

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

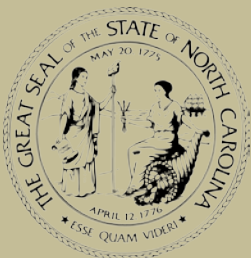
BETH A. WOOD, CPA



UNIVERSITY OF NORTH CAROLINA WILMINGTON

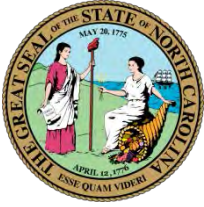
WILMINGTON, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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



NC OSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

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

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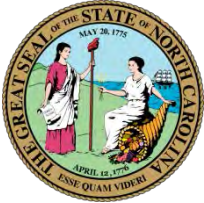
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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to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



INDEPENDENT AUDITOR'S REPORT

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Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
University of North Carolina Wilmington
Wilmington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the University of North Carolina Wilmington (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the UNCW Corporation, which represent 17 percent, 0 percent, and 2 percent, respectively, of the assets, net position, and revenues of the University, nor the financial statements of the Donald R. Watson Foundation, Inc., the UNCW Corporation II, and the UNCW Research Foundation, which collectively represent less than 1 percent of the assets, net position, and revenues of the University. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as they relate to the amounts included for blended component units, is 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 blended component units 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 opinion.

Opinion

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 financial position of the University of North Carolina Wilmington, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18 to the financial statements, during the year ended June 30, 2016, the University of North Carolina Wilmington adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72 – *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 3, 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

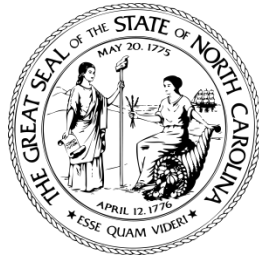
the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 3, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The University of North Carolina Wilmington (University) provides the following Management's Discussion and Analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2016. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the previous year is presented to provide a better understanding of the financial information.

Using the Financial Statements

The University's financial report includes three basic comprehensive financial statements that depict the financial activity and fiscal condition of the University for the current year: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles. The accrual basis of accounting has been used to prepare the statements. This method of accounting requires that revenues and assets be recognized when the service is provided. Expenses and liabilities are recognized when others provide services, regardless of when cash is exchanged.

The Statement of Net Position includes all University assets, deferred outflows and inflows, and liabilities. The University's net position (the monetary difference between total assets and total liabilities) is one indicator of the University's financial viability. Over time, changes in net position provide information on the improvement or erosion of the University's financial condition when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the fiscal year. Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 classifies state appropriations and gifts as nonoperating revenues. With state appropriations and gifts being classified as nonoperating revenues, most public institutions will report an operating deficit.

An important factor to consider when evaluating the financial viability of the University is the ability to meet financial obligations as they mature. The Statement of Cash Flows presents information that allows the reader to evaluate the University's ability to meet its financial obligations on a current basis.

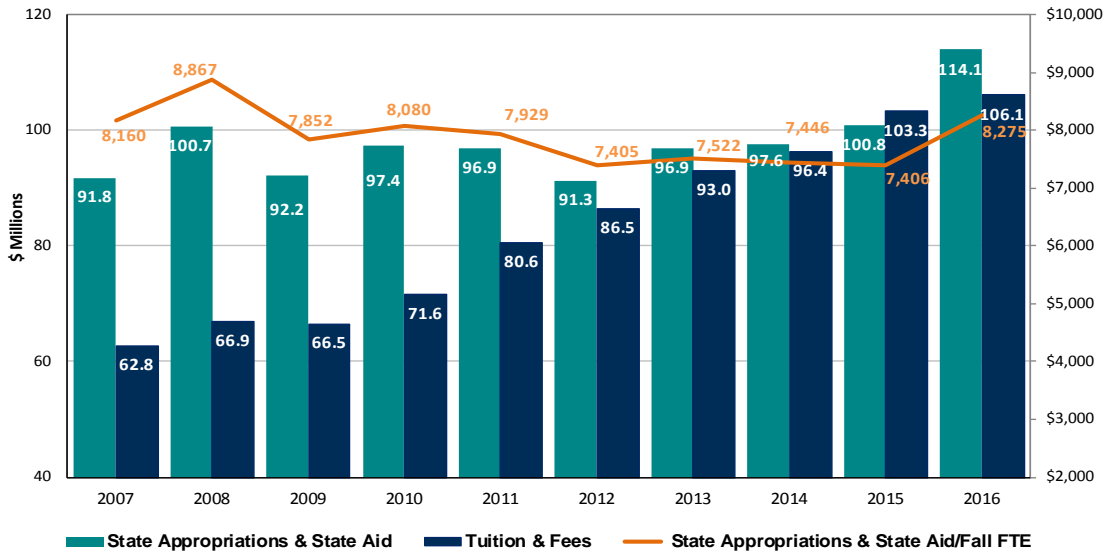
Financial Highlights

For the fiscal year ended June 30, 2016, the North Carolina General Assembly (General Assembly) required a permanent management flexibility budget reduction of \$902 thousand and an UNC System SMART Initiative budget reduction of \$84 thousand. The University received permanent state appropriations for enrollment growth of \$10.5 million and building reserves of \$328 thousand.

The General Assembly approved a one-time bonus of \$750 per qualifying employee. The University received one-time funding of \$1.2 million for the bonuses. The University also received \$154 thousand in one-time funding for building reserves.

In fiscal year 2016, UNCW received \$2.1 million for repairs and renovations for capital appropriations approved in 2015.

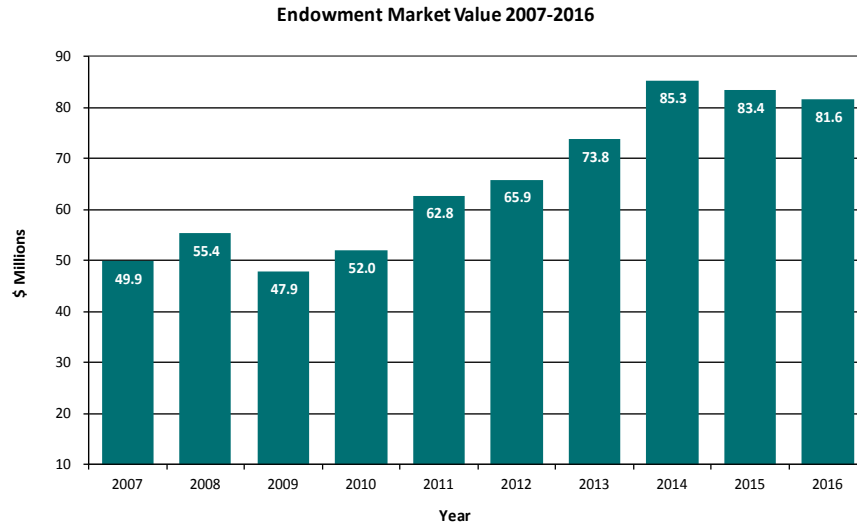
State Appropriations & State Aid, Tuition & Fees and State Appropriations & State Aid per Fall FTE 2007-2016



Tuition and fee revenue increased 2.7% in fiscal year 2016 from an increase in enrollment as well as increases in tuition and fee rates of 4.7% for resident undergraduates, 0.7% for non-resident undergraduates, 4.6% for resident graduates, and 2.5% for non-resident graduates. As a result of more state appropriations from enrollment growth funding, state appropriations and state aid per student full-time equivalent increased to \$8,275, the highest amount per FTE since 2008.

