$ 177,658,143
U.S. Agencies	138,300,088
Mortgage Pass Throughs	17,289,723
Collateralized Mortgage Obligations	84,126,777
Asset-Backed Securities	69,935,986
Debt Mutual Funds	181,350,739
Money Market Mutual Funds	312,628,590
Domestic Corporate Bonds	27,620,417
Domestic Municipal Bonds	3,265,547
Foreign Corporate Bonds	22,820,534
Foreign Government Bonds	645,944
Total Debt Securities	1,035,642,488
Other Securities	
Equity Index Funds	5,958,822
Equity Mutual Funds	7,395,389
Investments in Real Estate	962,913
Real Estate Investment Trusts	42,749,253
Long/Short Hedge Funds	922,306,916
Diversifying Hedge Funds	328,625,515
Hedge Funds in Liquidation	7,826,769
Long Only Equity Funds	907,682,806
Credit-Based Commingled Hedge Funds	107,501,693
Private Equity Limited Partnerships	1,418,319,289
Real Assets Limited Partnerships	277,180,733
Domestic Stocks	243,053,854
Foreign Stocks	23,121,843
Other	5,363,262
Total Investments	$ 5,333,691,545

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

	Amount
University Statement of Net Position	
Short-Term Investments	$ 706,683,781
Restricted Short-Term Investments	135,382,220
Endowment Investments	1,745,046,912
Restricted Investments	2,180,915,329
Other Investments	23,747,732
Subtotal	4,791,775,974
Investments of UNC Investment Fund Held for Component Units that are Discretely Presented in Accompanying Financial Statements	541,915,571
Total Investments	$ 5,333,691,545

The University's reporting entity, including the three discretely presented component units, comprises approximately 52.9% of the UNC Investment Fund.

Component Unit - Investments of the University's discretely presented component unit, the Medical Foundation of North Carolina, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Medical Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. A summary of investments not held by the University as of June 30, 2016:

Investment Type	Carrying Value
Money Market Funds	$ 5,761,966
Common Stock	26,360,287
Mutual Funds - Equity Oriented	40,095,476
Mutual Funds - Credit Oriented	10,714,532
Mutual Funds - Alternative	2,821,218
International Equity Fund	7,153,779
Government Securities	5,809,639
Total Investments	$ 98,716,897

NOTE 3 - FAIR VALUE MEASUREMENTS

University - To the extent available, the University's investments and derivatives 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 or liabilities 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 or liability, 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 the University'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				
Debt Securities				
U.S. Treasuries	$ 177,658,143	$ 177,658,143	$ 0	$ 0
U.S. Agencies	138,300,088		138,300,088	
Mortgage Pass Throughs	17,289,723		17,289,723	
Collateralized Mortgage Obligations	84,126,777		84,126,777	
Asset-Backed Securities	69,935,986		69,935,986	
Debt Mutual Funds	181,350,739	181,350,739		
Money Market Mutual Funds	312,628,590	312,628,590		
Domestic Corporate Bonds	27,620,417		27,620,417	
Domestic Municipal Bonds	3,265,547		3,265,547	
Foreign Corporate Bonds	22,820,534		22,820,534	
Foreign Government Bonds	645,944		645,944	
Total Debt Securities	1,035,642,488	671,637,472	364,005,016	
Other Securities				
Short-Term Investment Fund	294,458,208		294,458,208	
Equity Mutual Funds	7,395,389	7,395,389		
Equity Index Funds	5,958,822	5,958,822		
Domestic Stocks	243,053,854	232,280,580		10,773,274
Foreign Stocks	23,121,843	23,121,843		
Investments in Real Estate	962,913	176,945		785,968
Real Estate Investment Trust	42,749,253	42,749,253		
Other	5,363,262	2,252,549		3,110,713
Total Investments by Fair Value Level	1,658,706,032	$ 985,572,853	$ 658,463,224	$ 14,669,955
Investments Measured at the Net Asset Value (NAV)				
Long/Short Hedge Funds	922,306,916			
Diversifying Hedge Funds	328,625,515			
Hedge Funds in Liquidation	7,826,769			
Long Only Hedge Funds	907,682,806			
Credit-Based Commingled Hedge Funds	107,501,693			
Private Equity Limited Partnerships	1,418,319,289			
Real Assets Limited Partnerships	277,180,733			
Total Investments Measured at the NAV	3,969,443,721			
Total Investments Measured at Fair Value	$ $5,628,149,753			
Derivative Instruments				
Hedging Derivative Instruments				
Pay-Fixed Interest Rate Swap	$ (146,643,409)	$ 0	$ (146,643,409)	$ 0
Investment Derivative Instruments				
Pay-Fixed Interest Rate Swap	(4,066,787)		(4,066,787)	
Foreign Currency Futures	18,560,829	18,560,829		
Foreign Currency Forward	(454,702)	(454,702)		
Total Derivative Instruments	$ (132,604,069)	$ 18,106,127	$ (150,710,196)	$ 0

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.

Debt and Equity Securities - Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Domestic stocks classified in Level 3 of the fair value hierarchy represent equity interest in start-up technology companies. Of this amount, $2,522,842 in domestic stocks are valued based on option pricing valuation technique, whereas the remainder is valued based on 409A valuation and third party valuation due to recent company merger or equity funding. Other investments classified in Level 3 of the fair value hierarchy are valued using a matrix pricing technique.

Investments in Real Estate - Investments in real estate classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those assets. Real estate classified in Level 3 of the fair value hierarchy is valued using the depreciated replacement cost method.

Derivative Instruments - Investment derivatives classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Interest rate swaps in the hedging and investment derivatives categories classified in Level 2 of the fair value hierarchy are valued based on present value using discounted cash flows technique.

The valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) is presented on the following table.

	Fair Value	Unfunded Commitments	Frequency (If Currently Eligible)	Redemption Notice Period
Long/Short Hedge Funds[A(b)]	$ 922,306,916	$ 0	From 30 Days to 3+ Years	1 to 365 Days
Diversifying Hedge Funds[A(c)]	328,625,515		From 30 Days to 3+ Years	1 to 365 Days
Hedge Funds in Liquidation[A(e)]	7,826,769		From 30 Days to 3+ Years	1 to 365 Days
Long Only Equity Hedge Funds[A(a)]	907,682,806		From 30 Days to 3+ Years	1 to 365 Days
Credit-Based Commingled Hedge Funds[A(d)]	107,501,693	10,000,000	From 30 Days to 3+ Years	1 to 365 Days
Private Equity Limited Partnerships[B]	1,418,319,289	702,444,618	Not Eligible	10-15 Years
Real Assets Limited Partnerships[C]	277,180,733	183,841,050	Not Eligible	10-15 Years
Total Investments Measured at the NAV	$ 3,969,443,721			

A. Hedge Funds - For hedge funds, a combination of the following asset strategies is used:

(a) *Long Biased Equity* - Long biased equity managers are characterized by managers who adopt an investment strategy to primarily hold long positions in publicly listed equity securities to gain equity market exposure globally. The managers can from time to time use equity index futures, options on equity index futures, and specific risk options.

