

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

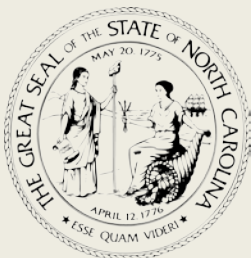


THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

CHARLOTTE, 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



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STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of The University of North Carolina at Charlotte 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, CPA
State Auditor



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State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
UNIVERSITY EXHIBITS	
A-1 Statement of Net Position	17
A-2 Statement of Revenues, Expenses, and Changes in Net Position	19
A-3 Statement of Cash Flows	20
COMPONENT UNIT EXHIBITS	
B-1 Consolidated Statement of Financial Position	22
B-2 Consolidated Statement of Activities	23
NOTES TO THE FINANCIAL STATEMENTS	24
REQUIRED SUPPLEMENTARY INFORMATION	
C-1 Schedule of the Proportionate Net Pension Liability (Teachers’ and State Employees’ Retirement System)	61
C-2 Schedule of University Contributions (Teachers’ and State Employees’ Retirement System)	62
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (TEACHERS’ AND STATE EMPLOYEES’ RETIREMENT SYSTEM)	63
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	64
ORDERING INFORMATION	66

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
Office of the State Auditor



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The University of North Carolina at Charlotte
Charlotte, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Charlotte (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 unit, 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 University of North Carolina at Charlotte Investment Fund, Inc., which represent 10.24 percent and 16.57 percent, respectively, of the assets and net position of the University; nor the financial statements of The University of North Carolina at Charlotte Facilities Development Corporation, Inc., which represent 1.00 percent, 0.33 percent, and 0.18 percent respectively, of the assets, net position, and revenues of the University. In addition, we did not audit the financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., the University's discretely presented component unit. 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 University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and The Foundation of the University of North Carolina at Charlotte, Inc., were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Charlotte and its discretely presented component unit, 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.


Other Matters - Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 29, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The University of North Carolina at Charlotte (UNC Charlotte or University) provides the following discussion and analysis as an overview of the University's financial position and activities for the year ended June 30, 2016, and to provide assistance in understanding the accompanying financial statements and notes. Comparative information for the year ended June 30, 2015 is included, emphasizing current year data and material changes between the two fiscal years, as well as information on currently known facts, decisions, and conditions affecting the financial affairs of the University.

Using the Financial Statements

The University's financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting 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.

UNC Charlotte 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*. Note that while The Foundation of the University of North Carolina at Charlotte, Inc. ("Foundation") is reported as a discretely presented component unit of the University due to the nature and significance of its relationship to the University, this discussion and analysis excludes it except where specifically noted.

The University's financial report includes three UNC Charlotte financial statements to evaluate financial position as of June 30th and the results of operations for the fiscal year then ended:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows (identifies sources and uses of cash during the fiscal year)

It also includes two financial statements from the University's Foundation:

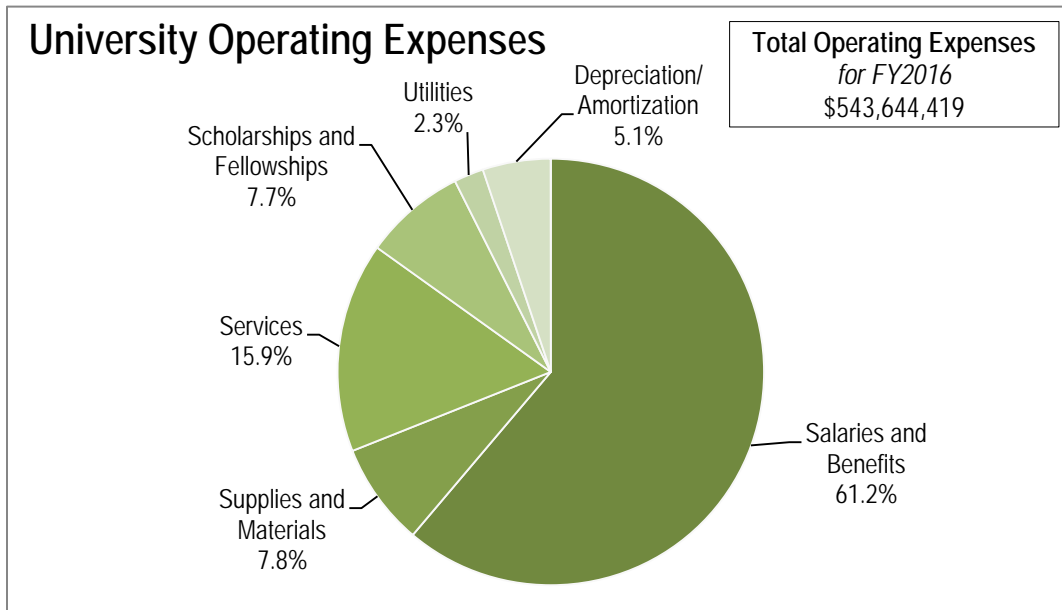
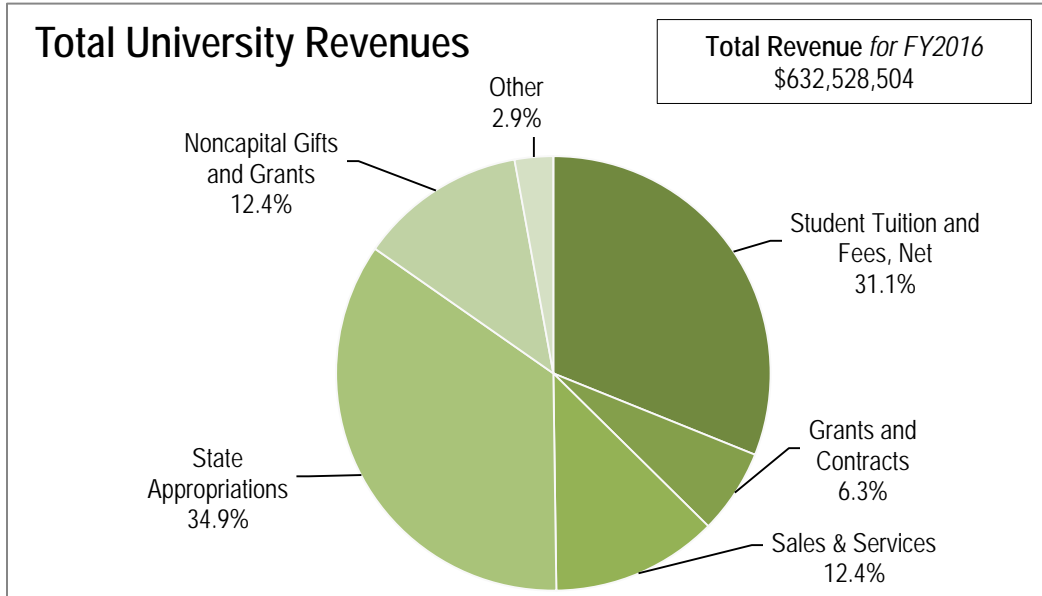
- Statement of Financial Position
- Statement of Activities

Management's discussion and analysis will concentrate on the University's Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

The accompanying Notes to the Financial Statements should be read in conjunction with the financial statements to ascertain a full understanding of the data presented in this report. These disclosures provide information to better understand details, risk, and underlying assumptions associated with amounts reported in the financial statements.

Financial Highlights

The University's total assets increased by 3.2%, or \$51.2 million, this fiscal year to \$1.7 billion at June 30, 2016. Net position increased by \$67.2 million during the year, to more than \$1.0 billion for the first time in the University's history, reflecting continued growth and overall financial strength. The change in net position is a key measure of the sum effect of the University's fiscal year activities on its financial health. More than a half-billion dollars were spent to operate the University this year (\$543.6 million), and revenues of \$632.5 million were recognized. Revenues and operating expenses as percentages of totals are shown below.

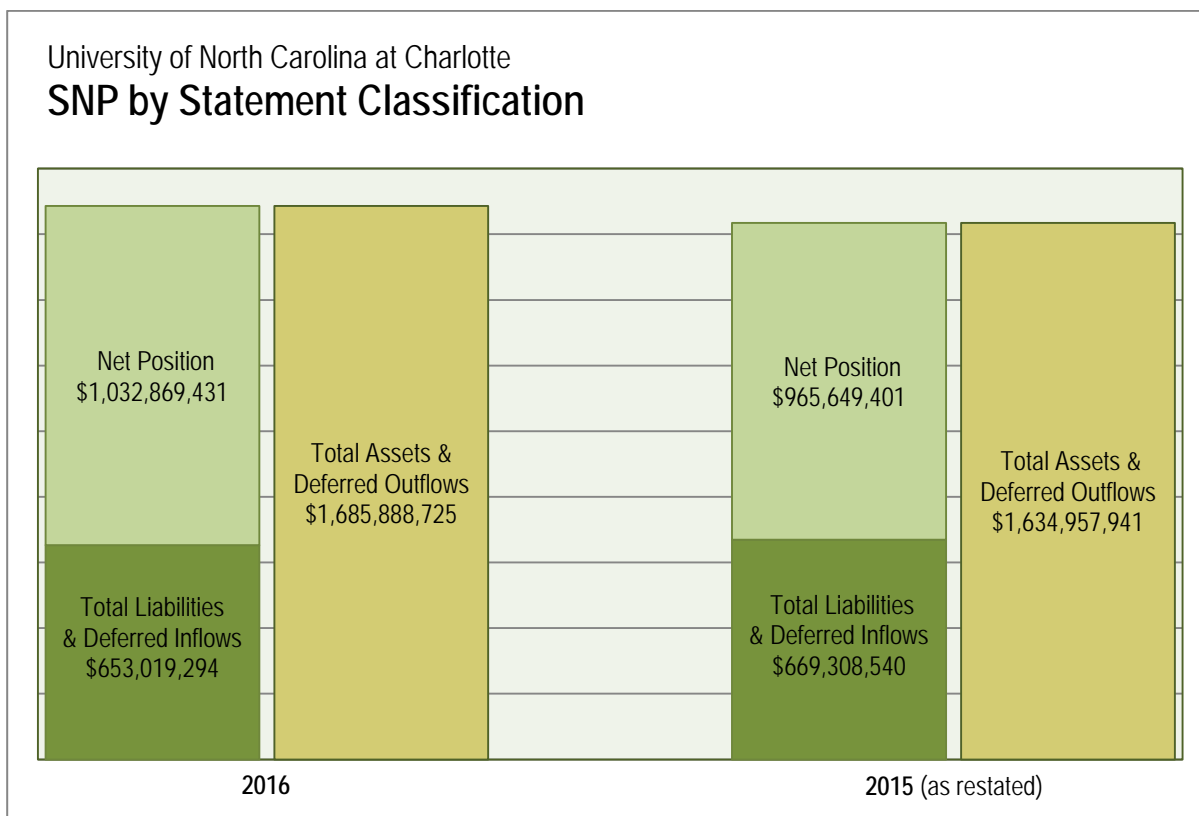


Comparative Condensed Financial Statement Information

Statement of Net Position

The Statement of Net Position (SNP) summarizes the financial position of the University by presenting its assets, deferred outflows, liabilities, deferred inflows, and net position as of the end of the fiscal year. The SNP is a point-in-time financial statement and presents a fiscal snapshot of the University.

The following graph presents a comparison of net position and the categories that comprise net position at June 30, 2016, and June 30, 2015:



The SNP presents a summary of all assets available to continue the operations of the University. The statement also presents a summary of all liabilities, or amounts owed to vendors, investors, and lending institutions. Deferred outflows and inflows of resources represent the consumption or acquisition of net assets, respectively, that are applicable to future periods but do not meet the definition of assets or liabilities. Finally, the SNP provides a picture of the net position, which represents the residual interest in the University's assets and deferred outflows of resources, net of its liabilities and deferred inflows of resources.