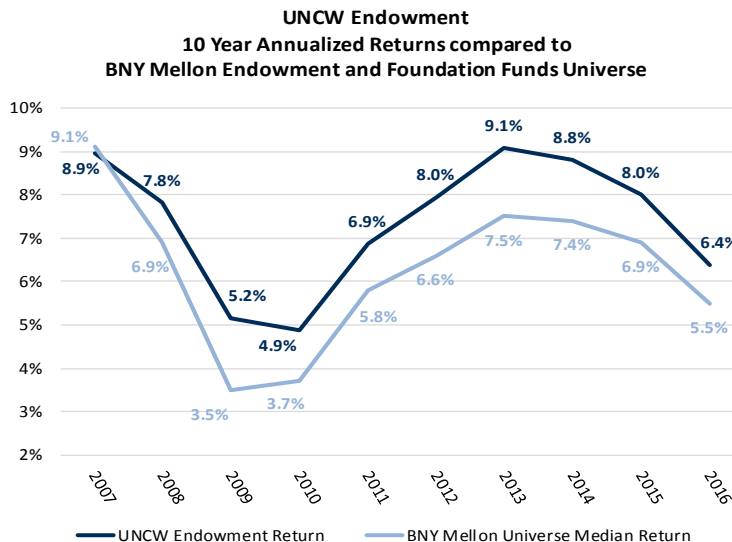
Capital construction-in-progress decreased \$6.3 million largely from the completion of central energy plant upgrades and the Osprey Hall renovation project (formerly Social and Behavioral Sciences). Outdoor enhancements of student recreational facilities and infrastructure upgrades to improve energy efficiency were in progress at year-end.

Endowment market value decreased 2.2% to \$81.6 million at June 30, 2016. This decline was a result of \$4.2 million of income distributions, asset management fees, and administrative fees in excess of new gifts of \$2.4 million.

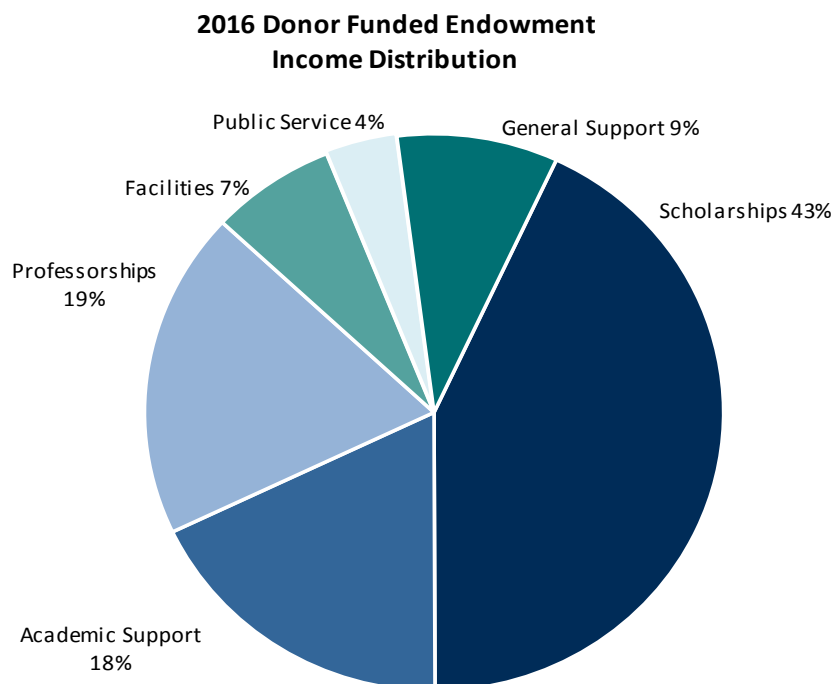


The growth of the University's endowment portfolio over the past ten years was due primarily to gifts and strong long-term investment returns.

Investment returns in fiscal year 2016 were essentially flat, reflecting a difficult year for many endowment portfolios. The BNY Mellon Endowment and Foundations Funds Universe reported a negative 1.2% median return for the twelve months ended June 30, 2016. Specifically, exposures to global equities, hedge funds and energy-oriented investments generated weak returns in the most recent fiscal year. Traditional fixed income holdings, which make up a small piece of endowment portfolios, produced strong results over the past year.



Over the ten-year period 2007-2016, the University's annualized returns have averaged 6.4%. This level of performance allows the University to effectively utilize donor funds and to direct these critical resources to mission-driven initiatives.



The Endowment primarily supported the University with scholarships, academic support, and professorships.

Statement of Net Position

The Statement of Net Position presents assets (current and noncurrent), deferred outflows, liabilities (current and noncurrent), deferred inflows, and net position (total assets plus deferred outflows minus total liabilities and deferred inflows) of the University. This statement provides a fiscal snapshot of the University's financial position as of June 30, 2016. This statement includes information on assets available for continuing operations and amounts due to vendors, investors, and lending institutions.