(b) Long/Short Equity - Long/short equity managers are characterized by a manager's ability to buy and/or sell short individual securities that they believe the market has mispriced relative to their fundamental intrinsic value. The long and short positions are generally independent of one another and typically result in an overall net long exposure to equities.

The managers can from time to time use equity index futures, options on equity index futures, and specific risk options.

(c) Diversifying Strategies - Diversifying strategy managers use strategies that tend to be uncorrelated with major equity market indices. Diversifying strategies managers may use derivatives such as fixed income and equity futures both as a hedging tool and to gain exposure to specific markets. They may also enter into various swap agreements to manage exposure to specific securities and markets.

(d) Fixed Income/Credit-Based Commingled Strategies - Fixed income fund managers include credit-based commingled hedge funds and generally use strategies that are focused on income generation and provide diversification to the portfolio. They may use futures and options on global fixed income and currency markets and can enter into various swap agreements. These vehicles are used purely to hedge exposure to a given market or to gain exposure to an illiquid market.

(e) Hedge Funds in Liquidation - Hedge funds in liquidation represent funds that are either in the process of being terminated or have received notice of termination.

B. **Private Equity Limited Partnerships** - Private equity managers typically invest in equity investments and transactions in private companies (i.e., companies that are not publicly listed on any stock exchange). Private equity investments are illiquid and expected to provide higher returns than public equity investments over the long term, as well as controlling volatility.

The energy subsection of the private equity strategy is primarily used to hedge against unanticipated inflation. This can include direct energy investments, energy security investments, and limited partnerships. The principal attraction of these investments is the lack of correlation with the balance of the portfolio.

C. **Real Assets Limited Partnerships** - Real estate managers primarily serve as a hedge against unanticipated general price inflation, but are also a source of current income. Investments in this area include private portfolio investments focusing on specific niche markets within the real estate sector. Such sectors may include investments in public Real Estate Investment Trusts (REIT's) that provide a more liquid means of gaining exposure to the asset class.

Component Units - Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models. Complete financial statements including applicable disclosures for The Medical Foundation of North Carolina, Inc., The University of North Carolina at Chapel Hill Arts and Sciences Foundation, and The Educational Foundation Scholarship Endowment Trust can be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

NOTE 4 - ENDOWMENT INVESTMENTS

Substantially all of the investments of the University's endowment funds are pooled in the Chapel Hill Investment Fund. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds. Investment return of the University's pooled endowment funds is predicated on the total return concept (yield plus appreciation). Annual distributions from the Chapel Hill Investment Fund to the University's pooled endowment funds are generally based on an adopted distribution policy. Under this policy, the prior year distribution is increased by the rate of inflation as measured by the Consumer Price Index (CPI) unless the Board determines otherwise. Each year's distribution, however, is subject to a minimum of 4% and a maximum of 7% of the pooled endowment fund's average market value for the previous year.

To the extent that the total return for the current year exceeds the distribution, the excess is added to principal. If current year earnings do not meet the distribution requirements, the University uses accumulated income and appreciation to make up the difference. At June 30, 2016, accumulated income and appreciation of $606,421,622 was available in the University's pooled endowment funds of which $541,546,532 was restricted to specific purposes including scholarships and fellowships, research, library acquisitions, professorships, departmental and other uses. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 6,592,529	$ 2,850,656	$ 3,741,873
Student Sponsors	287,316		287,316
Patients	222,794,987	133,086,849	89,708,138
Accounts	35,068,384		35,068,384
Auxiliary	52,743,738	70,950	52,672,788
Intergovernmental	127,927,916	10,000,000	117,927,916
Pledges	21,594,122	501,215	21,092,907
Investment Earnings	1,759,062		1,759,062
Interest on Loans	1,248,003		1,248,003
Other	916,052		916,052
Total Current Receivables	$ 470,932,109	$ 146,509,670	$ 324,422,439
Noncurrent Receivables:			
Pledges	$ 31,436,651	$ 786,309	$ 30,650,342
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 3,332,551	$ 193,455	$ 3,139,096
UNC Health Care System	2,717,279		2,717,279
Institutional Student Loan Programs	993,421	93,624	899,797
Total Notes Receivable - Current	$ 7,043,251	$ 287,079	$ 6,756,172
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 26,932,600	$ 1,563,437	$ 25,369,163
UNC Health Care System	14,092,634		14,092,634
Institutional Student Loan Programs	8,138,771	540,184	7,598,587
Total Notes Receivable - Noncurrent	$ 49,164,005	$ 2,103,621	$ 47,060,384

Pledges are receivable over varying time periods ranging from one to 10 years and have been discounted based on a projected interest rate of 0.75% for the outstanding periods, and allowances are provided for the amounts estimated to be uncollectible.

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

Fiscal Year	Amount
2017	$ 21,675,101
2018	14,268,679
2019	12,022,406
2020	1,901,541
2021	1,307,490
2022-2026	2,526,724
Total Pledge Receipts Expected	53,701,941
Less Discount Amount Representing Interest (0.75% Rate of Interest)	671,168
Present Value of Pledge Receipts Expected	53,030,773
Less Allowance for Doubtful Accounts	1,287,524
Pledges Receivable	$ 51,743,249

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	$ 63,488,953	$ 4,185,000	$ 0	$ 67,673,953
Art, Literature, and Artifacts	122,548,369	3,606,517		126,154,886
Construction in Progress	99,525,739	44,319,934	91,884,967	51,960,706
Other Intangible Assets	1,000,000			1,000,000
Total Capital Assets, Nondepreciable	286,563,061	52,111,451	91,884,967	246,789,545
Capital Assets, Depreciable:				
Buildings	2,936,582,102	83,338,791	10,196	3,019,910,697
Machinery and Equipment	417,966,822	33,683,452	28,462,531	423,187,743
General Infrastructure	953,136,815	42,796,742		995,933,557
Computer Software	121,673,239			121,673,239
Total Capital Assets, Depreciable	4,429,358,978	159,818,985	28,472,727	4,560,705,236
Less Accumulated Depreciation/Amortization for:				
Buildings	977,507,421	76,972,039		1,054,479,460
Machinery and Equipment	226,379,540	26,412,565	18,276,654	234,515,451
General Infrastructure	368,022,965	27,035,505		395,058,470
Computer Software	17,500,916	6,152,325		23,653,241
Total Accumulated Depreciation/Amortization	1,589,410,842	136,572,434	18,276,654	1,707,706,622
Total Capital Assets, Depreciable, Net	2,839,948,136	23,246,551	10,196,073	2,852,998,614
Capital Assets, Net	$ 3,126,511,197	$ 75,358,002	$ 102,081,040	$ 3,099,788,159

During the year ended June 30, 2016, the University incurred $60,699,107 in interest costs related to the acquisition and construction of capital assets. All of these costs are included in interest expense.