The following table summarizes and compares condensed balances as reported on the University's SNP as of June 30, 2016, and June 30, 2015.

Condensed Statement of Net Position	2016	2015 (As Restated)	Change	
			Amount	Percent
Assets:				
Current Assets	\$ 279,733,220	\$ 253,619,584	\$ 26,113,636	10.3%
Noncurrent Assets:				
Endowment and Other Investments	83,941,717	88,274,447	(4,332,730)	(4.9%)
Capital Assets, Net	1,239,260,548	1,180,594,367	58,666,181	5.0%
Other Noncurrent Assets	68,905,672	98,188,917	(29,283,245)	(29.8%)
Total Assets	1,671,841,157	1,620,677,315	51,163,842	3.2%
Deferred Outflows of Resources:				
Deferred Loss on Refunding	3,809,597	4,129,964	(320,367)	(7.8%)
Deferred Outflows Related to Pensions	10,237,971	10,150,662	87,309	0.9%
Total Deferred Outflows of Resources	14,047,568	14,280,626	(233,058)	(1.6%)
Liabilities:				
Current Liabilities	45,556,170	40,530,780	5,025,390	12.4%
Noncurrent Liabilities:				
Funds Held in Trust	10,414,546	13,375,793	(2,961,247)	(22.1%)
Long-Term Liabilities, Net	575,653,426	573,828,313	1,825,113	0.3%
Other Noncurrent Liabilities	15,879,091	12,828,482	3,050,609	23.8%
Total Liabilities	647,503,233	640,563,368	6,939,865	1.1%
Deferred Inflows of Resources:				
Deferred Gain on Refunding	30,071	31,675	(1,604)	(5.1%)
Deferred Inflows Related to Pensions	5,485,990	28,713,497	(23,227,507)	(80.9%)
Total Deferred Inflows of Resources	5,516,061	28,745,172	(23,229,111)	(80.8%)
Net Position:				
Net Investment in Capital Assets	734,905,763	716,273,408	18,632,355	2.6%
Restricted:				
Nonexpendable	44,524,012	41,839,893	2,684,119	6.4%
Expendable	45,911,148	46,295,365	(384,217)	(0.8%)
Unrestricted	207,528,508	161,240,735	46,287,773	28.7%
Total Net Position	\$ 1,032,869,431	\$ 965,649,401	\$ 67,220,030	7.0%

Net position increased to more than \$1.0 billion as of June 30, 2016, reflecting continued growth of the University. Other highlights of the information presented on the SNP:

- Current assets are those that are available to pay for current liabilities or current year expenditures. Current assets increased by \$26.1 million in fiscal year 2016, primarily due to a \$21.9 million increase in current cash and cash equivalents (unrestricted and restricted). Cash related to overall increases in auxiliary and trust fund operating results increased, and the allowed carryforward of state appropriation was 5.0% for fiscal

year 2016 as opposed to 2.5% in previous years, yielding a net \$5.2 million increase in cash carried forward at June 30, 2016. Prepaid items increased by \$6.7 million, mainly related to a \$4.4 million prepaid expense for use of a parking deck currently being constructed near the University's Center City Building. There was also a \$1.3 million increase in prepaid software and an additional \$1.0 million prepaid expense this year for capital related items not yet received by year end. The increases in current cash and prepaid items were offset by a decrease in receivables of \$2.4 million related to dining commissions.

- Total noncurrent assets increased by \$25.1 million, or 1.8%, during the fiscal year, primarily due to an increase in net capital assets of \$58.7 million (discussed in detail in the Capital Assets and Debt Administration section). This was offset by a decrease in non-current restricted cash and cash equivalents of \$29.6 million due to spending of bond proceeds during the year on capital projects. Total endowment and other investments decreased by \$4.3 million due to a \$2.7 million divestment from the Athletic Foundation to fund Belk Track resurfacing and Halton Arena scoreboard projects and a \$3.8 million decrease in restricted investments related to debt service funds. This was offset by a net \$2.7 million increase in endowment investments, namely related to increases in investment property for a \$2.6 million donation received and a \$2.6 million fair value adjustment of existing property recognized per GASB Statement No. 72, offset by investment performance losses.
- Total deferred outflows of resources decreased by \$233.1 thousand during the fiscal year, comprised of a \$320.4 thousand decrease in the deferred loss on refunding for amortization and an \$87.3 thousand increase in the deferred outflows related to pensions for employer contributions during the year. The \$3.8 million deferred loss on refunding balance at year end represents the difference between the net carrying amount of refunded debt less the cost of acquiring new debt to liquidate the refunded debt, net of annual amortization.
- Total liabilities increased by \$6.9 million, or 1.1%, to \$647.5 million at June 30, 2016. Current liabilities, those that are due and payable in the next fiscal year, increased by \$5.0 million, and noncurrent liabilities increased by \$1.9 million. Within the current liabilities category, unearned revenue related to grants and contracts decreased by \$1.1 million while accounts payable and contract retainage for construction projects increased by \$5.1 million, and the current portion of long-term debt increased by \$650.3 thousand. The net increase in noncurrent liabilities was mainly due to a combination of \$2.5 million in new debt issued (explained more fully in the Capital Assets and Debt Administration section) and an increase in the net pension liability of \$16.8 million due to lower actual plan investment earnings than projected, offset by debt principal payments and bond premium and discount amortization during the year. The increase in the pension liability is recognized as deferred outflows related to pensions on the SNP and will be amortized as an increase in pension expense over the next four fiscal years. These increases in noncurrent liabilities were offset by a \$3.0 million decrease in funds held in trust, primarily due to the \$2.7 million divestment from the Athletic Foundation.
- Net Position is divided into three major categories:
 - Net Investment in Capital Assets: Represents the University's net equity in material property, plant, and equipment owned by the University, which increased by \$18.6 million this fiscal year. Please reference the Capital Assets and Debt Administration section for further details.

- **Restricted Net Position**
 - **Nonexpendable:** The corpus of nonexpendable restricted resources (e.g., endowments) that is available for investment purposes. The University's nonexpendable net position increased by \$2.7 million for new endowed professorship funds.
 - **Expendable:** Restricted resources that must be spent for purposes as determined by donors and external entities that have placed time or purpose restrictions on the use of the assets. The University's expendable restricted net position decreased by \$384.2 thousand.
- **Unrestricted Net Position:** Represents net equity available for any lawful purpose of the University. The University's unrestricted net position increased by \$46.3 million, or 28.7%, the largest dollar-value and percentage increase of the three net position classifications. The increase mainly relates to increases in auxiliary and trust fund unrestricted operating results.
- The University's liquidity remains strong with a current ratio of 6.14. This current ratio, defined as current assets divided by current liabilities, indicates that the University, if needed, could satisfy payment of its current liabilities more than six times before current assets were exhausted. Total working capital, defined as current assets less current liabilities, of \$234.2 million at June 30, 2016, increased by \$21.1 million, or 9.9%, from the prior year, due to the overall increase in current assets and relatively small increase in current liabilities discussed above.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position, as presented in the SNP, are based on activity presented in the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). The purpose of the SRECNP is to present revenues and expenses earned and incurred, respectively, by the University.

GASB accounting principles determine the categorization of revenues and expenses as either operating or nonoperating activities. Because GASB Statement No. 34 requires that revenues from state appropriations, Pell grants, and gifts be considered nonoperating while the expenses funded from these revenues are categorized as operating, the University will nearly always demonstrate an operating loss on its SRECNP.

Other revenues, expenses, gains, and losses recognized by the University, as applicable, and not classified as operating or nonoperating, are presented separately on the statement below the Income Before Other Revenues line.

The following table summarizes and compares the University's results of operations for the fiscal years ended June 30, 2016, and June 30, 2015.

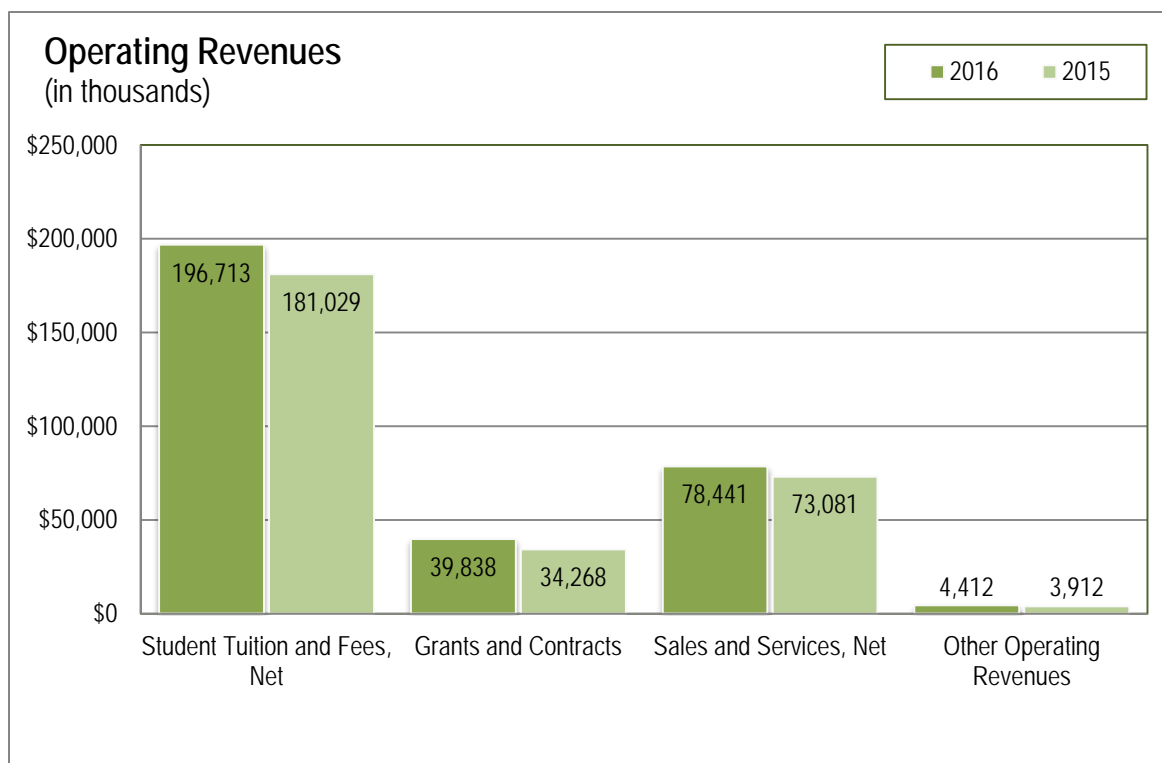
Condensed Statement of Revenues, Expenses, and Changes in Net Position	2016	2015 (As Restated)	Change	
			Amount	Percent
Operating Revenues:				
Student Tuition and Fees, Net	\$ 196,713,375	\$ 181,029,353	\$ 15,684,022	8.7%
Grants and Contracts	39,837,583	34,268,008	5,569,575	16.3%
Sales and Services, Net	78,440,531	73,080,843	5,359,688	7.3%
Other	4,412,149	3,911,966	500,183	12.8%
Total Operating Revenues	319,403,638	292,290,170	27,113,468	9.3%
Operating Expenses:				
Salaries and Benefits	332,636,338	314,898,563	17,737,775	5.6%
Supplies and Materials	42,394,277	40,924,904	1,469,373	3.6%
Services	86,457,532	89,576,506	(3,118,974)	(3.5%)
Scholarships and Fellowships	41,879,088	38,521,024	3,358,064	8.7%
Utilities	12,278,758	12,375,750	(96,992)	(0.8%)
Depreciation/Amortization	27,998,426	26,046,519	1,951,907	7.5%
Operating Expenses	543,644,419	522,343,266	21,301,153	4.1%
Operating Loss	(224,240,781)	(230,053,096)	5,812,315	(2.5%)
Nonoperating Revenues / (Expenses):				
State Appropriations	220,923,807	199,788,951	21,134,856	10.6%
Noncapital Gifts and Grants	78,519,075	76,297,167	2,221,908	2.9%
Investment Income, Net	3,443,321	6,099,085	(2,655,764)	(43.5%)
Interest and Fees on Debt	(19,983,765)	(16,952,908)	(3,030,857)	17.9%
Federal Interest Subsidy on Debt	1,900,454	1,918,797	(18,343)	(1.0%)
Other Nonoperating Expenses	(1,680,290)	(1,049,149)	(631,141)	60.2%
Net Nonoperating Revenues	283,122,602	266,101,943	17,020,659	6.4%
Income Before Other Revenue	58,881,821	36,048,847	22,832,974	63.3%
Capital Appropriations, Gifts, and Grants	5,626,927	1,380,900	4,246,027	307.5%
Additions to Endowment	2,711,282	1,579,091	1,132,191	71.7%
Increase in Net Position	67,220,030	39,008,838	28,211,192	72.3%
Net Position, Beginning of Year	965,649,401	925,572,331		
Restatement		1,068,232		
Net Position, End of Year	\$ 1,032,869,431	\$ 965,649,401	\$ 67,220,030	7.0%