Condensed Statement of Net Position
June 30, as Indicated

	2016	2015 (Restated)	Change	% Change
Assets				
Current Assets	\$ 141,473,029	\$ 129,419,182	\$ 12,053,847	9.3%
Capital Assets, Net	500,281,537	495,457,206	4,824,331	1.0%
Other Noncurrent Assets	93,486,975	92,927,865	559,110	0.6%
Total Assets	735,241,541	717,804,253	17,437,288	2.4%
Deferred Outflows of Resources				
Deferred Loss on Refunding	3,132,155	3,392,141	(259,986)	-7.7%
Deferred Outflows Related to Pensions	4,904,056	4,876,686	27,370	0.6%
Total Deferred Outflows of Resources	8,036,211	8,268,827	(232,616)	-2.8%
Liabilities				
Current Liabilities	25,345,989	20,936,091	4,409,898	21.1%
Long-Term Liabilities, Net	241,257,191	236,786,716	4,470,475	1.9%
Other Noncurrent Liabilities	6,625,003	6,737,966	(112,963)	-1.7%
Total Liabilities	273,228,183	264,460,773	8,767,410	3.3%
Deferred Inflows of Resources				
Deferred Inflows Related to Pensions	3,396,453	16,048,182	(12,651,729)	-78.8%
Net Position				
Net Investment in Capital Assets	282,012,245	273,773,408	8,238,837	3.0%
Restricted - Nonexpendable	55,102,359	52,633,965	2,468,394	4.7%
Restricted - Expendable	32,356,514	34,838,427	(2,481,913)	-7.1%
Unrestricted	97,181,998	84,318,325	12,863,673	15.3%
Total Net Position	\$ 466,653,116	\$ 445,564,125	\$ 21,088,991	4.7%

On June 30, 2016, total University assets were \$735.2 million. The largest asset categories were the University's cash and cash equivalents of \$146.0 million, endowment investments of \$77.5 million, and capital assets, net, of \$500.3 million.

The increase in current assets of \$12.1 million was primarily the result of an increase in cash of \$10.6 million, which included \$2.0 million in state appropriations for repairs and renovations that carried forward to fiscal year 2017. Cash also included unspent revenues from student fees, auxiliaries, interest, grants and contracts as well as savings from reduced debt service. These increases were offset by the use of funds for the campus WiFi project.

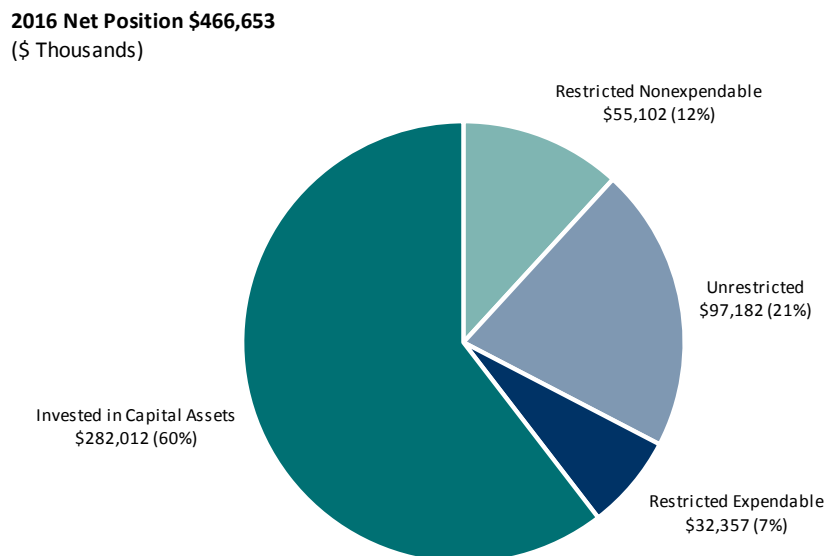
Pooled endowment investments generated close to a flat return for the 2016 fiscal year after returning 5.4% in fiscal year 2015.

The increase in capital assets of \$4.8 million was the result of the completion of Osprey Hall, central energy plant, outdoor student recreational facilities, and various renovation projects. In addition, the University completed a \$3.8 million campus wide WiFi project. Capital assets will be discussed later.

With the implementation of GASB Statement No. 72 - *Fair Value Measurement and Application*, \$4.7 million of assets previously classified as investments in real estate are now shown as land and buildings. This change resulted in an increase in capital assets and a decrease in endowment investments and was reflected accordingly as an increase in net investment in capital assets and a decrease in unrestricted net position of \$4.7 million in fiscal year 2015.

The majority of the \$4.4 million increase in current liabilities was from a \$2.9 million notes payable due on November 5, 2016 for Oleander and College Station and previously recorded in long-term liabilities. Long-term liabilities still increased \$4.5 million after the addition of a \$6.8 million energy conservation loan.

The University's unrestricted net position at June 30, 2016 was \$97.2 million – an increase of \$12.9 million from the July 1, 2015 beginning net position of \$84.3 million. Net position increased as a result of increased student fees revenues and auxiliary revenues which were partially offset by the use of funds for the campus WiFi project.



Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position includes the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, both operating and nonoperating, as well as any other revenues, expenses, gains, and losses received or expended by the University.

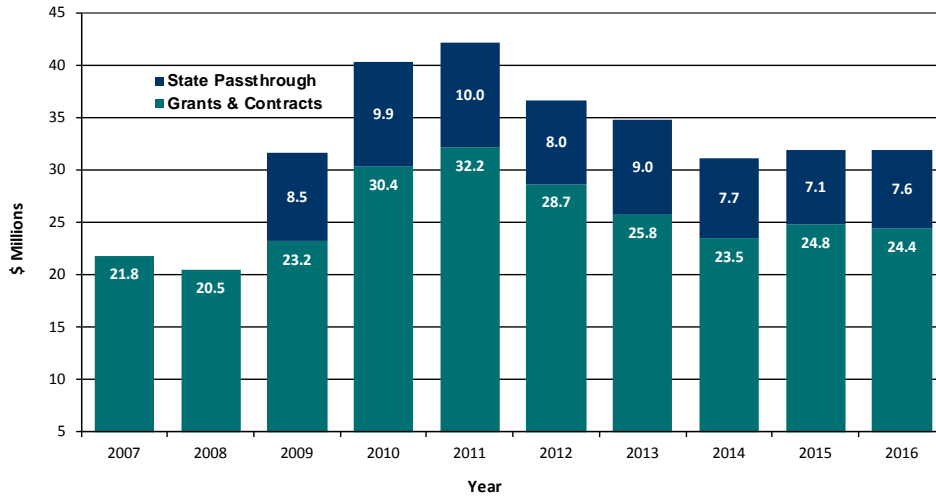
Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided; examples include state appropriations, noncapital gifts and grants, and investment income. Nonoperating expenses include interest and fees on debt, loss on sale of assets, and other expenses not involved in the normal operations of the University.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For Year Ended June 30, as Indicated