The University has pledged Granville Towers, with a carrying value of $35,357,780, as security for the loan from Aviva Life and Annuity Company. Additional information regarding the loan can be found in Note 10.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 100,519,836
Accrued Payroll	39,804,081
Contract Retainage	875,392
Intergovernmental Payables	14,514,815
Investment Derivatives Liability	4,066,787
Total Accounts Payable and Accrued Liabilities	$ 159,780,911

NOTE 8 - REVERSE REPURCHASE AGREEMENTS

Under the University's authority to purchase and sell securities, it has entered into fixed coupon reverse repurchase (reverse repurchase) agreements; that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the University or provide securities or cash of equal value, the University would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit exposure at year-end was $5,070,405.

All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, the University's practice is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreement. The University's investments in the underlying securities and the securities purchased with proceeds from the reverse repurchase agreements are in accordance with the statutory requirements as noted. The interest earnings and interest cost arising from reverse repurchase agreement transactions are reported at gross amounts on the accompanying financial statements.

NOTE 9 - SHORT-TERM DEBT

Short-term debt activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Draws	Repayments	Balance June 30, 2016
Commercial Paper Program	$ 28,000,000	$ 105,000,000	$ 100,000,000	$ 33,000,000

The University manages a commercial paper ("CP") program under the issuer name of the Board of Governors of the University of North Carolina that provides up to $500,000,000 in short-term financing for the University's and North Carolina State University's ("NCSU") capital improvement programs. Under this CP program, the University is authorized to issue up to $400,000,000 and NCSU is authorized to issue up to $100,000,000.

At its June 2012 meeting, the Board of Governors for the University of North Carolina issued a resolution to limit the cumulative amount of outstanding commercial paper for the University of North Carolina at Chapel Hill under this program to $250,000,000. This resolution does not impact NCSU. Contingent liquidity needs for the entire CP program are provided by the University of North Carolina at Chapel Hill and supported by a pledge of the University's available funds.

During the fiscal year, the University continued to use its commercial paper program to provide low-cost bridge financing for capital projects and in anticipation of an external bond issue. Commercial paper debt was $33,000,000 at June 30, 2016 and $28,000,000 at June 30, 2015. On November 19, 2015, the University issued $100,000,000 of tax-exempt commercial paper to fund the November 21, 2015 redemption of General Revenue Series 2012A Bonds. This draw was then paid off on three consecutive days occurring on March 2 ($50,000,000), 3 ($35,000,000), and 4 ($15,000,000) with the financing of General Revenue Bond 2016A, bringing the outstanding balance to $33,000,000 on 6/30/2016.

NOTE 10 - 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
Revenue Bonds Payable	$ 1,347,530,000	$ 550,950,000	$ 554,270,000	$ 1,344,210,000	$ 99,994,419
Plus: Unamortized Premium	17,951,787		10,312,641	7,639,146	
Less: Accretion of Discount on Capital Appreciation Bonds	(8,737,562)		(2,379,010)	(6,358,552)	
Total Revenue Bonds Payable, Net	1,356,744,225	550,950,000	562,203,631	1,345,490,594	99,994,419
Net Pension Liability	37,801,432	77,260,400		115,061,832	
Notes Payable	58,125,242	14,750,000	1,136,704	71,738,538	31,076,676
Capital Leases Payable	191,672		191,672		
Compensated Absences	149,893,478	88,997,883	118,717,377	120,173,984	6,654,217
Annuity and Life Income Payable	11,877,121	4,185,352	563,486	15,498,987	2,788,909
Total Long-Term Liabilities, Net	$ 1,614,633,170	$ 736,143,635	$ 682,812,870	$ 1,667,963,935	$ 140,514,221

Additional information regarding the net pension liability is included in Note 15.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2016	Accretion on Capital Appreciation Bonds	Principal Outstanding June 30, 2016	See Table Below
General Revenue Bonds Payable								
	2001B	4.727%*	12/01/2025	$ 54,970,000	$ 32,750,000	$ 0	$ 22,220,000	
	2001C	3.402%*	12/01/2025	54,970,000	32,750,000		22,220,000	
	2009A	3.250%-5.000%	12/01/2028	97,735,000	23,615,000		74,120,000	
	2009B	5.757%**	12/01/2039	112,805,000			112,805,000	
	2012B	5.125%*	12/01/2020	100,000,000			100,000,000	
	2012C	0.815%-3.596%	12/01/2033	127,095,000	11,275,000		115,820,000	
	2012D	1.47%*	06/01/2042	30,000,000			30,000,000	
	2014	0.759%-3.847%	12/01/2034	265,600,000			265,600,000	
	2016A	4.295%*	03/01/2019	100,000,000			100,000,000	
	2016B	0.76%*	03/01/2019	50,000,000			50,000,000	
	2016C	0.700%-3.327%	12/01/2036	400,950,000			400,950,000	
Total General Revenue Bonds				1,394,125,000	100,390,000	0	1,293,735,000	
Utilities System	1997	5.400-5.500%	08/01/2021	30,379,142	33,660,000	47,397,306	44,116,448	(1)
Total Revenue Bonds Payable (principal only)				$ 1,424,504,142	$ 134,050,000	$ 47,397,306	1,337,851,448	
Plus: Unamortized Premium							7,639,146	
Total Revenue Bonds Payable and Special Indebtedness, Net							$ 1,345,490,594	

* For variable rate debt, interest rates in effect at June 30, 2016 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

** The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 32% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year: Revenues Net of Expenses	Current Year: Principal	Current Year: Interest	Estimate of % of Revenues Pledged
(1)	Utilities Revenue	$ 50,475,000	$ 25,857,226	$ 8,415,000	$ 0	6%

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

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

General Revenue, Series 2001B and 2001C

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

The University entered into line of credit agreements in the amount of $200.0 million with Wells Fargo Bank, N.A. (“the Bank”), $100.0 million with Royal Bank of Canada (“the Bank”), and $100.0 million with U.S. Bank, N.A. (“the Bank”) on September 19, 2014. Under each line of credit agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on Variable Rate Demand Bonds (or Commercial Paper Bonds) delivered for purchase. Under each line of credit agreement, the University may, at any time and for any reason, reduce the commitment by any amount upon 30 days prior written notice to the Bank.

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

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

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

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

The line of credit agreement with U.S. Bank, N.A., Wells Fargo Bank, N.A., and Royal Bank of Canada expire on September 19, 2017, September 19, 2018 and September 18, 2019, respectively. These agreements are subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's. At June 30, 2016, no purchase drawings had been made under the line of credit.