Fiscal year 2015-16 total revenues were \$632,528,504 and total expenses were \$565,308,474
 Fiscal year 2014-15 total revenues were \$579,354,161 and total expenses were \$540,345,323

As noted earlier, the change in net position is a key measure of the sum effect of the University's fiscal year activities on its financial health. The overall increase in net position of \$67.2 million is composed of the following highlighted changes:

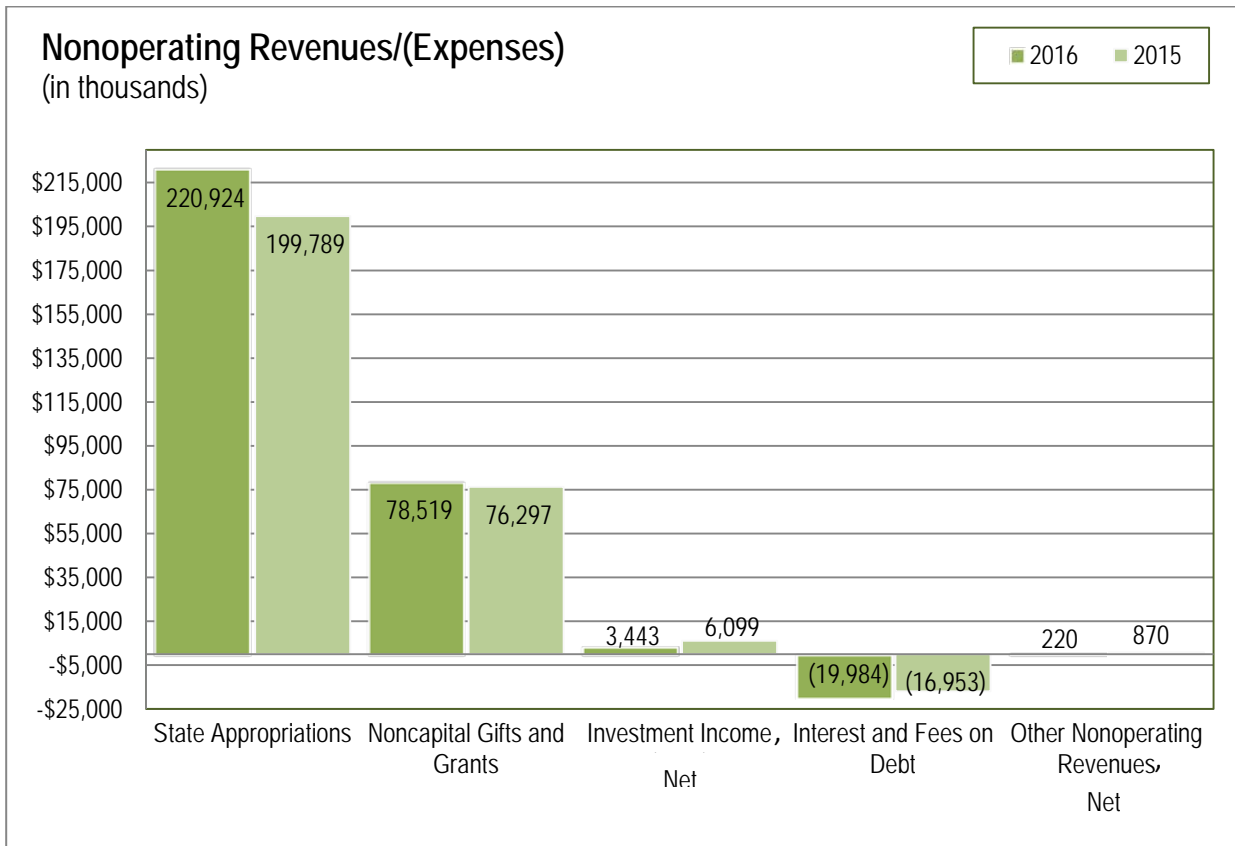
- Operating revenues are generated by providing goods and services to the various customers and constituencies of the University. Total operating revenues increased by \$27.1 million, or 9.3%, as compared to the prior fiscal year. Several key financial measures factor into this increase. Student tuition and fees increased by \$15.7 million,

or 8.7%, as a result of increases in tuition and fee rates, and an increase in student population of 857 full-time equivalents. Grant and contract revenue increased by \$5.6 million, or 16.3%, due to an increase in federal, state, and private awards recognized, but mainly spurred by the latter two: state and local grants and contracts increased by \$2.1 million, or 90.6%, and nongovernmental grants and contracts increased by \$2.8 million, or 53.3%. Major grantors this year included the North Carolina Department of Public Instruction, the U.S. Department of Education, and Duke Energy, from which the University recognized \$5.1 million in total this year. Sales and services revenue increased by \$5.4 million, or 7.3%, attributable to a \$5.7 million increase in housing revenues due to a 327 net bed increase and an average rate increase of 3.7%, and a \$1.3 million increase in football revenues related to guarantees and ticket revenue.



- Nonoperating revenues are those received for which goods and services are not provided. Certain significant recurring sources of the University's revenues, including state appropriations, are classified as nonoperating because they are provided to the University without the provider directly receiving commensurate goods and services for those revenues. The University's net nonoperating revenues were \$283.1 million in fiscal year 2016, a \$17.0 million increase compared to the prior year. Appropriations from the state increased by \$21.1 million. The State imposed a permanent budget reduction of \$1.6 million but allocated appropriations for enrollment growth and bonus compensation of \$18.4 million and \$2.1 million, respectively. Noncapital gifts and grants increased by \$2.2 million, mainly as a result of a \$2.6 million gift of investment property. These increases were offset by a decrease in net investment income of \$2.7 million, primarily the result of a 2.9% decrease in investment performance during fiscal year 2016, and an increase in interest and fees on debt of \$3.0 million related to ongoing debt obligations,

including new debt service on the \$116.2 million of General Revenue Bonds issued in 2015.



- Operating expenses are those incurred to acquire or produce the goods and services provided to fulfill the mission of the University. Total operating expenses increased by \$21.3 million, or 4.1%, from the prior year, to \$543.6 million.
- The increase in operating expenses is largely attributable to a \$17.7 million, or 5.6%, increase in salary expense due to: a \$750 state-budgeted one-time bonus for all permanent employees; promotions, salary adjustments, new positions, and previously vacant positions filled for permanent employees exempt from the State Human Resources Act (EHRA); salary adjustments for approximately 80% of employees subject to the State Human Resources Act (SHRA) related to changes in job duties and market rates; and an increase in graduate teaching assistantships. Benefits expenses increased slightly, by \$741.0 thousand, mainly due to increases in retirement and medical insurance contributions.
- Supplies and materials purchased increased by \$1.5 million, mainly due to increases in purchases for computer and networking related equipment, and services expense decreased by \$3.1 million due to decreased spending in this category, notably in contracted services, rent expense, and repairs and maintenance. Scholarship and fellowship expenses increased by \$3.4 million, or 8.7%, reflecting increases in university, state, and federal grants awarded and recognized as scholarship expense, as well as a \$1.7 million increase in graduate assistance awards. Depreciation and amortization

- expense also increased by \$2.0 million due to the increase in depreciable and amortizable capital assets.
- For an explanation of the decrease in capital appropriations, gifts, and grants, see the Capital Assets and Debt Administration section below.

Capital Assets and Debt Administration

The University remains committed to providing quality education, research, residential life, and other services to the community as student enrollment increases, technology advances, and community needs evolve. A critical factor in meeting these commitments is the University's ability to strategically expand and improve its capital assets.

Total capital assets, by major classification and net of accumulated depreciation, are presented below for the fiscal years ended June 30, 2016, and June 30, 2015. Information regarding changes in capital assets is also disclosed in Note 6.

Capital Assets, Net of Accumulated Depreciation	2016	2015 (As Restated)	Change	
			Amount	Percent
Land and Land Improvements	\$ 11,737,012	\$ 11,733,446	\$ 3,566	0.0%
Rare Book, Manuscript, Art, and Artifact Collections	33,062,257	31,602,839	1,459,418	4.6%
Construction in Progress	46,098,810	85,982,105	(39,883,295)	(46.4%)
Buildings	888,291,699	806,224,680	82,067,019	10.2%
Machinery and Equipment	52,447,473	50,936,551	1,510,922	3.0%
General Infrastructure	201,680,708	187,727,709	13,952,999	7.4%
Computer Software	5,942,589	6,387,037	(444,448)	(7.0%)
Total Capital Assets, Net	\$ 1,239,260,548	\$ 1,180,594,367	\$ 58,666,181	5.0%

Total construction in progress at the end of the year was \$46.1 million, a \$39.9 million decrease from the prior year due to the completion of major building projects, including the Phase XIII residence hall, Holshouser Hall renovations, Oak Hall renovations, and Belk Gym renovations. These decreases to construction in progress were partially offset by the start of construction on the Levine residence hall.

The University also had \$31.6 million in outstanding commitments on construction contracts for capital expenditures at June 30, 2016. The bulk of these commitments relate to the following construction projects: Phase XIV residence hall (\$12.6 million), Campus Infrastructure Development projects (\$10.0 million), Health and Wellness Center (\$2.9 million), elevator upgrades (\$1.4 million), and the Irwin Belk Track resurfacing project (\$1.2 million).

Capital appropriations of \$3.5 million were received in fiscal year 2016 for approved repair and renovation projects. The State provided capital grants of \$73.1 thousand for small residual and repair projects. Required resources for repair and renovation of existing facilities continues to be underfunded on an annual basis by the State, requiring prudent use of other available resources. Capital gifts of equipment, sculptures, art, rare books, and manuscript collections of approximately \$2.1 million were made to the University during the fiscal year.

The Phase XIII residence hall project, also known as Laurel Hall, was completed in July 2015 at a total cost of \$35.8 million and is located in the South Village section of campus. The building accommodates more than 400 students as a suite-style freshman residential hall.

The Belk Gym renovation project was completed in February 2016 at a total cost of \$20.2 million. The gym now includes over 8,000 square feet of dedicated fitness space, a redesigned main entrance and plaza, refinished basketball courts, improved lighting, new stairs for improved circulation and security, a high seating capacity auditorium-style lecture hall, and additional classroom and lab space. All renovation projects completed this year – for Holshouser Hall, Oak Hall, and Belk Gym – included mechanical, structural, and cosmetic improvements.