	2016	2015	Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 106,092,410	\$ 103,282,202	\$ 2,810,208	2.7%
Sales and Service, Net	48,577,571	49,060,440	(482,869)	-1.0%
Grants and Contracts	8,448,920	8,427,380	21,540	0.3%
Other Operating Revenues	5,986,571	5,534,754	451,817	8.2%
Total Operating Revenues	<u>169,105,472</u>	<u>166,304,776</u>	<u>2,800,696</u>	1.7%
Operating Expenses				
Salaries and Benefits	168,749,290	160,703,817	8,045,473	5.0%
Supplies and Materials	23,337,460	21,626,845	1,710,615	7.9%
Services	56,723,131	51,855,879	4,867,252	9.4%
Scholarships and Fellowships	18,811,150	18,977,506	(166,356)	-0.9%
Utilities	8,103,167	8,023,968	79,199	1.0%
Depreciation	11,903,744	16,028,951	(4,125,207)	-25.7%
Total Operating Expenses	<u>287,627,942</u>	<u>277,216,966</u>	<u>10,410,976</u>	3.8%
Operating Loss	<u>(118,522,470)</u>	<u>(110,912,190)</u>	<u>(7,610,280)</u>	-6.9%
Nonoperating Revenues (Expenses)				
State Appropriation	114,065,933	100,845,533	13,220,400	13.1%
Noncapital Gifts and Grants	27,399,012	26,784,797	614,215	2.3%
Investment Income, Net	950,929	5,675,560	(4,724,631)	-83.2%
Interest and Fees on Debt	(10,262,909)	(11,880,390)	(1,617,481)	-13.6%
Federal Interest Subsidy on Debt	697,046	698,901	(1,855)	-0.3%
Other Nonoperating Revenues (Expenses)	(98,406)	1,462,087	(1,560,493)	-106.7%
Other Revenues				
Capital Appropriations	2,119,200		2,119,200	100.0%
Capital Grants and Gifts	2,343,523	4,905,810	(2,562,287)	-52.2%
Additions to Endowments	2,397,133	1,490,453	906,680	60.8%
Total Net Nonoperating and Other Revenues	<u>139,611,461</u>	<u>129,982,751</u>	<u>9,628,710</u>	7.4%
Increase in Net Position	21,088,991	19,070,561	2,018,430	10.6%
Net Position - Beginning of Year	445,564,125	426,493,564	19,070,561	4.5%
Net Position - End of Year	<u>\$ 466,653,116</u>	<u>\$ 445,564,125</u>	<u>\$ 21,088,991</u>	4.7%
Reconciliation of Change in Net Position				
Total Revenues	\$ 319,078,248	\$ 308,167,917	\$ 10,910,331	3.5%
Less: Total Expenses	<u>297,989,257</u>	<u>289,097,356</u>	<u>8,891,901</u>	3.1%
Increase in Net Position	<u>\$ 21,088,991</u>	<u>\$ 19,070,561</u>	<u>\$ 2,018,430</u>	10.6%

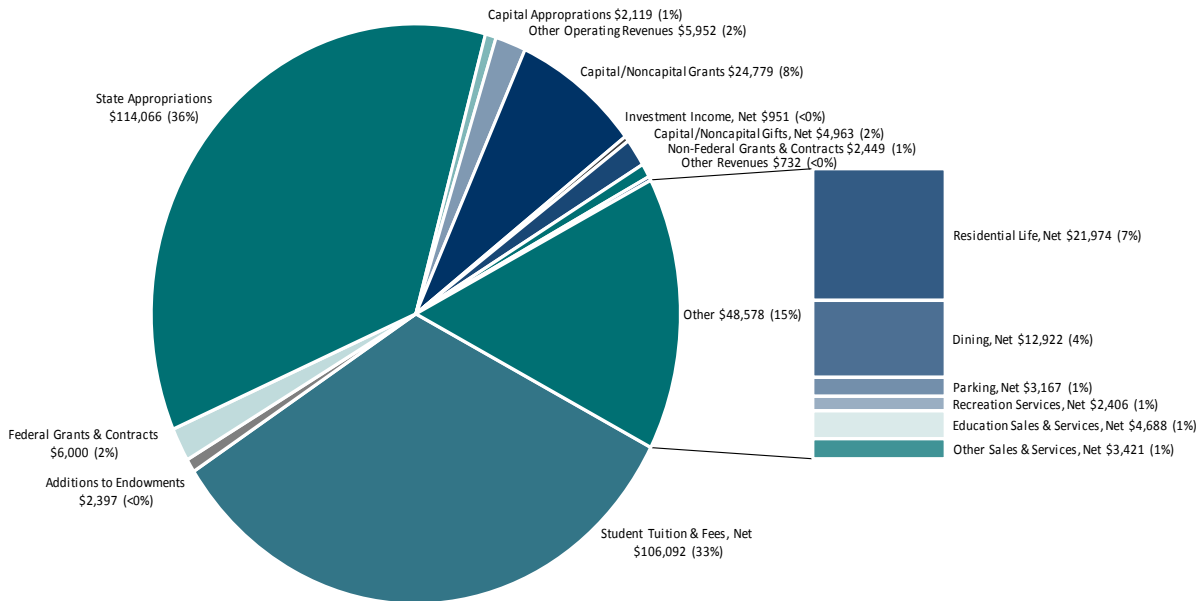
Distance education generated a substantial increase in tuition and fees revenue during fiscal year 2016. Tuition rate increases for resident graduates and undergraduates, as well as non-resident graduates also contributed to the rise in student tuition and fees revenue. A decrease in non-resident student credit hours and a decrease in on-campus summer school revenue resulted in a slower tuition growth rate than 2015.

Grants & Contracts Revenue 2007-2016
 (Includes Noncapital Grants - State Passthrough for 2009 - 2016)



Grants and contracts revenue remained basically flat in fiscal year 2016.

2016 Revenue by Source \$319,078
 (\$ Thousands)



State appropriations increased 13.1% or \$13.2 million as the University received funds primarily for enrollment growth (\$10.5 million), a one-time bonus for all employees (\$1.2 million), and nonresident military tuition waivers (\$800 thousand).