General Revenue, Series 2012D

On December 14, 2012, the University issued a bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Kenan Stadium Improvements Phase II), Series 2012D" (the "2012D Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to Kenan Stadium on the University's campus known as "Kenan Stadium Improvements, Phase II - Carolina Student Athlete Center for Excellence". On June 1, 2015, the terms of the 2012D Bond were modified, changing the principal amount to $30.0 million and extending the maturity to June 1, 2042. All other terms listed below remained the same.

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

The University shall be responsible for calculating the interest due on the 2012D Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). Payments of principal and interest on the 2012D Bond shall be made directly by the

University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The University shall promptly notify the Trustee in writing of any such payments. Any payments of principal and interest on the 2012D Bond made directly by the University to the Owner of the 2012D Bond will be credited against The Board of Governors of the University of North Carolina's (the "Board") obligation to cause payments to be made with respect to the 2012D Bond to the Debt Service Fund under the General Indenture.

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

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

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

The unpaid principal balance of the 2012D Bond outstanding from time to time will bear interest at the Adjusted London Interbank Offered Rate (LIBOR) Rate. "Adjusted LIBOR Rate" means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by adding (1) the one month LIBOR plus (2) 1% per annum, which shall be adjusted monthly on the first day of each LIBOR interest period; provided, however, for any particular LIBOR interest period, the Adjusted LIBOR Rate will not be less than 1.4% per annum.

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

D. Capital Appreciation Bonds - The University's Series 1997 Utility System bond issue includes capital appreciation bonds with an original issue amount of $30,379,142. These bonds are recorded in the amount of $44,116,448 ($84,135,000 ultimate maturity less $6,358,552 discount less $33,660,000 principal paid) which is the accreted value at June 30, 2016. The Series 1997 Utility System bond matures in 2021.

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

	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
Fiscal Year	Principal	Interest	Interest Rate Swaps, Net*	Principal	Interest
2017	$ 30,290,000	$ 37,457,751	$ 9,109,677	$ 31,076,676	$ 1,737,571
2018	46,461,667	37,011,356	6,464,398	5,082,524	1,817,165
2019	213,703,333	36,080,212	8,109,001	1,236,076	1,711,298
2020	63,223,333	34,425,651	3,056,218	1,291,893	1,655,481
2021	46,326,667	33,676,167	1,554,005	1,350,746	1,596,628
2022-2026	164,525,000	157,460,307	1,903,943	31,700,623	954,530
2027-2031	202,825,000	129,815,599			
2032-2036	446,885,000	67,645,272			
2037-2041	99,970,000	8,399,422			
2042-2046	30,000,000	402,889			
Total Requirements	$ 1,344,210,000	$ 542,374,626	$ 30,197,242	$ 71,738,538	$ 9,472,673

Interest on the variable rate General Revenue Bonds 2001B is calculated at 0.41% at June 30, 2016
Interest on the variable rate General Revenue Bonds 2001C is calculated at 0.40% at June 30, 2016
Interest on the variable rate General Revenue Bonds 2012B is calculated at 1.06% at June 30, 2016
Interest on the variable rate General Revenue Bonds 2016A is calculated at 0.76% at June 30, 2016
Interest on the variable rate General Revenue Bonds 2016B is calculated at 0.76% at June 30, 2016

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

Interest rate on General Revenue Bonds 2012 Series B is based on 67% of the 1-month LIBOR index rate plus an interest rate spread of 75 basis points.

Interest rates on General Revenue Bonds 2016 Series A and B are based on 67% of the 1-month LIBOR index rate plus an interest rate spread of 45 basis points.

This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 11 Derivative Instruments.

*Computed using (5.240%-0.41%) x ($22,000,000-annual swap reduction); (3.314%-0.312%) x $78,460,000 notional amount; and, (4.375%-0.312%) x $150,000,000 notional amount.

The fiscal year 2017 principal requirements exclude demand bonds classified as current liabilities (see note 10C).

General Revenue, Series 2012B

The 2012B Bond has a maturity date of December 1, 2041. However, the bond was issued initially in the Index Mode extending to the initial index tender date of December 1, 2017. While in this mode, the bond will bear interest at the index rate, which will be the rate per annum determined monthly equal to 67.0% of one Month LIBOR plus an applicable spread of 0.75% (75 basis points).

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

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

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

The Annual Requirements presents the 2012B Bonds as amortizing in six semiannual payments as set forth in the Delayed Remarketing Period, to be fully paid off in a period of three years after the respective index tender date established herein. If the bonds are successfully remarketed or refunded into a new bond in the future, and, therefore, not subject to the three-year amortization schedule after the initial index tender date, the total principal payments due in 2018 will reduce by $16,667,000 to $29,794,667, total principal payments in 2019 will reduce by $33,334,000 to $180,369,333, total principal payments in 2020 will reduce by $33,334,000 to $29,889,333, total principal payments in 2021 will reduce by $16,665,000 to $29,661,667.

General Revenue, Series 2016ABC

On behalf of the University, the Board of Governors for the University of North Carolina System issued General Revenue Bonds Series 2016ABC on March 1, 2016. The 2016A Bonds have a maturity date of December 1, 2041 and the 2016B Bonds have a maturity date of December 1, 2034. However, both Series 2016A and 2016B Bonds are issued initially in the Index Mode extending to the initial index tender date of March 1, 2019. While in this mode, the bonds will bear interest at the index rate, which will be the rate per annum determined monthly equal to 67.0% of one month LIBOR plus an applicable spread of 0.45% (45 basis points).

The Series 2016AB Bonds in an Index Mode are subject to redemption, at the option of the University, in whole or in part, on any business day during the period beginning six months prior to the index tender date for such 2016AB Bonds, up to and including such index tender date, at a redemption price equal to 100% of the principal amount of 2016AB Bonds called for redemption, plus accrued interest, if any, to the date of redemption. The Series 2016AB Bonds are not subject to the provision of a Delayed Remarketing Period and, therefore, the University reported in its Annual Requirements the full maturity in FY2019, the end of the initial Index Mode.

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

On March 1, 2016, the Board of Governors of the University of North Carolina, on behalf of the University of North Carolina at Chapel Hill, sold $100 million of General Revenue Refunding Bonds, Series 2016A (2016A) and $50 million of Series 2016B (2016B), both with a variable interest rate of 67% of London Interbank Offered Rate (LIBOR) plus .45%. The 2016A Bonds will mature on December 1, 2041. The 2016A Bonds were issued for a current refunding of $100 million of outstanding University of North Carolina at Chapel Hill Commercial Paper Bonds, Series 2002A. In the case of 2016A, because the interest rate on both the old and new debt is variable in nature, there is no baseline on which economic savings can be calculated. The 2016B Bonds will mature on Dec 1, 2034. The 2016B Bonds were issued for a current refunding of $50 million of outstanding University of North Carolina at Chapel Hill General Revenue and Revenue Refunding Bonds, Series 2005A. In the case of 2016B, because old fixed-rate debt was defeased with new variable-rate debt, economic savings can be estimated using the variable-rate on the new debt as of June 30, 2016. Using that assumption, the refunding was undertaken to reduce total debt service payments by $36.6 million over the next 18 years and resulted in a net present value economic gain of $34.0 million. It is important to recognize this rate is for one period in time and, therefore, only an estimate of future debt service requirements.