The University continues to receive recognition for its efforts in sustainability and responsible energy use. The Appalachian Energy Summit awarded a certificate of recognition to the University for achieving its 30% energy reduction goal, and Duke Energy selected the University to receive its Power Partners award for achieving positive results in energy efficiency, sustainability, and growth. These awards reflect the University's commitment to good stewardship of the environment and its willingness to serve as a role model for the community in sustainability. Additionally, the University's energy savings efforts have resulted in substantial cost avoidance that frees up money to be applied to academic and other programs on campus, with \$5.1 million in energy cost savings achieved during fiscal year 2016.

The University's long-term debt is primarily issued for specific capital needs. In June 2016, the University issued \$19.5 million of tax-exempt General Revenue Bond Anticipation Notes, Series 2016, its first variable rate debt issuance. The notes are interest only with principal due on the maturity date. As of June 30, 2016, \$2.5 million of the notes were outstanding, and the calculated interest rate was 0.82%. The University also pays a quarterly facility fee of 0.075% on the undrawn portion of the notes. The notes were issued to provide flexible, interim financing for renovations to the University's Elm, Maple, and Pine residence halls. The University's available funds are pledged to pay the notes with anticipation of repaying the loan from proceeds of a long-term fixed rate bond issue in fiscal year 2018.

The University received an affirmed credit rating this year from Standard & Poor's of 'A+' with a stable outlook, and also retains its rating from Moody's Investors Service of 'Aa3' with a stable outlook. Standard & Poor's affirmed its rating based on the very strong enterprise profile of the University, including growing demand and enrollment trends, consistently positive financial operations, strong operating and capital support from Aaa-rated State of North Carolina, and a capable management team. While the University's debt profile has increased over the past ten years, all funding decisions are made to be as cost effective as possible in the current economic environment, support the University's long-term strategic plan, and are within the University's formal debt policy.

For additional information on debt administration, see Note 8 to the financial statements.

Economic Outlook

Management remains prudent, conservative, and strategic in managing institutional financial affairs to achieve the University's goals of providing educational services to the Charlotte region. Continued success will rely on enrollment demand and state support, as two of the most significant drivers of the University's revenue base, along with effective institutional

planning. The overall outlook for the four-year U.S. Higher Education sector, per Moody's Investors Services, remains stable for 2016, reflecting expected growth in state funding and net tuition revenue, increased investment income, and overall cost containment efforts. UNC Charlotte continues to realize strong enrollment and overall growth with tuition and fee rates that remain in the bottom quartile of its public peers. The University also benefits from its membership in the University of North Carolina (UNC) System through economies of scale, and has a diverse tuition base to draw from.

UNC Charlotte continues to be the fastest growing school in the 17-campus UNC System, representing 61.0% of overall enrollment growth in the System from Fall 2009 to 2015 based on student headcount. UNC Charlotte's enrollment grew to more than 28,700 students for the Fall 2016 semester, the highest enrollment in the University's history and a 33.5% increase over the past ten years. The University had 24,746 freshman and transfer applications for admission for the 2016-17 academic year, an 18.1% increase from 2014-15, and selectivity increased as well. UNC Charlotte remains the only urban research university in the UNC System and has the highest transfer student population. UNC Charlotte is also the largest university in the continuously growing Charlotte region, offering 77 bachelor's degree programs, 64 master's degree programs, and 21 doctoral programs to a culturally diverse student population.

Strong growth in student demand for higher education and for enrollment at UNC Charlotte is expected to continue. North Carolina's population is expected to grow by over two million people from 2010 to 2030, and Charlotte is projected to be one of the fastest growing regions in the U.S. in that same timeframe. A key UNC System goal is to increase the proportion of adults in North Carolina with a bachelor's degree or higher from the current level of 28.4% to 36.2% by 2025. The University continues to plan for a long-term target of 35,000 students, as UNC Charlotte will be expected to support the single largest number of additional students in the UNC System.

Tuition rates will likely continue to rise, especially as state resources continue to be constrained. In July 2016, the Governor of North Carolina signed into law House Bill 1030, the 2016 Appropriations Act, which established a fixed tuition payment program at all UNC System institutions for freshman and transfer resident undergraduate students, starting as of the 2016 Fall semester. Specific implementation guidance is forthcoming as of this writing, but the provision will greatly affect the University's future tuition rates and budget and planning tactics. The Act also limits future increases to undergraduate student fees approved by either the Board of Governors or the Board of Trustees to 3% per academic year.

UNC Charlotte is mindful of controlling expenses and has one of the lowest state spending rates per full time equivalent student of the 17 UNC schools. Management has historically improved efficiencies at the academic and operational level, aligning these efforts with student and faculty success, and will continue to do so moving forward.

In March 2016, North Carolina voters approved the Connect NC Bond package, providing \$2.0 billion for public universities, community colleges, and other projects across the state, including \$90.0 million to build a new science building at UNC Charlotte. UNC Charlotte enrolled only 11,000 students when its current science building was built in 1985, and has grown 155% since then. With more than 50% of UNC Charlotte's students choosing STEM-related majors, the new facility will be critical to the University's overall growth by providing essential teaching laboratories and graduate research space. Future capital plans

also include design and construction of a new Health and Wellness Center, Counseling Center, and Admissions and Visitor Center.

The University also continues efforts to foster partnerships and relationships with a wide variety of constituents and in a variety of manners, positioning itself as the region's preferred provider of talent, knowledge, and innovation. Notably, the University has recently partnered with the City of Charlotte and the Charlotte Area Transit System on the new LYNX Blue Line Extension of the City's light rail, which will connect UNC Charlotte with the neighborhoods and business districts along the Blue Line's 18.6-mile rail through Charlotte. Passenger service is expected to begin in August 2017. Private fundraising exceeded a record \$30.0 million this year, and the University is currently in the silent phase of a comprehensive private fundraising campaign, which will publicly launch on the 70th anniversary of its founding in 1946 and be completed by the end of the calendar year 2019, with a major focus on generating funds for need-based student financial aid.

Finally, the University continues its efforts to make an impact through its research initiatives and was awarded new sponsored projects of \$40.3 million during fiscal year 2016. The University is consistently in the top five universities nationally for number of startups per million dollars of research funding. The University will continue to strategically target research-rich fields, including advanced manufacturing, biosciences, data science and business analytics, defense, education, energy production and infrastructure, health, and cybersecurity, which align with UNC Charlotte's professional schools and applied science programs. The University plans to reach a sustainable level of extramurally funded research programs of \$55.0 million annually by 2021.

The majority of the University's research funding is from federal grants. This, in addition to the University's students' reliance on federally funded student grants and loans, causes the federal budget to remain a key consideration of the financial outlook. Focus on higher education has been elevated at the national level, specifically in terms of access, affordability, and student outcomes, resulting in many proposals put forth in the public sphere, including student loan reform and performance-based funding. Management is committed to providing ongoing faculty and staff development and support to ensure that any new requirements are addressed and met.

Management is fully committed to making sound fiscal decisions to withstand future economic uncertainties, and remains dedicated to UNC's mission to discover, create, transmit, and apply knowledge to address the needs of individuals and society.

Contacting the University's Financial Management

This financial report is designed to provide our citizens, investors, and creditors with a general overview of the University's finances and show accountability for all funds received. Additional financial information may be obtained by accessing the Financial Services webpage (finance.uncc.edu) or contacting the Controller (704-687-5759) or Associate Vice Chancellor for Finance (704-687-5813).



FINANCIAL STATEMENTS

The University of North Carolina at Charlotte
Statement of Net Position
June 30, 2016

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 233,403,635
Restricted Cash and Cash Equivalents	23,613,255
Short-Term Investments	446,004
Receivables, Net (Note 5)	11,797,121
Inventories	301,857
Notes Receivable, Net (Note 5)	845,499
Prepaid Items	9,325,849
	<hr/>
Total Current Assets	279,733,220

Noncurrent Assets:

Restricted Cash and Cash Equivalents	63,618,927
Endowment Investments	73,209,897
Restricted Investments	10,694,174
Other Investments	37,646
Notes Receivable, Net (Note 5)	5,286,745
Capital Assets - Nondepreciable (Note 6)	90,898,079
Capital Assets - Depreciable, Net (Note 6)	1,148,362,469
	<hr/>
Total Noncurrent Assets	1,392,107,937

Total Assets	<hr/> 1,671,841,157
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	3,809,597
Deferred Outflows Related to Pensions	10,237,971
	<hr/>
Total Deferred Outflows of Resources	14,047,568

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	12,681,760
Deposits Payable	1,521,025
Funds Held for Others	800
Unearned Revenue	7,118,199
Interest Payable	5,999,282
Long-Term Liabilities - Current Portion (Note 8)	18,235,104
	<hr/>
Total Current Liabilities	45,556,170

Noncurrent Liabilities:

Funds Held for Others	10,425,898
U. S. Government Grants Refundable	5,453,193
Funds Held in Trust for Pool Participants	10,414,546
Long-Term Liabilities, Net (Note 8)	575,653,426
	<hr/>
Total Noncurrent Liabilities	601,947,063

Total Liabilities	<hr/> 647,503,233
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DEFERRED INFLOWS OF RESOURCES

Deferred Gain on Refunding	30,071
Deferred Inflows Related to Pensions	5,485,990
	<hr/>
Total Deferred Inflows of Resources	5,516,061

The University of North Carolina at Charlotte
Statement of Net Position
June 30, 2016

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	734,905,763
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,198,364
Endowed Professorships	33,290,883
Departmental Uses	3,999,785
Loans	1,818,983
Other	215,997
Expendable:	
Scholarships and Fellowships	4,098,232
Research	2,309,322
Endowed Professorships	11,654,213
Departmental Uses	4,114,223
Capital Projects	20,216,006
Debt Service	458,308
Other	3,060,844
Unrestricted	<u>207,528,508</u>
Total Net Position	<u>\$ 1,032,869,431</u>

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

The University of North Carolina at Charlotte
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 10)	\$ 196,713,375
Federal Grants and Contracts	27,164,970
State and Local Grants and Contracts	4,510,768
Nongovernmental Grants and Contracts	8,161,845
Sales and Services, Net (Note 10)	78,440,531
Interest Earnings on Loans	59,343
Other Operating Revenues	4,352,806
	<hr/>
Total Operating Revenues	319,403,638

EXPENSES

Operating Expenses:

Salaries and Benefits	332,636,338
Supplies and Materials	42,394,277
Services	86,457,532
Scholarships and Fellowships	41,879,088
Utilities	12,278,758
Depreciation/Amortization	27,998,426
	<hr/>
Total Operating Expenses	543,644,419

Operating Loss	<hr/> <u>(224,240,781)</u>
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	220,923,807
Noncapital Grants - Student Financial Aid	65,803,235
Noncapital Grants	141,255
Noncapital Gifts	12,574,585
Investment Income (Net of Investment Expense of \$413,058)	3,443,321
Interest and Fees on Debt	(19,983,765)
Federal Interest Subsidy on Debt	1,900,454
Other Nonoperating Expenses	(1,680,290)
	<hr/>
Net Nonoperating Revenues	283,122,602

Income Before Other Revenues	58,881,821
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Capital Appropriations	3,453,900
Capital Grants	73,142
Capital Gifts	2,099,885
Additions to Endowments	2,711,282
	<hr/>

Increase in Net Position	67,220,030
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NET POSITION

Net Position - July 1, 2015, as Restated (Note 19)	<hr/> 965,649,401
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Net Position - June 30, 2016	<hr/> <u>\$ 1,032,869,431</u>
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The accompanying notes to the financial statements are an integral part of this statement.