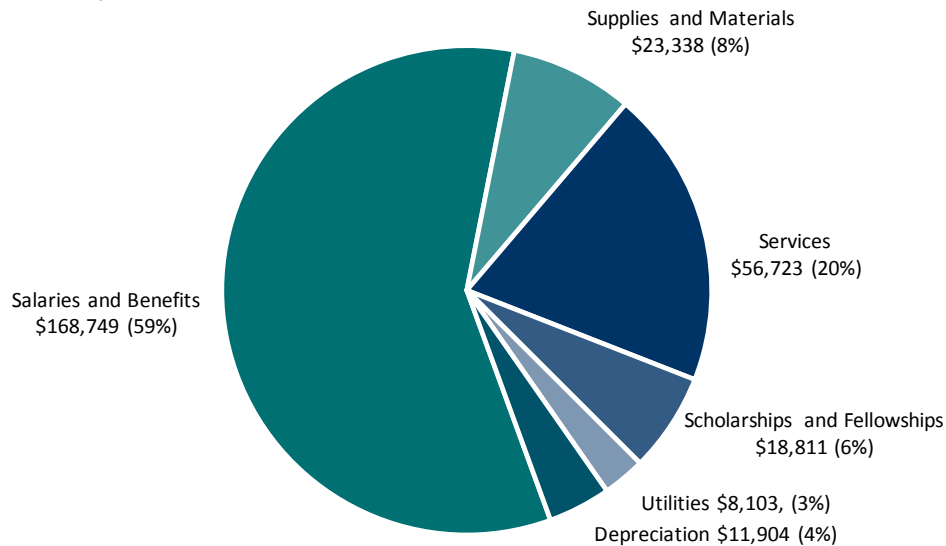
Investment income dropped 83.2% due to the lower rate of return of the pooled endowments in fiscal year 2016, after achieving 5.4% in fiscal year 2015.

Funding of \$2.1 million for repairs and renovations, that was approved in 2015, was received as capital appropriations in fiscal year 2016.

Capital grants and gifts revenue decreased \$2.6 million primarily due to a decrease of \$4.1 million in state capital aid funding for Osprey Hall, as building renovations were largely completed in fiscal year 2015. The decrease in state capital grants was offset with an increase of \$500 thousand from grants awarded for the construction of a shellfish hatchery at the Center for Marine Science (CMS) and the construction of nanosatellites. Capital gifts increased \$1.1 million from support for various athletic facilities.

Additions to endowments increased 60.8% with the addition of four large endowments in fiscal year 2016.

2016 Operating Expense by Nature \$287,628
(\$ Thousands)

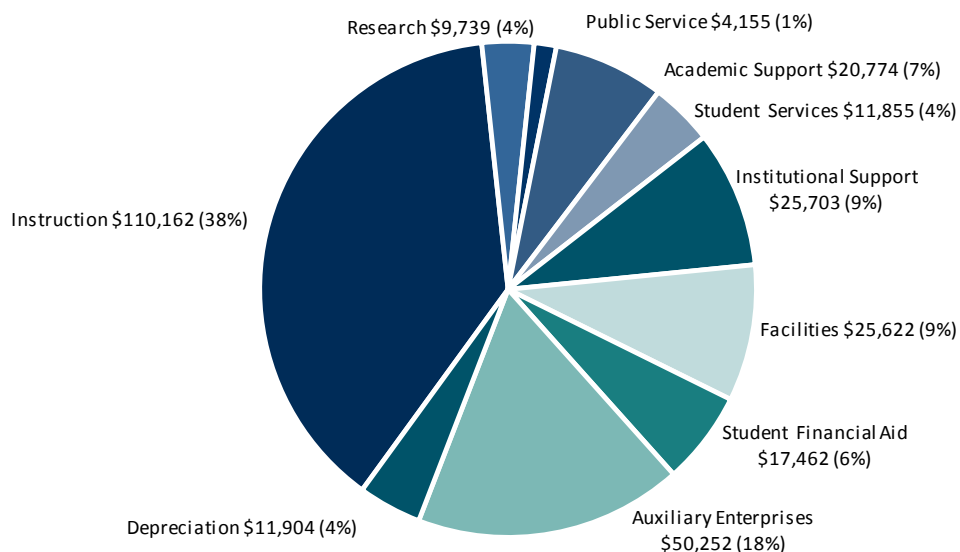


The receipt of enrollment growth funding this fiscal year resulted in the University spending more on salaries and benefits, supplies and materials, and services.

In fiscal year 2016, the University reassessed the remaining useful lives of existing buildings and changed most from a fifty-year life to a hundred year life which resulted in a decrease of \$4.1 million in depreciation expense.

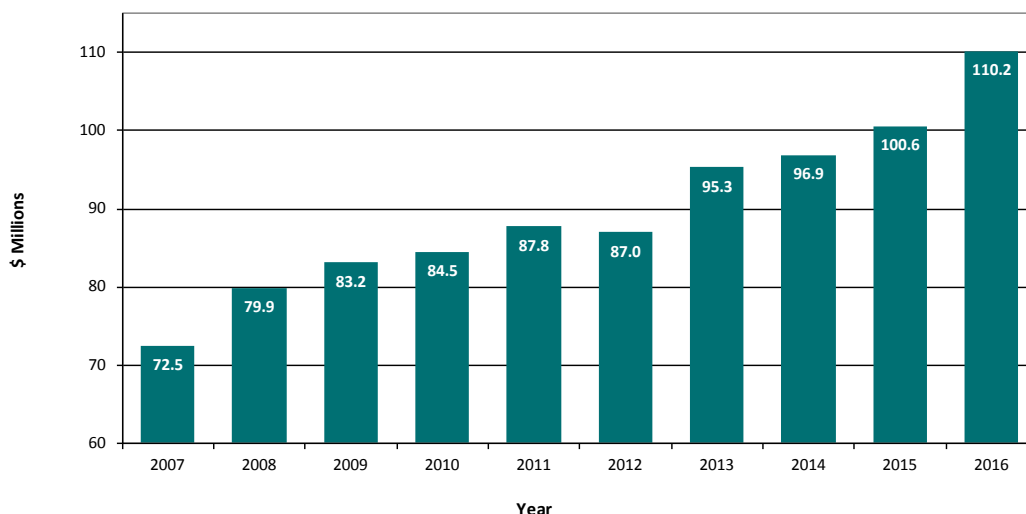
Interest and fees on debt decreased \$1.6 million as a result of the Refunding Limited Obligation Bonds, Series 2015 executed and delivered in fiscal year 2015.

2016 Operating Expense by Function \$287,628
(\$ Thousands)



Instruction expense of \$110.2 million, the largest expense by function, increased \$9.5 million or 9.5%. The largest component of instruction expense was salaries and benefits, which increased as a result of higher salary rates, additional faculty to support enrollment growth, and a one-time bonus for all eligible employees. As reflected in the following graph, instruction expense has increased steadily over the last ten years with the University's increase in enrollment.

Instruction Expense 2007-2016



Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. The Statement of Cash Flows also helps users assess the University's:

- Ability to generate future net cash flows;
- Ability to meet its obligations as they come due;
- Need for external financing.