On March 1, 2016, the Board of Governors of the University of North Carolina, on behalf of the University of North Carolina at Chapel Hill sold $400.95 million Series 2016C taxable General Revenue Refunding Bonds with an average interest rate of 3.14%. The bonds are dated March 1, 2016 and bear interest from that date. Interest on the bonds will be payable semiannually on each December 1 and June 1, commencing June 1, 2016. The Series 2016C Bonds include both serial and term bonds. The serial bonds will mature from December 1, 2016 to December 1, 2028 and were issued at coupon rates ranging from 0.7% to

2.78%. The term bonds will mature on December 1, 2036 and were issued at a coupon rate of 3.33%.

2016 Bonds in the amount of $79.0 million of the 2016C Bonds were issued for a current refunding of $78.6 million of outstanding University of North Carolina at Chapel Hill General Revenue and Revenue Refunding Bonds, Series 2005A, with an average interest rate of 4.96%. The refunding was undertaken to reduce total debt service payments by $20.1 million over the next 19 years and resulted in a net present value economic gain of $15.1 million. $321.9 million of the 2016C Bonds were issued to advance refund $298.5 million of outstanding University of North Carolina at Chapel Hill General Revenue Bonds, Series 2007, with an average interest rate of 4.92%. The net proceeds of the refunding bonds, along with University equity, were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by $56.9 million over the next 22 years and resulted in a net present value economic gain of $41.8 million. At June 30, 2016, the outstanding balance was $298.5 million for the defeased University of North Carolina at Chapel Hill General Revenue Bonds, Series 2007.

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/2016	Principal Outstanding 6/30/2016
Real Property Purchase	Bank of America	3.55%	02/14/2024	$ 9,250,000	$ 5,261,781	$ 3,988,219
Real Property Purchase	Bank of America	1.62%	04/30/2018	3,900,000		3,900,000
Real Property Purchase	Aviva	5.00%	01/01/2022	36,500,000	2,649,681	33,850,319
Real Property Purchase	Wells Fargo	1.07%	10/02/2016	30,000,000		30,000,000
Total Notes Payable				$ 75,750,000	$ 7,911,462	$ 71,738,538

The UNC-Chapel Hill Foundation ("Foundation"), part of the University's reporting entity, has a line of credit agreement issued by Bank of America to finance the costs of projects benefiting the Foundation and/or the University, subject to the approval of the Board of Directors of the Foundation. The initial amount of commitment was up to $3.0 million. Prior to the original maturity date of June 30, 2013, the Foundation renewed the line of credit in the same commitment amount and with a new maturity date of June 30, 2015. Prior to the maturity date of June 30, 2015, the Foundation renewed the line of credit with a new commitment amount of up to $4.0 million and with a new maturity date of April 30, 2018. Under the commitment, advances under the line of credit accrue interest at the variable rate of the LIBOR Market Index plus

1.15%. An unused commitment fee is due each quarter calculated as 0.24% of the difference between the commitment amount and the average balance outstanding for the quarter and paid in arrears on a quarterly basis. If the Foundation utilizes the line of credit to purchase an asset on behalf of the University, and later sells such asset to the University, the University reimburses the Foundation the principal amount of the draw and all accrued interest and associated transaction expenses. On October 16, 2015, the Foundation drew $3.9 million on the line and $3.9 million is outstanding on June 30, 2016.

On July 1, 2009, the UNC Chapel Hill Foundation, Inc. and Chapel Hill Foundation Real Estate Holdings Inc., (collectively, the "Borrowers"; individually, the "Foundation", former, or "Real Estate Holdings", the latter), entered into a loan agreement with the Bank of America, N.A. for $45.8 million to fund the acquisition of student housing and rental real property.

On December 15, 2011, Real Estate Holdings transferred the condominiumized unit of Granville Towers to a newly established single asset limited liability corporation Granville Towers LLC of which Real Estate Holdings is the sole member. On the same date, Granville Towers LLC obtained a loan from Aviva Life and Annuity Company in the amount of $36.5 million (Aviva Loan) for which the proceeds were used to pay down the referenced purchase financing with Bank of America in the original amount of $45.8 million. This Aviva loan is secured by a first deed of trust on the condominium unit of Granville Towers. In general, the loan is non-recourse to both Real Estate Holdings and the Foundation, except for in the following instances: fraud, misrepresentation; delinquent taxes or other assessments; misapplication of potential condemnation awards or loss between the difference in the loan amount and insurance proceeds; environmental issue on the property; and a bankruptcy filing. Loan payments are based upon a 30-year amortization, but the loan carries an actual maturity date of January 1, 2022. During the committed term of this loan, the interest rate is fixed at 5%, and the monthly payments of principal and interest in the combined amount of $195,939.89; all outstanding principal and accrued but unpaid interest is due at said maturity.

On December 15, 2011, the Borrowers executed a modification agreement with Bank of America with respect to the above loan in the original amount of $45.8 million. The original principal balance of $45.8 million was paid down by $36.5 million with proceeds from the Aviva loan; the original maturity date of July 1, 2012, was extended to December 15, 2014; and the interest rate was changed to LIBOR plus 1.37%. Interest payments are made quarterly, and the principal balance of the loan is due at maturity. The loan is unsecured, but is governed by a loan agreement with financial and other covenants on the Borrowers.

On February 14, 2014, the Borrowers executed another modification agreement with Bank of America with respect to the above loan in the original amount of $45.8 million. The loan was paid down by $4.3 million, and the remaining $5.0 million was then refinanced with a fixed interest rate of 3.55% and a final maturity date of February 14, 2024. Interest and principal payments are made monthly.

In addition, on October 3, 2013, the Kenan-Flagler Business School Foundation, part of the University's reporting entity, entered into a line of credit agreement with Wells Fargo Bank, N.A. in the aggregate principal amount up to $30.0 million to finance the construction of the Paul J. Rizzo Conference Center Phase III addition. Advances under the line of credit note accrue interest at the variable rate of the LIBOR Market Index Rate plus 0.60%. The line of credit note has a maturity date of October 2, 2016. At June 30, 2016, the total amount of draws against the line of credit note was $30.0 million.