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

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 315,702,852
Payments to Employees and Fringe Benefits	(339,257,816)
Payments to Vendors and Suppliers	(147,450,332)
Payments for Scholarships and Fellowships	(41,879,088)
Loans Issued	(641,064)
Collection of Loans	869,691
Interest Earned on Loans	106,053
Student Deposits Received	1,009,000
Student Deposits Returned	(899,800)
Other Receipts	4,263,362
	<hr/>
Net Cash Used by Operating Activities	(208,177,142)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	220,923,807
Noncapital Grants - Student Financial Aid	65,747,565
Noncapital Grants	141,255
Noncapital Gifts	9,881,385
Additions to Endowments	2,711,282
William D. Ford Direct Lending Receipts	135,290,588
William D. Ford Direct Lending Disbursements	(135,327,343)
Related Activity Agency Receipts	23,332,088
Related Activity Agency Disbursements	(23,286,261)
External Participation in Investment Fund Receipts	196,444
External Participation in Investment Fund Disbursements	(3,294,771)
Other Receipts	3,550,270
	<hr/>
Net Cash Provided by Noncapital Financing Activities	299,866,309

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	2,500,000
Capital Appropriations	3,453,900
Capital Grants	73,142
Acquisition and Construction of Capital Assets	(80,679,032)
Principal Paid on Capital Debt and Leases	(15,373,867)
Interest and Fees Paid on Capital Debt and Leases	(21,047,553)
Federal Interest Subsidy on Debt Received	1,900,454
Other Payments	(88,936)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(109,261,892)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	13,297,321
Investment Income	2,170,852
Purchase of Investments and Related Fees	(5,611,870)
	<hr/>
Net Cash Provided by Investing Activities	9,856,303
	<hr/>
Net Decrease in Cash and Cash Equivalents	(7,716,422)
Cash and Cash Equivalents - July 1, 2015	328,352,239
	<hr/>
Cash and Cash Equivalents - June 30, 2016	\$ 320,635,817

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

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (224,240,781)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	27,998,426
Allowances, Write-Offs, and Amortizations	2,145,854
Pension Expense	2,729,431
Miscellaneous Pension Adjustments	44,391
Nonoperating Other Expenses	(613,163)
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	233,997
Inventories	16,804
Notes Receivable, Net	136,173
Prepaid Items	(6,662,588)
Accounts Payable and Accrued Liabilities	562,891
Unearned Revenue	(1,133,705)
Deferred Outflows for Contributions Subsequent to the Measurement Date	(9,331,667)
Compensated Absences	(118,409)
Deposits Payable	55,204
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (208,177,142)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 233,403,635
Restricted Cash and Cash Equivalents	23,613,255
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>63,618,927</u>
Total Cash and Cash Equivalents - June 30, 2016	<u>\$ 320,635,817</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 4,793,085
Change in Fair Value of Investments	1,435,565
Loss on Disposal of Capital Assets	(1,230,632)
Amortization of Bond Premiums/Discounts	(1,289,298)

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

The Foundation of the University of North Carolina at Charlotte, Inc.
Consolidated Statement of Financial Position
June 30, 2016

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 15,485,616
Accounts Receivable	59,255
Prepaid Expenses	13,585
Pledges Receivable, Net	15,978,357
Beneficial Interests in Lead Trusts	782,733
Investments	100,544,740
Assets Held Under Split-Interest Agreements	774,868
Cash Surrender Value of Life Insurance	946,882
Note Receivable	75,000
Property Held for Investment	8,445,913
	<hr/>
Total Assets	\$ 143,106,949
	<hr/> <hr/>

LIABILITIES

Accounts Payable and Accrued Expenses	\$ 18,759
Unearned Revenue	500,000
Liability Under Split-Interest Agreements	351,669
Funds Held for Others	48,718
	<hr/>
Total Liabilities	919,146
	<hr/>

NET ASSETS

Unrestricted	19,879,411
Temporarily Restricted	67,646,909
Permanently Restricted	54,661,483
	<hr/>
Total Net Assets	142,187,803
	<hr/>
Total Liabilities and Net Assets	\$ 143,106,949
	<hr/> <hr/>

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

The Foundation of the University of North Carolina at Charlotte, Inc.
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2016

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS, AND OTHER SUPPORT:				
Public Contributions	\$ 890,580	\$ 7,153,327	\$ 9,212,278	\$ 17,256,185
Support from Affiliate	2,761,162	332,907		3,094,069
Interest and Dividend Income	56,866	157,982		214,848
Net Loss on Investments	(438,217)	(974,717)		(1,412,934)
Other Revenue and Support	171,389	41,941		213,330
	<u>3,441,780</u>	<u>6,711,440</u>	<u>9,212,278</u>	<u>19,365,498</u>
Net Assets Released from Restrictions	13,507,954	(13,507,954)		
Total Revenue, Gains, and Other Support	<u>16,949,734</u>	<u>(6,796,514)</u>	<u>9,212,278</u>	<u>19,365,498</u>
EXPENSES:				
Program Services:				
Contributions to UNC Charlotte	14,151,830			14,151,830
Grants and Research	342,571			342,571
Other Program Services	262,163			262,163
Total Program Services	<u>14,756,564</u>			<u>14,756,564</u>
Support Services:				
Fundraising Support	1,490,730			1,490,730
Professional Fees	106,296			106,296
Investment Expenses	649,782			649,782
Interest Expense	4,816			4,816
Other General and Administrative	1,397,780			1,397,780
Total Support Services	<u>3,649,404</u>			<u>3,649,404</u>
Total Expenses	<u>18,405,968</u>			<u>18,405,968</u>
Change in Net Assets Before Transfers	(1,456,234)	(6,796,514)	9,212,278	959,530
Transfers Between Net Asset Classes	(365,468)	367,447	(1,979)	
Change in Net Assets	<u>(1,821,702)</u>	<u>(6,429,067)</u>	<u>9,210,299</u>	<u>959,530</u>
NET ASSETS:				
Beginning of Year	21,701,113	74,075,976	45,451,184	141,228,273
Ending of Year	<u>\$ 19,879,411</u>	<u>\$ 67,646,909</u>	<u>\$ 54,661,483</u>	<u>\$ 142,187,803</u>

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 Charlotte (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. See below for further discussion of the University's component units.

Blended Component Units - Although legally separate, The University of North Carolina at Charlotte Facilities Development Corporation, Inc. (FDC) and The University of North Carolina at Charlotte Investment Fund, Inc. (Investment Fund), component units of the University, are reported as if they were part of the University.

The FDC is governed by a nine-member board consisting of three ex officio directors and six elected directors. The sole purpose is to assist the University in financing, constructing, and equipping a student housing project on campus. The University operates and manages the project under the terms of agreement between the University and the FDC. Because the elected directors of the FDC are appointed by the members of The University of North Carolina at Charlotte Board of Trustees and because the FDC's primary purpose is to benefit The University of North Carolina at Charlotte, its financial statements have been blended with those of the University.

The Investment Fund is governed by a board consisting of three ex officio directors and four elected directors. The Investment Fund's purpose is to support the University by operating an investment fund for nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Its participant investors include the University, the Foundation, and the Athletic Foundation (see Note 16). The Investment Fund is a governmental external investment pool. Because two of the seven directors of the Investment Fund are administrators of the University and the elected

directors are appointed by the member investors' Boards of Trustees, and because the Investment Fund's primary purpose is to benefit the University, the University's and the Athletic Foundation's shares of the Investment Fund have been blended with the University's financial statements.

Separate financial statements for the FDC and the Investment Fund may be obtained from the University Treasury Services Office, at treasuryservices@uncc.edu or by calling (704) 687-5432. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Condensed combining information regarding blended component units is provided in Note 17.

Discretely Presented Component Unit - The Foundation of the University of North Carolina at Charlotte, Inc. (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 43 officers and directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2016, the Foundation distributed \$14,151,830 to the University for both restricted and unrestricted purposes. The University provided professional services to the Foundation of \$3,094,069 for the year ended June 30, 2016. Complete financial statements for the Foundation can be obtained from the Treasury Service's Office at treasuryservices@uncc.edu, or by calling (704) 687-5432.

- 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. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the value of investments is recognized as a component of investment income.

Real estate not held by a governmental external investment pool and other asset holdings are reported at fair value as determined by appraisal as of June 30, 2016.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include

amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.

- F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. **Inventories** - Inventories, consisting of expendable supplies, postage, fuel held for consumption, and other merchandise for resale, are valued at cost using the last invoice cost method.
- H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-75 years
Machinery & Equipment	5-20 years
General Infrastructure	10-75 years
Computer Software	10-20 years

The University's rare book, manuscript, art, and artifact collections are capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, 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.
- K. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, special indebtedness, bond anticipation notes, net pension liability, notes 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 12 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The

bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

Net Investment in Capital Assets - This represents the University's total investment in capital assets, net of outstanding debt 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.

N. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the

University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions 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.

- P. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, copy centers, motor pool, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operate 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 \$43,465. The carrying amount of the University's deposits not with the State Treasurer was \$1,595,726 and the bank balance was \$1,636,363. 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, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ 725,173
Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	<u>361,020</u>
Total	<u><u>\$ 1,086,193</u></u>

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. At June 30, 2016, \$50,170 of the total bank balance was denominated in Euros, and was therefore exposed to foreign currency risk. The University does not have a formal policy for foreign currency risk.

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 the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states;

general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

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

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

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

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the 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.

Short-Term Investment Fund - At June 30, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$318,996,626 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.

External Investment Pool - The pooled investments are invested in an external investment pool managed by the Investment Fund which is not registered with the Securities and Exchange Commission. The external investment pool's internal participants include the University and the Foundation. The only external participant is the Athletic Foundation of the University of North Carolina at Charlotte, Inc. There are no involuntary participants in the external investment pool. Fund ownership is measured using the pro rata share method. Under this method, each participating fund's investment balance is determined based on its pro rata share of the fair market value of the investment pool at the beginning of each monthly period. The external participant's share of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The primary investment objective of the Investment Fund's external investment pool is to attain a minimum annualized real total return (net of management fees) of at least 5% over the long term. The Investment Fund's Board of Directors approves investment policies, objectives, and the hiring of investment managers, consultants, and advisors. The Investment Fund's Board of Directors monitors investment performance and implementation of investment policies and has chosen not to make individual security selections. The management of individual securities is made by the two external investment firms and advisors chosen by the Investment Fund's Board of Directors for their individual strength in investment approach, methodology and research, correlation of strategies, quantitative stock selection models and distinct manager specialists as well as a risk controlled framework. This diversification provides reasonable assurance that no single security, class of securities or investment manager has a disproportionate impact on the results of the external investment pool.

The two external investment firms include a limited partnership interest, Global Endowment Fund II, LP, and another external investment pool, UNC Investment Fund, LLC. At June 30, 2016, the University's investments include \$36,940,757 and \$33,908,505 which represents the University's equity position in the Global Endowment Fund II, LP and UNC Investment Fund, LLC, respectively. These two external investment firms invest in a variety of asset classes, including common stocks, fixed income, foreign investment, derivatives, private equity and hedge funds. These assets are subject to a variety of risks. Investment risks associated with the Global Endowment Fund II, LP are included in the audited financial statements of the Global Endowment Fund II, LP which may be obtained from Global Endowment Management, LP, 550 South Tryon Street, Suite 3500, Charlotte, NC 28202. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

The limited partnership investment (Global Endowment Fund II, LP) is subject to the terms and conditions of the limited partnership agreement.

The agreement allows annual redemptions with written notice received prior to September 1st preceding the redemption date. All redemptions are subject to the general partner's approval and can be limited or suspended. The sale of the Investment Fund's limited partnership interest to a third party is not permitted.