Condensed Statement of Cash Flows
For Year Ended June 30, as Indicated

	2016	2015	Change	% Change
Cash Provided (Used) by:				
Operating Activities	\$ (110,219,201)	\$ (96,440,639)	\$ (13,778,562)	14.3%
Noncapital Financing Activities	142,858,492	128,667,080	14,191,412	11.0%
Capital Financing Activities	(22,244,164)	(30,794,842)	8,550,678	-27.8%
Investing Activities	2,849,603	1,657,832	1,191,771	71.9%
Net Change In Cash	13,244,730	3,089,431	10,155,299	328.7%
Cash Beginning of Year	132,804,535	129,715,104	3,089,431	2.4%
Cash Ending of Year	<u>\$ 146,049,265</u>	<u>\$ 132,804,535</u>	<u>\$ 13,244,730</u>	10.0%

Operating Activities

Major cash sources of \$168.3 million were generated from student tuition and fees, sales and services, and contracts and grants. Major cash uses were compensation to employees of \$171.8 million, payments to vendors and suppliers for goods and services of \$87.8 million, and disbursements to students for scholarships and fellowships of \$18.8 million.

Noncapital Financial Activities

The largest cash inflow was state appropriations of \$114.1 million. While GASB standards require that this revenue be classified as nonoperating, these funds were essentially used to maintain operations. Other noncapital inflows included gifts and grants of \$26.4 million.

Capital Financing Activities

Cash provided included proceeds from capital debt of \$6.8 million, and capital appropriations of \$2.1 million. Cash used was primarily for the acquisition of capital assets of \$14.8 million and the repayment of principal and interest on capital debt of \$18.9 million.

Investing Activities

Cash provided included sales and maturities of investments of \$1.9 million and investment income of \$3.9 million. Cash used reflected the purchase of investments and related fees of \$2.9 million.

Capital Assets and Debt Administration

Capital Assets

The University had \$500.3 million invested in capital assets at June 30, 2016, as reported in the table below, an increase of \$4.8 million from 2015.

Capital Assets Net of Depreciation
June 30, as Indicated

	2016	2015 (As Restated)	Change
Land and Permanent Easements	\$ 11,567,590	\$ 11,567,590	\$ 0
Art, Literature, and Artifacts	1,811,267	1,802,023	9,244
Construction In Progress	5,963,280	12,297,968	(6,334,688)
Buildings, Net	439,707,228	435,407,301	4,299,927
Machinery and Equipment, Net	21,510,989	16,623,624	4,887,365
General Infrastructure, Net	19,721,183	17,758,700	1,962,483
Total Capital Assets	\$ 500,281,537	\$ 495,457,206	\$ 4,824,331

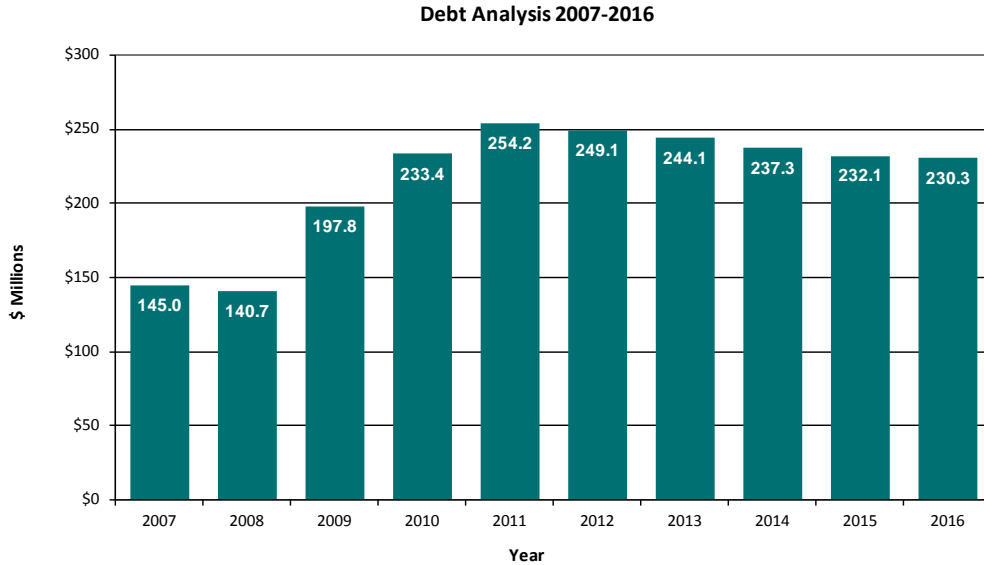
Construction in progress decreased \$6.3 million largely due to the completion of Osprey Hall and the central energy plant. Projects incomplete at June 30 included outdoor enhancements for the student recreational facilities, energy conservation projects, nanosatellites and various other renovation projects. Buildings increased \$4.3 million largely due to the Osprey Hall and central energy plant capitalizations. The \$3.8 million campus wide WiFi project caused the increase in machinery and equipment. The general infrastructure increase of \$2.0 million was from student recreational facility outdoor lighting and donated improvements to the Boseman softball field.

Debt

As of June 30, 2016, the University's \$230.3 million in long-term debt included outstanding revenue bonds payable and special indebtedness of \$216.4 million and notes payable of \$13.8 million.

In December 2015, the University financed a Guaranteed Energy Savings Contract with a note payable in the amount of \$6.8 million for the purpose of upgrading the University's infrastructure for energy efficiencies.

In January 2016, UNCW redeemed \$1.4 million of UNC System Pool Revenue Bonds, Series 2005A in order to reduce future interest payments by \$136 thousand over the next three years.



In March 2016, Standard & Poor’s Rating Services raised its rating on the 2008 Certificates of Participation to ‘A’ from ‘A-.’ In May 2016, Moody’s Investors Service upgraded the University’s rated general revenue and pool revenue bonds to ‘Aa3’ from ‘A1.’ It also upgraded the University’s special indebtedness to ‘A1’ from ‘A2.’

Subsequent to this fiscal year, in July 2016, UNCW executed and delivered \$57.2 million in Refunding Limited Obligation Bonds, Series 2016 to advance refund Certificates of Participation, Series 2008. This transaction will reduce total debt service payments by \$8.2 million over the next twenty-two years and result in a net present value savings of \$7.7 million.