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

NOTE 11 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2016 are as follows:

		Change in Fair Value		Fair Value at June 30, 2016	
Type	Notional Amount	Classification	Increase (Decrease)	Classification	Asset (Liability)
Hedging Derivative Instruments					
Cash Flow Hedges					
Pay-Fixed Interest Rate Swap	$ 100,000,000	Deferred Outflow of Resources	$ (14,669,260)	Hedging Derivative Liability	$ (39,483,999)
Pay-Fixed Interest Rate Swap	150,000,000	Deferred Outflow of Resources	(35,168,148)	Hedging Derivative Liability	(107,159,410)
Total			$ (49,837,408)		$ (146,643,409)
Investment Derivative Instruments					
Pay-Fixed Interest Rate Swap 2001B Bonds	$ 15,980,000	Investment Income	$ (446,920)	Accounts Payable	$ (4,066,787)
Foreign Currency Futures	(157,032,281)	Investment Income	2,256,486	Other Assets	18,560,829
Foreign Currency Forward	(22,000,000)	Investment Income	(454,702)	Accounts Payable	(454,702)
Total			$ 1,354,864		$ 14,039,340

Hedging derivative instruments held at June 30, 2016 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed Interest Rate Swap	Hedge Changes in Cash Flows on Variable Rate Debt	$ 100,000,000	12/01/2007	12/01/2036	Pay 3.315%, Receive 67% 1 Mo. LIBOR
Pay-Fixed Interest Rate Swap	Hedge Changes in Cash Flows on Variable Rate Debt	$ 150,000,000	12/01/2011	12/01/2041	Pay 4.375%, Receive 67% 1 Mo. LIBOR

The fair values of interest rate swaps at the University of North Carolina at Chapel Hill were provided by their financial advisor. The method used by their financial advisor calculated the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Hedging Derivative Risks

Interest Rate Risk: The University is exposed to interest rate risk on its interest rate swaps which is largely offset (or expected to be offset) by rates paid on variable-rate debt. In addition, the fair values of these instruments are highly sensitive to changes in interest rates. Because rates have declined significantly since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2016. The fair values are calculated as of June 30, 2016. As rates rise, the value of the swaps will increase, and as rates fall the fair value of the swaps will decrease.

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

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

Investment Derivative Risks

Interest Rate Risk: The University is exposed to interest rate risk on interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. Because rates have changed since the effective date of the swap, the swap has a negative fair value of $4,066,787 as of June 30, 2016. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates.

Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The negative fair value is the calculated value as of June 30, 2016. As the yield curve rises, the value of the swap will increase and as rates fall, the value of the swap decreases. The University pays 5.24% and receives the Securities Industry and Financial Markets Association (SIFMA) Swaps Index rate. On June 30, 2016, SIFMA was 0.41%. The interest rate swap has a notional amount of $15,980,000 and matures November 1, 2025.

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

NOTE 12 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases for equipment, buildings, and land consist of the following at June 30, 2016:

Fiscal Year	Amount
2017	$ 6,872,020
2018	5,273,569
2019	4,129,723
2020	3,917,894
2021	3,325,502
2022-2026	9,396,309
Total Minimum Lease Payments	$ 32,915,017

Rental expense for all operating leases during the year was $27,560,981.

NOTE 13 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Less Indigent Care and Contractual Adjustments	Net Revenues
Operating Revenues:						
Student Tuition and Fees, Net	$ 508,802,016	$ 0	$ 102,886,769	$ 106,893	$ 0	$ 405,808,354
Patient Services, Net	$ 946,774,173	$ 0	$ 0	$ (5,414,091)	$ 535,376,673	$ 416,811,591
Sales and Services:						
Professional Income	$ 111,598,848	$ 5,205,157	$ 0	$ 0	$ 0	$ 106,393,691
Residential Life	80,252,486		10,503,230			69,749,256
Athletic	64,225,909	26,378				64,199,531
Dining	35,573,037					35,573,037
Parking	28,221,946	1,619,209				26,602,737
Utilities	132,023,231	105,949,810				26,073,421
Student Stores	30,284,436	4,762,560	961,098			24,560,778
Other	63,173,412	45,423,750	309,344			17,440,318
Health, Physical Education, and Recreation Services	8,497,419		176,704			8,320,715
Trademark License Program	7,720,252					7,720,252
UNC Management Company	5,996,841					5,996,841
Gene Therapy Center	4,723,552	173,767				4,549,785
School of Government	4,173,951					4,173,951
Telecommunications	20,248,099	16,673,155				3,574,944
KFBS Center	2,648,978					2,648,978
Doubletree Carolina Inn	1,967,503					1,967,503
Performing Arts Series	1,796,090					1,796,090
Printing / Carolina Copy	1,522,780	3,611				1,519,169
ERP Student Fees	1,399,148					1,399,148
Rental Property	542,600					542,600
Point to Point Transfer	543,882	4,935				538,947
Laundry	416,522					416,522
Student Union Services	574,691	320,287				254,404
Total Sales and Services, Net	$ 608,125,613	$ 180,162,619	$ 11,950,376	$ 0	$ 0	$ 416,012,618
Nonoperating - Noncapital Gifts, Net	$ 123,091,079	$ 0	$ 0	$ (364,658)	$ 0	$ 123,455,737

NOTE 14 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 555,065,111	$ 21,823,505	$ 151,022,422	$ 0	$ 331,750	$ 0	$ 728,242,788
Research	304,785,011	47,580,786	193,852,963		8,883		546,227,643
Public Service	73,469,271	12,720,503	77,838,500		206,601		164,234,875
Academic Support	82,775,865	26,345,400	28,400,135		135,149		137,656,549
Student Services	20,720,740	1,187,083	17,254,490		494		39,162,807
Institutional Support	80,322,081	11,627,290	47,748,067		45,425		139,742,863
Operations and Maintenance of Plant	46,819,605	12,699,941	18,595,997		74,280,502		152,396,045
Student Financial Aid				122,815,639			122,815,639
Auxiliary Enterprises	380,545,585	82,984,567	187,964,570		8,702,221		660,196,943
Depreciation / Amortization						136,572,434	136,572,434
Total Operating Expenses	$ 1,544,503,269	$ 216,969,075	$ 722,677,144	$ 122,815,639	$ 83,711,025	$ 136,572,434	$ 2,827,248,586

NOTE 15 - 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. The University's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The University's contributions to the pension plan were $42,133,165, and employee contributions were $27,628,305 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 by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, the University reported a liability of $115,061,832 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. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the University's proportion was 3.12%, which was a decrease of 0.10 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:

Asset Class	Long-Term Expected Real Rate of Return
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:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 346,304,360	$ 115,061,832	$ (81,174,118)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the University recognized pension expense of $11,165,916. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0	$ 13,082,530
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		12,465,975
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	2,044,288	2,810,047
Contributions Subsequent to the Measurement Date	42,133,165	
Total	$ 44,177,453	$ 28,358,552

The amount of $42,133,165 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	$ (15,027,493)
2018	(15,027,493)
2019	(14,708,497)
2020	18,449,219
Total	$ (26,314,264)

B. Defined Contribution Plan - The Optional Retirement Program (Program) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant’s death. Administrators and eligible faculty of the University may join the Program instead of the TSERS. The Board of Governors of

The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

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

For the current fiscal year, the University had a total payroll of $1,311,598,983, of which $597,844,912 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $40,892,592 and $35,870,695, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of $1,298,343.