The investment in the UNC Investment Fund, LLC is subject to an operating agreement. Ownership in the UNC Investment Fund, LLC is based on the per unit market value method whereby the total market value of the underlying assets is divided by the number of units to determine the market value per unit. The number of units times the rate per unit determines the ownership in the UNC Investment Fund, LLC. The operating agreement permits monthly contributions and withdrawal. Monthly withdrawals are limited to the greater of: 10% of the market value of ownership, or \$2,000,000. Entire withdrawals are permitted and are paid over twelve calendar months.

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

	Amount	Investment Maturities (in Years) Less Than 1
Investment Type		
Debt Securities		
Money Market Mutual Funds	\$ 2,210,289	\$ 2,210,289
Other Securities		
UNC Investment Fund	33,908,505	
Global Endowment Fund II, LP	36,940,757	
Total External Investment Pool	\$ 73,059,551	

At June 30, 2016, the Money Market Mutual Funds, with a value of \$2,210,289, were rated AA and Aa by Standard and Poor's and Moody's, respectively.

Separate financial statements for the Investment Fund external investment pool may be obtained from the University Treasury Services Office at treasuryservices@uncc.edu, or by calling (704) 687-5432.

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

Investment Type	Amount	Investment Maturities (in Years)
		Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 1,050,630	\$ 1,050,630
Other Securities		
Investments in Real Estate	10,240,000	
Cash Surrender Value of Life Insurance	<u>37,540</u>	
Total Non-Pooled Investments	<u>\$ 11,328,170</u>	

At June 30, 2016, the Money Market Mutual Funds, with an amortized cost of \$1,050,630, were rated AAAM and AAA-mf by Standard and Poor's and Moody's, respectively.

Total Investments - The following table presents the total investments at June 30, 2016:

Investment Type	Amount
Debt Securities	
Money Market Mutual Funds	\$ 3,260,919
Other Securities	
UNC Investment Fund	33,908,505
Global Endowment Fund, LLC	36,940,757
Investments in Real Estate	10,240,000
Cash Surrender Value of Life Insurance	<u>37,540</u>
Total Investments	<u>\$ 84,387,721</u>

Component Unit - Investments of the University's discretely presented component unit, The Foundation of the University of North Carolina at Charlotte, 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 Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

<u>Investment Type</u>	<u>Carrying Value</u>
Money Market and Short-Term Investments	\$ 221,082
Bonds	4,246,024
Fixed Income Mutual Funds	339,832
Equity Securities and Other Investments	756,357
UNCCIF External Investment Pool	<u>95,756,313</u>
Total Investments	<u>\$ 101,319,608</u>

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

Cash on Hand	\$ 43,465
Amount of Deposits with Private Financial Institutions	1,595,726
Deposits in the Short-Term Investment Fund	318,996,626
External Investment Pool	73,059,551
Non-Pooled Investments	<u>11,328,170</u>
Total Deposits and Investments	<u>\$ 405,023,538</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 233,403,635
Restricted Cash and Cash Equivalents	23,613,255
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>63,618,927</u>
Total Deposits	<u>320,635,817</u>
Investments	
Current:	
Short-Term Investments	446,004
Noncurrent:	
Endowment Investments	73,209,897
Restricted Investments	10,694,174
Other Investments	<u>37,646</u>
Total Investments	<u>84,387,721</u>
Total Deposits and Investments	<u>\$ 405,023,538</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

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

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by Fair Value Level				
Short-Term Investment Fund	\$ 318,996,626	\$ 0	\$ 318,996,626	\$ 0
Money Market Mutual Funds	2,210,289	2,210,289		
UNC Investment Fund	33,908,505			33,908,505
Investments in Real Estate	10,240,000		10,240,000	
Total Investments by Fair Value Level	365,355,420	\$ 2,210,289	\$ 329,236,626	\$ 33,908,505
Investments Measured at the Net Asset Value (NAV)				
Global Endowment Fund II, LP	36,940,757			
Total Investments Measured at Fair Value	\$ 402,296,177			

Short-Term Investment Fund - University funds totaling \$318,996,626 are on deposit with the STIF. An additional \$5,326,099 of pooled investment funds are in the STIF. However, the Foundation reports their \$2,977,289 portion separately, and the remaining \$2,348,810 is eliminated due to the blending of the external investment pool. 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.

Money Market Mutual Funds - The fair value of the University’s balance in money market mutual funds is \$2,210,289. An additional \$2,812,022 is held by the Foundation. A total of \$5,022,311 is held by the Investment Fund, an external investment pool. These investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

UNC Investment Fund - The fair value of the University’s balance in the UNC Investment Fund is \$33,908,505. An additional \$43,058,268 is held by the Foundation for a total of \$76,966,772 invested by the UNC Charlotte Investment Fund. The fair value is measured using Level 3 of the fair value hierarchy. Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund’s operating procedures.

Investments In Real Estate - The fair value of the University’s investments in real estate is \$10,240,000. These investments are classified as Level 2 of the fair value hierarchy and are valued using market multiples that consider current appraisals.

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	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Global Endowment Fund II, LP	\$ 36,940,757	N/A	Annually	Written notice received prior to September 1 preceding the redemption date.

Global Endowment Fund II, LP - The net asset value (NAV) of the University’s balance in the private equity limited partnership, Global Endowment Fund II, LP, is \$36,940,757. An additional \$46,908,734 is held by the Foundation for a total of \$83,849,491 invested by the UNC Charlotte Investment Fund. This private investment partnership offers an endowment-style investment program to institutional investors, family offices, qualified individuals and other sophisticated investors. The partnership invests with a long-term horizon, seeking varied and non-traditional investment opportunities in an effort to provide a diversified, single-portfolio investment strategy for its investors. The Management Company’s Valuation Committee is responsible

for valuing the Funds' assets. The Committee will ensure that positions are valued in accordance with the requirements of the governing documents of the managed funds and applicable accounting standards. The funds are valued based on the investments' NAV or its equivalent in accordance with FASB Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*. This ASU amends FASB ASC 820 *Fair Value Measurements*, to offer investors a practical expedient for measuring the fair value of investments that do not have a readily determinable fair value and that calculate a NAV to be valued based on the NAV per share or its equivalent of the underlying investment when it is probable that the investment will not be sold in the short-term.

Component Unit - The Foundation's investments are reported using FASB ASC 820, *Fair Value Measurement*, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1	Financial instruments with unadjusted, quoted prices listed on active market exchanges.
Level 2	Financial instruments determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.
Level 3	Financial instruments that are not actively traded on an active exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

In determining fair value, the Foundation uses valuation approaches within the FASB ASC 820 fair value measurement framework and utilizes the end of reporting period for determining when transfers between levels are recognized. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy.

Money market and short-term investments: Money market and short-term investments are traded in active markets and are classified within Level 1 of the hierarchy.

Bonds, mutual funds, equity securities, and other investments (including assets held under split-interest agreements): Bonds, mutual funds, equity securities, and other investments are traded in active markets and are classified within Level 1 of the hierarchy.

The following table summarizes financial assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2016:

	Assets At Fair Value As Of June 30, 2016	
	Level 1	Total
Money Market and Short-Term Investments	\$ 7,339,656	\$ 7,339,656
Bonds	4,246,024	4,246,024
Fixed Income Mutual Funds	339,832	339,832
Equity Securities and Other	756,357	756,357
	<u>\$ 12,681,869</u>	12,681,869
External Investment Pool ^(a)		95,756,313
		<u>\$ 108,438,182</u>

^(a) In accordance with FASB ASU 2016-07, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The following table presents the Foundation's alternative investments, which are reported at net asset value or its equivalent, and unfunded commitments at June 30, 2016:

	Net Asset Value	Redemption Frequency	Redemption Notice	Unfunded Commitments
External Investment Pool	<u>\$ 95,756,313</u>	Quarterly	12 Months	None

The external investment pool seeks to provide equity-like returns while mitigating risk through diversification and long-term asset allocation and to preserve the real purchasing power of the fund, while providing a predictable and growing stream of spending distributions to Fund participants.

The UNCCIF investment in the limited partnership is subject to the terms and conditions of the limited partnership agreement. The agreement allows annual redemptions on December 31 of each year with 90-days advance notice. All redemptions are subject to the general partner's approval and can be limited or suspended. The sale of the limited partnership interest to a third party is not permitted.

The UNCCIF investment in the other external investment pool is subject to an operating agreement. Ownership in the external investment pool is based on the per unit market value method, whereby the total market value of the underlying assets are divided by the number of units to determine the market value per unit. The number of units times the rate per unit determines the ownership. The operating agreement permits monthly contributions and

withdrawals. Monthly withdrawals are limited to the greater of 10% of the market value of the ownership interest or \$2,000,000. Entire withdrawals are permitted and are paid over 12 calendar months.

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are real property held for investment of \$10,240,000 and pooled investments invested with The University of North Carolina at Charlotte Investment Fund, Inc. of \$73,059,551 (includes \$10,089,654 of Athletic Foundation restricted investments). Non-real property investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy, which limits spending to 80% of the prior year's spending adjusted for inflation, plus 20% of 4.5% of the average of the prior three years' market values as of December 31 each year. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2016, accumulated income and appreciation of \$20,264,868 was available to be spent, of which \$12,780,509 was classified in net position as restricted expendable for scholarships and fellowships and endowed professorships as it is restricted for specific purposes. The remaining \$7,484,359 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	\$ 6,921,782	\$ 1,827,637	\$ 5,094,145
Accounts	1,475,929		1,475,929
Intergovernmental	4,408,226		4,408,226
Investment Earnings	315		315
Interest on Loans	102,837		102,837
Federal Interest Subsidy on Debt	484,604		484,604
Other	231,065		231,065
Total Current Receivables	\$ 13,624,758	\$ 1,827,637	\$ 11,797,121
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 857,041	\$ 42,852	\$ 814,189
Institutional Student Loan Programs	32,958	1,648	31,310
Total Notes Receivable - Current	\$ 889,999	\$ 44,500	\$ 845,499
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 5,065,393	\$ 253,269	\$ 4,812,124
Institutional Student Loan Programs	505,177	30,556	474,621
Total Notes Receivable - Noncurrent	\$ 5,570,570	\$ 283,825	\$ 5,286,745

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 (As Restated)	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land and Land Improvements	\$ 11,733,446	\$ 3,566	\$ 0	\$ 11,737,012
Art, Literature, and Artifacts	31,602,839	1,459,418		33,062,257
Construction in Progress	85,982,105	77,551,399	117,434,694	46,098,810
Total Capital Assets, Nondepreciable	129,318,390	79,014,383	117,434,694	90,898,079
Capital Assets, Depreciable:				
Buildings	953,582,120	99,154,517		1,052,736,637
Machinery and Equipment	111,115,845	8,520,487	9,981,050	109,655,282
General Infrastructure	221,218,659	18,640,546	214,794	239,644,411
Computer Software	7,489,059			7,489,059
Total Capital Assets, Depreciable	1,293,405,683	126,315,550	10,195,844	1,409,525,389
Less Accumulated Depreciation/Amortization for:				
Buildings	147,357,440	17,087,498		164,444,938
Machinery and Equipment	60,179,294	5,793,969	8,765,454	57,207,809
General Infrastructure	33,490,950	4,672,511	199,758	37,963,703
Computer Software	1,102,022	444,448		1,546,470
Total Accumulated Depreciation/Amortization	242,129,706	27,998,426	8,965,212	261,162,920
Total Capital Assets, Depreciable, Net	1,051,275,977	98,317,124	1,230,632	1,148,362,469
Capital Assets, Net	\$ 1,180,594,367	\$ 177,331,507	\$ 118,665,326	\$ 1,239,260,548