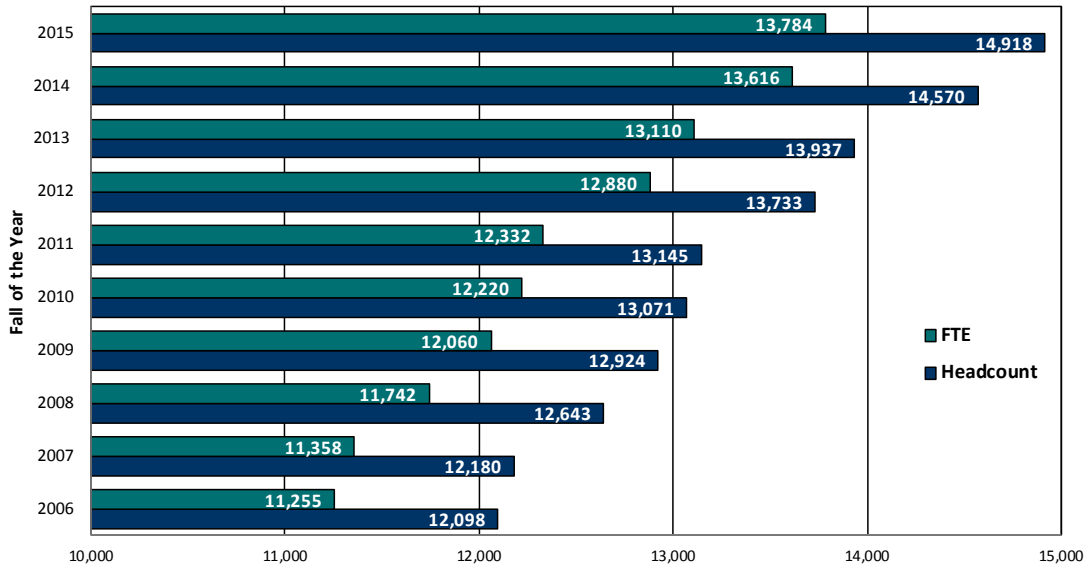
For additional information on capital assets and debt administration, see Notes 6 and 8 to the financial statements.

Economic Forecast

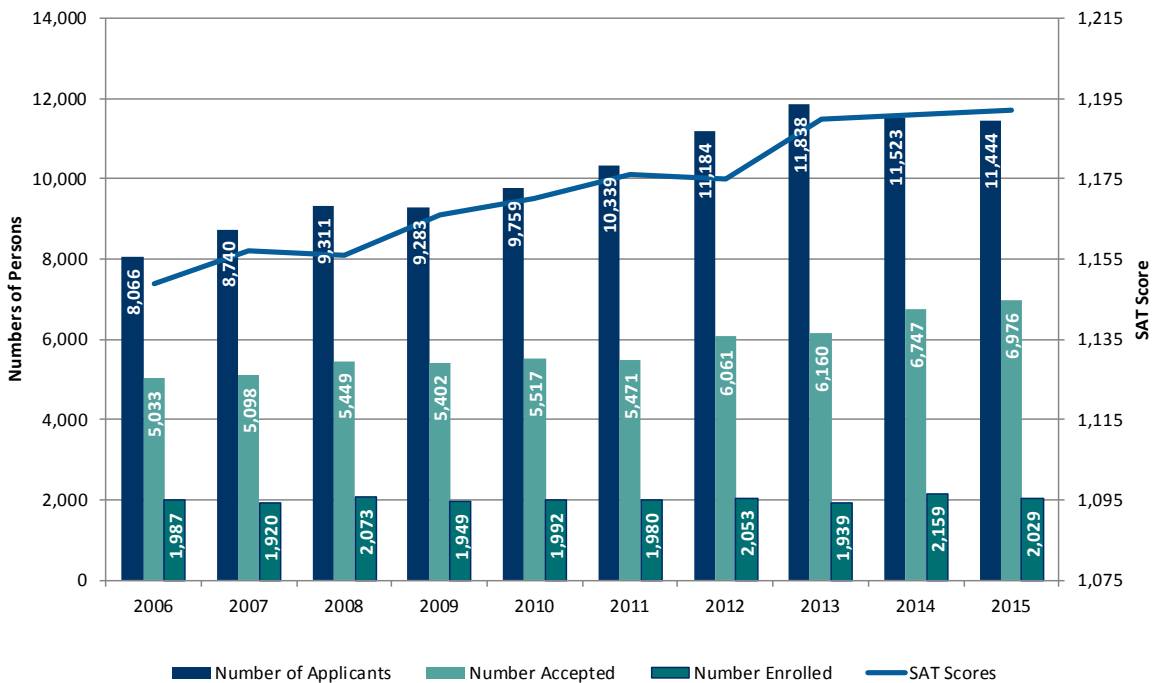
UNCW has completed a strategic plan, developed by the campus community to guide growth through 2021. The plan has five strategic goals including attracting and retaining high-quality, diverse students, faculty and staff.

Enrollment growth remained strong in fall 2015 with total enrollment of 14,918. Preliminary data shows fall 2016 enrollment growing 5.5% to 15,740 with first time freshmen of 2,100, a 3.4% increase over fall 2015.

Student Headcount and FTE Fall 2006-2015



Freshman Fall Enrollment & SAT Scores 2006-2015



The General Assembly approved enrollment funding of \$8.3 million for fiscal year 2017. After the enrollment funding is decreased by \$2.3 million for required management flexibility reductions, UNCW will receive \$6.0 million in state appropriations.

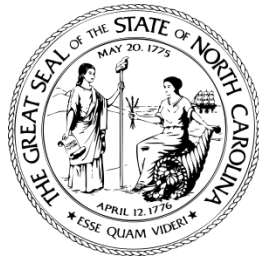
The UNC Board of Governors also approved tuition and fee increases for fiscal year 2017. Tuition and fees will increase 3.9% for resident undergraduates, 3.1% for resident graduates, and 1.8% for non-resident graduates and undergraduates.

UNCW was able to carry forward state appropriations of \$2.0 million to fiscal year 2017 for repairs and renovations. Furthermore, as part of the Connect NC Bond, UNCW will receive \$66 million for a new Allied Health Facility. Planning and design work have started with the goal of beginning construction in 2018.

Excellence, integrity, diversity and innovation shape the student-centered learning experience at UNCW. These values, along with our ever-present dedication to community engagement, are among the distinctive qualities that make UNCW one of the best institutions of higher education in the nation. As the University moves forward, we will continue to maximize institutional efficiencies and sound financial practices in pursuit of opportunities to reinvest strategically in our mission.

Contacting the University's Financial Management

This financial report is designed to provide our students, citizens, investors, and creditors with a general overview of the University's finances and demonstrate accountability of all funds. Additional financial information may be obtained by contacting the Controller's Office at (910) 962-3144 or accessing the Controller's Office web page http://www.uncw.edu/controller/financial_reports.html.