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the current fiscal year the University contributed 5.60% 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. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were $59,265,733, $55,554,649, and $53,247,759, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2016, the University made a statutory contribution of .41% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were $4,339,098, $4,148,890, and $4,338,706, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 17 - RISK MANAGEMENT

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

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

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

Fire and Other Property Loss – The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund, such as housing units or athletic facilities, are charged for the coverage. The University has opted to purchase additional coverages offered by the Fund. Examples of this additional coverage include special form (all-risk) and business interruption insurance for certain property exposures. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

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

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

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

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

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

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

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

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

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

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

For the period July 1, 2015 through June 30, 2016, the Trust Fund provided coverage on an occurrence basis of $3,000,000 per individual and $7,000,000 in the aggregate per claim. Effective July 1, 2006, in lieu of purchasing commercial reinsurance, participants contributed approximately $10,000,000 to a reimbursement fund for future losses. Prior to July 1, 2006, the Trust Fund entered into an excess of loss agreement with an unaffiliated reinsurer.

For the fiscal year ending June 30, 2016, the Trust Fund purchased a direct insurance policy to cover the first $1,000,000 per occurrence and $3,000,000 in the aggregate for dental residents. *North Carolina General Statutes* Chapter 116 was amended during 1987 to authorize the Trust Fund to borrow necessary amounts up to $30,000,000, in the event that the Trust Fund may have insufficient funds to pay existing and future claims. Any such borrowing would be repaid from the assets and revenues of program participants. No line of credit or borrowing has been established pursuant to this authorization. The Council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

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

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

At June 30, 2016, University assets in the Trust Fund totaled $22,375,260 while University liabilities totaled $21,114,157 resulting in net assets of $1,261,103.

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

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 .16% for the current fiscal year.

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

NOTE 18 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has commitments of $125,249,990 for various capital improvements projects that include construction and completion of new buildings, and renovations of existing buildings.

The UNC Investment Fund has entered into agreements with limited partnerships to invest capital. These agreements represent the funding of capital over a designated period of time and are subject to adjustments. As of June 30, 2016, the UNC Investment Fund had approximately $886,285,668 unfunded committed capital.

B. Pending Litigation and Claims - The University is a party to litigation and claims in the ordinary course of its operations. For litigation and claims wherein it is not possible to predict the ultimate outcome, no provision for any liability has been made in the financial statements. University 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 the University.

C. Other Liability - During the year ended June 30, 2016, an internal review identified that, for certain grants, the University received funds in excess of the actual expenditures eligible for reimbursement. The University's review of these programs is ongoing. At the issuance date of the financial statements, the University has identified approximately $15,300,000 of excess funds. Accordingly, a liability in this amount has been recorded in the accompanying financial statements. As part of the ongoing review, additional liabilities may be identified but currently cannot be reasonably estimated.

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

Purpose	Amount
Pledges to Permanent Endowments	$ 22,170,376

NOTE 19 - RELATED PARTIES

There are 14 separately incorporated nonprofit foundations associated with the University. These foundations are The Botanical Garden Foundation, Inc., The Dental Alumni Association, Inc., The Dental Foundation of North Carolina, Inc., The Educational Foundation, Inc., The General Alumni Association, The School of Government Foundation, Inc., The Morehead-Cain Scholarship Fund, UNC Eshelman School of Pharmacy Foundation, The School of Media and Journalism Foundation of North Carolina, Inc., The University of North Carolina at Chapel Hill Public Health Foundation, Incorporated, The University of North Carolina at Chapel Hill School of Nursing Foundation, Inc., The School of Social Work Foundation, Inc., James B. Hunt, Jr. Institute for Educational Leadership and Policy Foundation, Inc., and Carolina for Kibera, Inc.

Some of these organizations serve, in conjunction with the University's component units (See Note 1A), as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The alumni associations provide educational opportunities or other services to alumni. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of these organizations, except for support from each organization to the University. This support totaled $47,043,536 for the year ended June 30, 2016.

NOTE 20 - INVESTMENT IN JOINT VENTURES

The University is a member of the Southern Observatory for Astronomical Research Consortium (SOAR), a joint venture accounted for under the equity method and valued at $8,318,917. The University is partners with Michigan State University, U.S. National Optical Astronomy Observatory, and the Ministry of Science and Technology of the Federal Republic of Brazil. SOAR designed, constructed, and now operates a 4.1-meter telescope with instrumentation and related support buildings located at Cerro Pachon, a mountain in central Chile. The SOAR agreement allocates the University

16.7% of observing time until 2023. The audited financial statements for SOAR may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of the Carolina Vascular Access Center, a joint venture accounted for under the equity method and valued at $744,526. The University is partners with Capital Nephrology and Durham Nephrology and has a 40.0% share. This joint venture provides dialysis services to patients in Orange, Durham and Wake counties. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of the Carolina Behavioral Health Alliance, a joint venture accounted for under the equity method and valued at $231,284. The University is partners with Wake Forest Baptist Medical Center and East Carolina University and has a 33.3% share. The joint venture specializes in managed mental health benefit plans serving the Winston-Salem and Charlotte areas. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of Qura Therapeutics, a joint venture accounted for under the equity method and valued at $1,990,246. The University partners with GSK and has a 50.0% share. The joint venture accelerates the search for an HIV cure. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

NOTE 21 - BLENDED COMPONENT UNITS

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

Condensed Statement of Net Position
June 30, 2016

	The University of North Carolina at Chapel Hill	UNC Investment Fund, LLC	The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	The University of North Carolina at Chapel Hill Foundation, Inc.	UNC Intermediate Pool, LLC	Other Blended Component Units*	Eliminations	Total
ASSETS								
Current Assets	$ 1,205,278,662	$ 193,717,913	$ 0	$ 32,067,289	$ 104,526,423	$ 50,706,388	$ 0	$ 1,586,296,675
Capital Assets	3,033,539,441			62,986,277		3,262,441		3,099,788,159
Other Noncurrent Assets	(797,605,382)	4,433,546,230	2,784,346,906	322,714,724	434,193,531	179,521,427	(3,176,875,139)	4,179,842,297
Total Assets	3,441,212,721	4,627,264,143	2,784,346,906	417,768,290	538,719,954	233,490,256	(3,176,875,139)	8,865,927,131
TOTAL DEFERRED OUTFLOWS OF RESOURCES	203,340,219							203,340,219
LIABILITIES								
Current Liabilities	442,686,951	16,288,540	1,652,571	7,495,148	937,002	34,972,142	(1,652,570)	502,379,784
Long-Term Liabilities, Net	1,430,111,055			97,338,659				1,527,449,714
Other Noncurrent Liabilities	326,598,341					7,146,286	2,091,199,024	2,424,943,651
Total Liabilities	2,199,396,347	16,288,540	1,652,571	104,833,807	937,002	42,118,428	2,089,546,453	4,454,773,149
TOTAL DEFERRED INFLOWS OF RESOURCES	28,358,552							28,358,552
NET POSITION								
Net Investment in Capital Assets	1,627,454,657			25,821,121		9,477,045		1,662,752,823
Restricted - Nonexpendable	(2,133,971,638)	4,610,975,603	2,782,694,335	146,513,888	537,782,952	110,108,134	(5,266,421,593)	787,681,681
Restricted - Expendable	1,227,709,624			103,297,796		41,324,139		1,372,331,559
Unrestricted	695,605,398			37,301,678		30,462,510		763,369,586
Total Net Position	$ 1,416,798,041	$ 4,610,975,603	$ 2,782,694,335	$ 312,934,483	$ 537,782,952	$ 191,371,828	$ (5,266,421,593)	$ 4,586,135,649