During the year ended June 30, 2016, the University incurred \$23,201,169 in interest costs related to the acquisition and construction of capital assets. Of this total, \$19,983,765 was charged in interest expense, and \$3,217,404 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014. The value of the energy savings improvement assets associated with the agreement is \$2,439,093 and is subject to security provisions in the agreement to ensure timely debt service payments. Additional information regarding the UNC System Energy Savings Installment Financing Agreement-Note Payable can be found in Note 8.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 3,189,947
Accounts Payable - Construction	4,357,883
Accrued Payroll	1,143,786
Contract Retainage	<u>3,990,144</u>
Total Current Accounts Payable and Accrued Liabilities	<u>\$ 12,681,760</u>

NOTE 8 - LONG-TERM LIABILITIES

UNIVERSITY

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:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>
Revenue Bonds Payable	\$ 522,595,172	\$ 0	\$ 14,677,397	\$ 507,917,775	\$ 15,226,912
Special Indebtedness	13,730,000		555,000	13,175,000	525,000
Plus: Unamortized Premium	29,074,198		1,309,707	27,764,491	
Less: Unamortized Discount	<u>(505,296)</u>		<u>(20,409)</u>	<u>(484,887)</u>	
Total Revenue Bonds Payable and Special Indebtedness, Net	<u>564,894,074</u>		<u>16,521,695</u>	<u>548,372,379</u>	<u>15,751,912</u>
Net Pension Liability	7,950,070	16,756,971		24,707,041	
Notes Payable	2,685,726		84,639	2,601,087	343,759
Capital Leases Payable	56,831		56,831		
Compensated Absences	15,826,432	11,750,846	11,869,255	15,708,023	2,139,433
Bond Anticipation Notes		<u>2,500,000</u>		<u>2,500,000</u>	
Total Long-Term Liabilities, Net	<u>\$ 591,413,133</u>	<u>\$ 31,007,817</u>	<u>\$ 28,532,420</u>	<u>\$ 593,888,530</u>	<u>\$ 18,235,104</u>

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

B. Revenue Bonds Payable and Special Indebtedness - The University was indebted for revenue bonds payable and special indebtedness (Limited Obligation Bonds) 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	Principal Outstanding June 30, 2016
Revenue Bonds Payable						
General Revenue Bonds Payable						
Parking Deck G	2006 A	4.00%-5.00%	2036	\$ 10,545,000	\$ 10,280,000	\$ 265,000
Student Union Taxable	2007-A	5.29%-5.68%	2023	18,140,000	8,825,000	9,315,000
Parking Deck H BABs	2009-B	4.43%-6.25%	2039	16,280,000	*	16,280,000
Housing Phase 9 BABs	2009-B	4.43%-6.25%	2039	33,490,000	*	33,490,000
Parking Deck H-Tax Exempt	2009-A	3.00%	2017	2,720,000	2,240,000	480,000
Housing Phase 9-Tax Exempt	2009-A	3.00%	2017	5,610,000	4,620,000	990,000
Football Stadium BABs	2010	3.39%-6.52%	2040	40,895,000	4,835,000	36,060,000
Portal Building	2012-A	3.00%-5.00%	2041	2,615,000	165,000	2,450,000
South Village Dining	2012-A	3.00%-5.00%	2041	3,470,000	210,000	3,260,000
Regional Utility Plant	2012-A	3.00%-5.00%	2041	4,140,000	110,000	4,030,000
Refi-Sprinkler Loan	2012-A	3.00%-4.00%	2022	3,645,000	1,270,000	2,375,000
Parking Deck I	2012-A	3.00%-5.00%	2041	5,345,000		5,345,000
Parking Deck J	2012-A	3.00%-5.00%	2041	14,685,000	470,000	14,215,000
Residence Hall Phase 10	2012-A	3.00%-5.00%	2041	30,290,000	1,885,000	28,405,000
Residence Hall Phase 11	2012-A	3.00%-5.00%	2041	28,890,000	1,800,000	27,090,000
2012 Sprinkler Project	2012-A	3.00%-5.00%	2041	3,260,000	205,000	3,055,000
Final Refi of Phase 8 2002-A bonds	2012-A	5.00%	2027	3,320,000	760,000	2,560,000
Portal Building-Taxable	2012-B	1.20%-4.55%	2041	25,575,000	1,825,000	23,750,000
South Village Dining-Taxable	2012-B	1.20%-4.451%	2041	8,655,000	620,000	8,035,000
Regional Utility Plant-Taxable	2012-B	1.20%-4.251%	2032	2,710,000	345,000	2,365,000
Residence Hall Phase 12	2013-A	3.00%-5.00%	2043	39,560,000	1,560,000	38,000,000
Refinancing of 2003-A Pooled Bonds	2013-A	4.125%-5.25%	2028	8,640,000	5,680,000	2,960,000
Campus Infrastructure	2013-B	.829%-4.123%	2043	35,240,000	2,500,000	32,740,000
Refinancing 2004-A Parking Bonds	2013-B	3.75%-4.00%	2021	2,545,000	930,000	1,615,000
Energy Savings Bonds	2013	4.41%	2029	8,443,099	970,324	7,472,775
Residence Hall Phase 13	2014	3.00%-5.00%	2044	34,220,000	595,000	33,625,000
Oak Hall Renovations	2014	3.00%-5.00%	2044	8,765,000	155,000	8,610,000
Holshouser Hall Renovations	2014	3.00%-5.00%	2044	15,760,000	275,000	15,485,000
Residence Hall Phase 14	2015	3.00%-5.00%	2045	39,045,000		39,045,000
Campus Infrastructure Phase 2	2015	3.00%-5.00%	2045	32,075,000	535,000	31,540,000
Refi-2006 Parking Bonds	2015	3.00%-5.00%	2036	7,970,000	5,000	7,965,000
Refi-2007-B Student Union Bonds	2015	3.00%-5.00%	2037	37,060,000	55,000	37,005,000
Total General Revenue Bonds				533,603,099	53,725,324	479,877,775
The University of North Carolina System Pool Revenue Bonds						
Refinance Balance of SAC 1995 Bonds	2005 A	5.00%-5.25%	2021	11,855,000	3,670,000	8,185,000
2nd Partial Refund of Housing Phase 7	2009-B	3.75%-5.00%	2021	6,185,000	2,035,000	4,150,000
Final Refinance of Housing Phase 7	2010-B1	5.25%	2024	2,665,000		2,665,000
Partial Refund of Housing Phase 8	2010-B1	3.00%-5.25%	2025	13,770,000	3,570,000	10,200,000
Refund of Parking Series 2002 Bonds	2010-B1	3.00%-5.25%	2027	6,300,000	3,460,000	2,840,000
Total The University of North Carolina System Pool Revenue Bonds				40,775,000	12,735,000	28,040,000
Special Indebtedness						
Refi Greek Village COPs via LOBs	2015	0.962%-4.373%	2035	13,730,000	555,000	13,175,000
Total Revenue Bonds Payable and Special Indebtedness (principal only)				\$ 588,108,099	\$ 67,015,324	521,092,775
Less: Unamortized Discount						(484,887)
Plus: Unamortized Premium						27,764,491
Total Revenue Bonds Payable and Special Indebtedness, Net						\$ 548,372,379

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

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

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Special Indebtedness		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 15,226,912	\$ 23,389,644	\$ 525,000	\$ 485,349	\$ 343,759	\$ 45,555
2018	15,966,799	22,848,385	530,000	478,151	356,073	39,144
2019	16,566,801	22,184,029	540,000	468,362	370,945	32,483
2020	17,206,918	21,503,758	550,000	455,812	386,258	25,545
2021	17,907,151	20,737,244	565,000	441,931	402,023	18,322
2022-2026	85,427,107	91,782,181	3,095,000	1,935,318	742,029	13,792
2027-2031	90,941,087	71,882,166	3,745,000	1,283,918		
2032-2036	108,150,000	49,438,483	3,625,000	404,721		
2037-2041	106,450,000	22,743,174				
2042-2045	34,075,000	3,460,482				
Total Requirements	\$ 507,917,775	\$ 349,969,546	\$ 13,175,000	\$ 5,953,562	\$ 2,601,087	\$ 174,841

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

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2016, the outstanding balance of prior year defeased bonds was \$44,355,000.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2016	Principal Outstanding June 30, 2016
UNC System Guaranteed	Banc of America					
Energy Savings Project	Public Capital Corp	1.84%	02/14/2023	\$ 2,685,726	\$ 84,639	\$ 2,601,087

F. Bond Anticipation Notes - On June 14, 2016, The University issued \$19,477,500 in tax-exempt General Revenue Bond Anticipation Notes, Series 2016. The notes are structured as a Drawdown Direct Placement with an initial term of three years and a maturity date of June 3, 2019. The notes are interest only with principal due on the maturity date. The terms of the loan provide for a floating interest rate, payable monthly based on 70% of the one-month LIBOR plus a 50 basis points spread. Such spread would be adjusted to 65 basis points in the event the University's credit rating by Moody's is decreased to A2 or to A by

Standard and Poor's. If the credit rating further decreased to A3 (Moody's) or A- (S&P), the spread would increase to 80 basis points. The calculated interest rate was 0.82% as of June 30, 2016. The University pays a quarterly facility fee of 0.075% on the undrawn portion of the notes. The notes were issued to provide flexible, interim financing for renovations to the University's Elm, Maple, and Pine residence halls. The University's available funds are pledged to pay the notes with anticipation of repaying the loan from proceeds of an anticipated long-term fixed rate bond issue in fiscal year 2018. As of June 30, 2016, \$2,500,000 in bond anticipation notes were outstanding.

COMPONENT UNIT

As of June 30, 2015, the Foundation had an unsecured loan payable in the amount of \$205,921 for the purpose of constructing the Alumni Center Facility. The loan was repaid in February 2016.

On September 5, 2013, the Foundation entered into a line of credit agreement allowing it to borrow up to \$5,000,000. As of June 30, 2016, there were no outstanding draws on this line of credit. The line of credit carries a variable rate of interest equal to the one-month LIBOR plus 1.10%. The loan is due in full at maturity on September 5, 2017. The loan agreement contains a liquidity covenant and also requires that the Foundation maintain a minimum average deposit account balance of \$200,000 with the lender.

Interest expense during 2016 was \$4,816.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for noncapital network and server equipment and related software, classroom and warehouse space, parking spaces, vehicles, heavy equipment, copiers, and fiber optic cable. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 124,429
2018	85,863
2019	13,500
2020	11,400
2021	<u>8,550</u>
Total Minimum Lease Payments	<u>\$ 243,742</u>

Rental expense for all operating leases during the year was \$473,316.

NOTE 10 - 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	Net Revenues
Operating Revenues:					
Student Tuition and Fees, Net	\$ 244,739,330	\$ 104,557	\$ 46,610,234	\$ 1,311,164	\$ 196,713,375
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 40,782,603	\$ 447,109	\$ 8,313,755	\$ 162,548	\$ 31,859,191
Dining	22,182,764	56,498	4,160,817	69,099	17,896,350
Student Union Services	5,595,343	1,293,478			4,301,865
Health Services	2,580,245	33,825		12,284	2,534,136
Parking	10,305,610	384,021			9,921,589
Athletics	7,218,308	35,120			7,183,188
Facilities	20,826,123	20,122,824			703,299
Telecommunications	2,588,835	2,547,639			41,196
Other	3,743,345	834,162			2,909,183
Sales and Services of Education and Related Activities	2,258,626	1,168,092			1,090,534
Total Sales and Services, Net	\$ 118,081,802	\$ 26,922,768	\$ 12,474,572	\$ 243,931	\$ 78,440,531

NOTE 11 - 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	\$ 186,716,702	\$ 8,224,373	\$ 15,970,462	\$ 0	\$ 10,240	\$ 0	\$ 210,921,777
Research	14,894,833	1,507,962	4,597,088				20,999,883
Public Service	2,444,564	60,139	344,331				2,849,034
Academic Support	26,890,724	10,646,731	11,004,807		90,493		48,632,755
Student Services	14,230,095	1,504,530	3,395,257		1,131		19,131,013
Institutional Support	24,047,897	1,493,579	8,905,910		33,703		34,481,089
Operations and Maintenance of Plant	23,358,691	6,845,203	8,830,147		7,771,535		46,805,576
Student Financial Aid				41,879,088			41,879,088
Auxiliary Enterprises	40,052,832	12,111,760	33,409,530		4,371,656		89,945,778
Depreciation/Amortization						27,998,426	27,998,426
Total Operating Expenses	\$ 332,636,338	\$ 42,394,277	\$ 86,457,532	\$ 41,879,088	\$ 12,278,758	\$ 27,998,426	\$ 543,644,419

NOTE 12 - PENSION PLANS

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan

established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. 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 \$9,331,667, and employee contributions were \$6,119,126 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 \$24,707,041 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 0.67044%, which was a decrease of 0.00765 from its proportion measured as of June 30, 2014.