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

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

	The University of North Carolina at Chapel Hill	UNC Investment Fund, LLC	The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	The University of North Carolina at Chapel Hill Foundation, Inc.	UNC Intermediate Pool, LLC	Other Blended Component Units*	Eliminations	Total
OPERATING REVENUES								
Student Tuition and Fees, Net	$ 397,150,242	$ 0	$ 0	$ 0	$ 0	$ 8,658,112	$ 0	$ 405,808,354
Grants and Contracts	828,717,686					780,069		829,497,755
Sales and Services, Net	805,971,769			13,817,615		13,034,825		832,824,209
Other Operating Revenues	19,062,774					18,744		19,081,518
Total Operating Revenues	2,050,902,471			13,817,615		22,491,750		2,087,211,836
OPERATING EXPENSES								
Operating Expenses	2,644,084,857			11,153,077		35,438,218		2,690,676,152
Depreciation	135,037,104			1,153,414		381,916		136,572,434
Total Operating Expenses	2,779,121,961			12,306,491		35,820,134		2,827,248,586
Operating Income (Loss)	(728,219,490)			1,511,124		(13,328,384)		(740,036,750)
NONOPERATING REVENUES (EXPENSES)								
Investment Income (Loss), Net	55,203,044	(98,709,505)	(53,882,090)	(5,624,299)	4,441,813	(3,066,153)	50,686,906	(50,950,284)
Other, Net	640,728,430	(10,795,722)	(47,341,406)	(14,077,996)	49,295,434	14,869,163	47,341,406	680,019,309
Net Nonoperating Revenues (Expenses)	695,931,474	(109,505,227)	(101,223,496)	(19,702,295)	53,737,247	11,803,010	98,028,312	629,069,025
Capital Appropriations	8,766,500							8,766,500
Capital Grants	8,997,299							8,997,299
Additions to Endowments	4,434,299			5,473,304		2,520,434		12,428,037
Increase (Decrease) in Net Position	(10,089,918)	(109,505,227)	(101,223,496)	(12,717,867)	53,737,247	995,060	98,028,312	(80,775,889)
NET POSITION								
Net Position, July 1, 2015	1,426,887,959	4,720,480,830	2,883,917,831	325,652,350	484,045,705	190,376,768	(5,364,449,905)	4,666,911,538
Net Position, June 30, 2016	$ 1,416,798,041	$ 4,610,975,603	$ 2,782,694,335	$ 312,934,483	$ 537,782,952	$ 191,371,828	$ (5,266,421,593)	$ 4,586,135,649

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

Condensed Statement of Cash Flows
June 30, 2016

	The University of North Carolina at Chapel Hill	The University of North Carolina at Chapel Hill Foundation, Inc.	Other Blended Component Units*	Total
Net Cash Used by Operating Activities	$ (730,844,257)	$ (5,797,283)	$ (10,504,872)	$ (747,146,412)
Net Cash Provided by Non-capital Financing Activities	964,461,807	3,695,485	15,243,997	983,401,289
Net Cash Provided (Used) by Capital and Related Financing Activities	(150,783,647)	97,643	(5,338,496)	(156,024,500)
Net Cash Provided (Used) by Investing Activities	(29,524,997)	6,816,882	1,311,974	(21,396,141)
Net Increase in Cash and Cash Equivalents	53,308,906	4,812,727	712,603	58,834,236
Cash and Cash Equivalents, July 1, 2015	372,594,962	30,121,937	37,320,307	440,037,206
Cash and Cash Equivalents, June 30, 2016	$ 425,903,868	$ 34,934,664	$ 38,032,910	$ 498,871,442

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

NOTE 22 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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. 79, *Certain External Investment Pools and Pool Participants*

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 specified within a source of authoritative GAAP.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

REQUIRED SUPPLEMENTARY INFORMATION

The University of North Carolina at Chapel Hill
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Three Fiscal Years — *Exhibit C-1*

	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	3.12%	3.22%	3.20%
Proportionate Share of TSERS Collective Net Pension Liability	$ 115,061,832	$ 37,801,432	$ 194,278,679
Covered-Employee Payroll	$ 451,281,663	$ 457,366,996	$ 460,281,538
Net Pension Liability as a Percentage of Covered-Employee Payroll	25.50%	8.27%	42.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

The University of North Carolina at Chapel Hill
Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years *Exhibit C-2*

	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 42,133,165	$ 41,292,272	$ 39,745,192	$ 38,341,452	$ 33,975,672
Contributions in Relation to the Contractually Determined Contribution	42,133,165	41,292,272	39,745,192	38,341,452	33,975,672
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered-Employee Payroll	$ 460,471,749	$ 451,281,663	$ 457,366,996	$ 460,281,538	$ 456,662,258
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	2011	2010	2009	2008	2007
Contractually Required Contribution	$ 23,308,729	$ 16,632,618	$ 15,756,451	$ 13,032,159	$ 10,668,088
Contributions in Relation to the Contractually Determined Contribution	23,308,729	16,632,618	15,756,451	13,032,159	10,668,088
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered-Employee Payroll	$ 472,793,699	$ 465,899,657	$ 468,941,991	$ 427,283,896	$ 401,055,925
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

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

Changes of Benefit Terms:

Cost of Living Increase

2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
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
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Chapel Hill (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 20, 2016. Our report includes a reference to other auditors who audited the financial statements of the UNC Investment Fund, LLC, and the discretely presented component units, as described in our report on the University's financial statements. The financial statements of the UNC Investment Fund, LLC, and the discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the UNC Investment Fund, LLC, and the discretely presented component units.

Internal Control Over Financial Reporting

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

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

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

<u>Compliance and Other Matters</u>

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.*

<u>Purpose of this Report</u>

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

Beth A. Wood

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Raleigh, North Carolina

December 20, 2016

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This audit required 1892 hours at an approximate cost of $194,876.00.