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

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

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

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and

health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

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

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be

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

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

<u>Net Pension Liability (Asset)</u>		
<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
\$ 74,361,377	\$ 24,707,041	\$ (17,430,387)

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 \$2,729,431. 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Actual and Expected Experience	\$ 0	\$ 2,809,191
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		2,676,799
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	906,304	
Contributions Subsequent to the Measurement Date	<u>9,331,667</u>	
Total	<u>\$ 10,237,971</u>	<u>\$ 5,485,990</u>

The amount of \$9,331,667 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	\$ (2,895,037)
2018	(2,895,037)
2019	(2,859,073)
2020	4,069,461
Total	\$ (4,579,686)

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 \$270,194,036, of which \$124,097,363 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$8,488,260 and \$7,445,842, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions. Of the total pension expense recognized during the fiscal year, \$561,456 was the result of forfeitures.

NOTE 13 - 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 \$12,660,636, \$11,738,557, and \$10,996,246, 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 \$926,939, \$876,650, and \$895,990, 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 14 - 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 for claims where insurance policies exist in any of the past three fiscal years.

A. Employee Benefit Plans

1. State Health 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.

2. Death Benefit Plan of North Carolina

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

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

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. The University has purchased extended coverage for all buildings and contents within buildings. Extended coverage includes the perils of windstorm, hail, explosion, smoke, aircraft or vehicles, riot or civil commotion.

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.

2. Public Officers' and Employees' Liability Insurance

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

3. 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.

4. Statewide Workers' Compensation Program

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, 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.

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.

5. Other Insurance Held by the University

The University mitigated additional risks with the following insurance programs as of June 30, 2016:

A separate professional liability policy underwritten by Medical Mutual Insurance is provided to healthcare professionals. The limit of liability is \$1,000,000 per claim and \$3,000,000 aggregate annually.

The University is protected for losses from the risk of a cyber breach for first party cyber claims and PCI fines with a \$3,000,000 annual policy aggregate limit and a \$250,000 deductible per claim. Sublimits apply as described in the current policy. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$31,586,177 at June 30, 2016.

Additionally, the University committed to contribute \$1,000,000 toward the underground relocation of existing utilities and telecommunication lines as part of the LYNX Blue Line Extension Light Rail Project, managed by the City of Charlotte. At June 30, 2016, \$725,173 of the total contribution was not yet expended and was on deposit with the City of Charlotte to satisfy the outstanding commitment.

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

NOTE 16 - RELATED PARTIES

Foundations - There are two separately incorporated nonprofit foundations associated with the University. These foundations are The Athletic Foundation

of the University of North Carolina at Charlotte (Athletic Foundation) and Ventureprise, Inc.

The Athletic Foundation serves as the primary fundraising arm of the University's Athletic Department through which individuals, corporations, and other organizations support University athletic programs by providing scholarships, salary supplements, and unrestricted funds. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the Athletic Foundation, except for support from the organization to the University. This support approximated \$1,673,965 for the year ended June 30, 2016.

The University contributed services valued at \$635,272 for Athletic Foundation financial and administrative support for the year ended June 30, 2016.

Ventureprise, Inc. serves as an economic development and business catalyst for emerging businesses in the Charlotte-Mecklenburg area. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of Ventureprise, Inc., except for support from the organization to the University. This support approximated \$105,705 for the year ended June 30, 2016.

The University contributed services valued at \$175,370 for Ventureprise financial and administrative support for the year ended June 30, 2016.

NOTE 17 - 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*

	University	FDC	UNCCIF	Eliminations	Total
ASSETS					
Current Assets	\$ 278,701,317	\$ 724,756	\$ 10,374,110	\$ (10,066,963)	\$ 279,733,220
Capital Assets	1,223,243,237	16,017,311			1,239,260,548
Other Noncurrent Assets	142,738,426		160,816,263	(150,707,300)	152,847,389
Total Assets	<u>1,644,682,980</u>	<u>16,742,067</u>	<u>171,190,373</u>	<u>(160,774,263)</u>	<u>1,671,841,157</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>14,047,568</u>				<u>14,047,568</u>
LIABILITIES					
Current Liabilities	44,866,323	688,283	25,699	(24,135)	45,556,170
Noncurrent Liabilities:					
Funds Held in Trust			171,164,674	(160,750,128)	10,414,546
Long-Term Liabilities, Net	563,003,426	12,650,000			575,653,426
Other Noncurrent Liabilities	15,879,091				15,879,091
Total Liabilities	<u>623,748,840</u>	<u>13,338,283</u>	<u>171,190,373</u>	<u>(160,774,263)</u>	<u>647,503,233</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>5,485,990</u>	<u>30,071</u>			<u>5,516,061</u>
NET POSITION					
Net Investment in Capital Assets	732,093,417	2,812,346			734,905,763
Restricted - Nonexpendable	44,524,012				44,524,012
Restricted - Expendable	45,911,148				45,911,148
Unrestricted	206,967,141	561,367			207,528,508
Total Net Position	<u>\$ 1,029,495,718</u>	<u>\$ 3,373,713</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,032,869,431</u>

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

	University	FDC	UNCCIF	Eliminations	Total
OPERATING REVENUES					
Student Tuition and Fees, Net	\$ 196,713,375	\$ 0	\$ 0	\$ 0	\$ 196,713,375
Grants and Contracts	39,837,583				39,837,583
Sales and Services, Net	77,302,201	1,138,330			78,440,531
Other Operating Revenues	4,412,149				4,412,149
	<u>318,265,308</u>	<u>1,138,330</u>			<u>319,403,638</u>
OPERATING EXPENSES					
Operating Expenses	515,544,852	101,141			515,645,993
Depreciation/Amortization	27,757,564	240,862			27,998,426
	<u>543,302,416</u>	<u>342,003</u>			<u>543,644,419</u>
Total Operating Expenses					
Operating Income (Loss)	<u>(225,037,108)</u>	<u>796,327</u>			<u>(224,240,781)</u>
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	220,923,807				220,923,807
Grants and Gifts	78,519,075				78,519,075
Investment Income (Net of Investment Expense)	3,439,274	4,047	1,311,813	(1,311,813)	3,443,321
Interest and Fees on Debt	(19,495,575)	(488,190)			(19,983,765)
Allocation to Owners			(1,311,813)	1,311,813	
Other	220,164				220,164
	<u>283,606,745</u>	<u>(484,143)</u>			<u>283,122,602</u>
Net Nonoperating Revenues (Expenses)					
Capital Contributions	5,626,927				5,626,927
Additions to Endowments	2,711,282				2,711,282
	<u>66,907,846</u>	<u>312,184</u>			<u>67,220,030</u>
Increase in Net Position					
NET POSITION					
Net Position, July 1, 2015 (As Restated)	<u>962,587,872</u>	<u>3,061,529</u>			<u>965,649,401</u>
Net Position, June 30, 2016	<u>\$ 1,029,495,718</u>	<u>\$ 3,373,713</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,032,869,431</u>

*Condensed Statement of Cash Flows
June 30, 2016*

	University	FDC	Total
Net Cash Provided (Used) by Operating Activities	\$ (209,182,832)	\$ 1,005,690	\$ (208,177,142)
Net Cash Provided by Noncapital Financing Activities	299,866,309		299,866,309
Net Cash Used by Capital and Related Financing Activities	(108,256,208)	(1,005,684)	(109,261,892)
Net Cash Provided by Investing Activities	9,844,494	11,809	9,856,303
	<u>(7,728,237)</u>	<u>11,815</u>	<u>(7,716,422)</u>
Net Increase (Decrease) in Cash and Cash Equivalents			
Cash and Cash Equivalents, July 1, 2015	<u>327,702,209</u>	<u>650,030</u>	<u>328,352,239</u>
Cash and Cash Equivalents, June 30, 2016	<u>\$ 319,973,972</u>	<u>\$ 661,845</u>	<u>\$ 320,635,817</u>

NOTE 18 - 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. 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.

NOTE 19 - NET POSITION RESTATEMENT

As of July 1, 2015, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2015 Net Position as Previously Reported	\$ 964,599,169
Restatement:	
Record University Land and Cell Tower that was Previously not Booked	<u>1,050,232</u>
July 1, 2015 Net Position as Restated	<u><u>\$ 965,649,401</u></u>

NOTE 20 - SUBSEQUENT EVENTS

In September 2016, The Foundation of the University of North Carolina at Charlotte, Inc. (Foundation) sold land that was held for investment purposes for \$12,315,660. Funds will remain with the Foundation until needed at the University to cover construction costs for a new Admissions building and other capital needs.



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.67044%	0.67809%	0.66110%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 24,707,041	\$ 7,950,070	\$ 40,135,507
Covered-Employee Payroll	\$ 98,002,228	\$ 96,704,555	\$ 95,240,521
Net Pension Liability as a Percentage of Covered-Employee Payroll	25.21%	8.22%	42.14%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

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

Exhibit C-2

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 9,331,667	\$ 8,967,204	\$ 8,403,626	\$ 7,933,535	\$ 6,735,742
Contributions in Relation to the Contractually Determined Contribution	<u>9,331,667</u>	<u>8,967,204</u>	<u>8,403,626</u>	<u>7,933,535</u>	<u>6,735,742</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-Employee Payroll	\$ 101,985,427	\$ 98,002,228	\$ 96,704,555	\$ 95,240,521	\$ 90,534,160
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contribution	\$ 4,461,891	\$ 3,138,757	\$ 2,853,451	\$ 2,299,238	\$ 1,792,093
Contributions in Relation to the Contractually Determined Contribution	<u>4,461,891</u>	<u>3,138,757</u>	<u>2,853,451</u>	<u>2,299,238</u>	<u>1,792,093</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-Employee Payroll	\$ 90,504,892	\$ 87,920,362	\$ 84,924,137	\$ 75,384,848	\$ 67,371,924
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

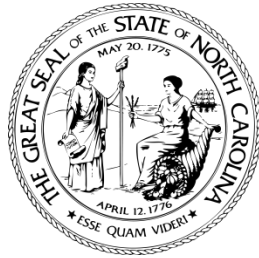
**The University of North Carolina at Charlotte
Notes to Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years**

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%

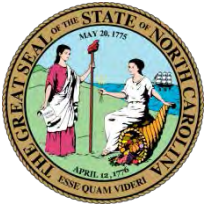
Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also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

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

Board of Trustees
The University of North Carolina at Charlotte
Charlotte, 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 Charlotte (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 unit, 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 November 29, 2016. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the discretely presented component unit, as described in our report on the University's financial statements. The financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the discretely presented component unit 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 those entities.

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.

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 29, 2016

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This audit required 950.5 hours at an approximate cost of \$97,902.