FINANCIAL STATEMENTS

University of North Carolina Wilmington
Statement of Net Position
June 30, 2016

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 116,886,777
Restricted Cash and Cash Equivalents	18,438,230
Receivables, Net (Note 5)	5,407,501
Inventories	303,555
Prepaid Items	319
Notes Receivable, Net (Note 5)	436,647

Total Current Assets	141,473,029
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	10,724,258
Receivables, Net (Note 5)	662,785
Prepaid Items	991,416
Endowment Investments	77,532,312
Notes Receivable, Net (Note 5)	3,576,204
Capital Assets - Nondepreciable (Note 6)	19,342,137
Capital Assets - Depreciable, Net (Note 6)	480,939,400

Total Noncurrent Assets	593,768,512
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Total Assets	735,241,541
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	3,132,155
Deferred Outflows Related to Pensions	4,904,056

Total Deferred Outflows of Resources	8,036,211
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	3,958,589
Deposits Payable	28,497
Unearned Revenue	8,340,515
Interest Payable	1,912,968
Long-Term Liabilities - Current Portion (Note 8)	11,105,420

Total Current Liabilities	25,345,989
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Noncurrent Liabilities:

Funds Held for Others	3,235,791
U. S. Government Grants Refundable	3,389,212
Long-Term Liabilities, Net (Note 8)	241,257,191

Total Noncurrent Liabilities	247,882,194
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Total Liabilities	273,228,183
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	3,396,453
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University of North Carolina Wilmington
Statement of Net Position
June 30, 2016

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	282,012,245
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	23,143,755
Research	1,845,085
Endowed Professorships	10,997,296
Departmental Uses	18,157,444
Loans	958,779
Expendable:	
Scholarships and Fellowships	11,903,543
Research	979,130
Endowed Professorships	6,505,986
Departmental Uses	8,509,681
Loans	662,569
Capital Projects	3,207,437
Debt Service	588,168
Unrestricted	<u>97,181,998</u>
Total Net Position	<u><u>\$ 466,653,116</u></u>

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

University of North Carolina Wilmington
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)	\$ 106,092,410
Federal Grants and Contracts	5,999,522
State and Local Grants and Contracts	904,509
Nongovernmental Grants and Contracts	1,544,889
Sales and Services, Net (Note 10)	48,577,571
Interest Earnings on Loans	34,825
Other Operating Revenues	5,951,746
	<hr/>
Total Operating Revenues	169,105,472

EXPENSES

Operating Expenses:

Salaries and Benefits	168,749,290
Supplies and Materials	23,337,460
Services	56,723,131
Scholarships and Fellowships	18,811,150
Utilities	8,103,167
Depreciation	11,903,744
	<hr/>
Total Operating Expenses	287,627,942

Operating Loss	<hr/> <u>(118,522,470)</u>
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	114,065,933
Noncapital Grants - Student Financial Aid	23,577,465
Noncapital Gifts, Net (Note 10)	3,821,547
Investment Income (Net of Investment Expense of \$231,696)	950,929
Interest and Fees on Debt	(10,262,909)
Federal Interest Subsidy on Debt	697,046
Other Nonoperating Expenses	(98,406)
	<hr/>
Net Nonoperating Revenues	132,751,605

Income Before Other Revenues	14,229,135
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Capital Appropriations	2,119,200
Capital Grants	1,201,905
Capital Gifts	1,141,618
Additions to Endowments	2,397,133
	<hr/>
Increase in Net Position	21,088,991

NET POSITION

Net Position - July 1, 2015	<hr/> 445,564,125
Net Position - June 30, 2016	<hr/> <u>\$ 466,653,116</u>

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

University of North Carolina Wilmington
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	\$ 168,289,849
Payments to Employees and Fringe Benefits	(171,810,962)
Payments to Vendors and Suppliers	(87,789,514)
Payments for Scholarships and Fellowships	(18,804,927)
Loans Issued	(841,568)
Collection of Loans	821,431
Interest Earned on Loans	17,642
Other Payments	(101,152)
	<hr/>
Net Cash Used by Operating Activities	(110,219,201)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	114,065,933
Noncapital Grants - Student Financial Aid	23,486,041
Noncapital Gifts	2,909,385
Additions to Endowments	2,397,133
William D. Ford Direct Lending Receipts	79,114,291
William D. Ford Direct Lending Disbursements	(79,118,928)
Related Activity Agency Receipts	4,637
	<hr/>
Net Cash Provided by Noncapital Financing Activities	142,858,492

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	6,846,011
Capital Appropriations	2,119,200
Capital Grants	1,201,905
Capital Gifts	108,449
Proceeds from Sale of Capital Assets	95,153
Acquisition and Construction of Capital Assets	(14,817,063)
Principal Paid on Capital Debt	(8,219,468)
Interest and Fees Paid on Capital Debt	(10,671,972)
Federal Interest Subsidy on Debt Received	697,046
Other Receipts	396,575
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(22,244,164)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	1,856,815
Investment Income	3,915,763
Purchase of Investments and Related Fees	(2,922,975)
	<hr/>
Net Cash Provided by Investing Activities	2,849,603
	<hr/>
Net Increase in Cash and Cash Equivalents	13,244,730
Cash and Cash Equivalents - July 1, 2015	132,804,535
	<hr/>
Cash and Cash Equivalents - June 30, 2016	\$ 146,049,265

University of North Carolina Wilmington
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	\$ (118,522,470)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	11,903,744
Allowances and Write-Offs	15,927
Pension Expense	1,114,203
Miscellaneous Pension Adjustments	4,961
Nonoperating Other Income	207,245
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(579,260)
Due from Primary Government	9,479
Inventories	18,379
Notes Receivable, Net	(20,137)
Prepays	45,358
Accounts Payable and Accrued Liabilities	(1,329,074)
Unearned Revenue	1,262,245
Deferred Outflows for Contributions Subsequent to the Measurement Date	(4,904,056)
Funds Held for Others	809,101
Government Grants Refundable	(922,064)
Compensated Absences	664,745
Deposits Payable	2,473
Net Cash Used by Operating Activities	<u>\$ (110,219,201)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 116,886,777
Restricted Cash and Cash Equivalents	18,438,230
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>10,724,258</u>
Total Cash and Cash Equivalents - June 30, 2016	<u>\$ 146,049,265</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 1,240,414
Assets Acquired through a Service Contract	1,416,649
Change in Fair Value of Investments	(3,625,650)
Loss on Disposal of Capital Assets	(494,981)
Amortization of Bond Premiums/Discounts	466,545
Increase in Receivables Related to Nonoperating Income	756,647

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. University of North Carolina Wilmington (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 blended in the University's financial statements. See below for further discussion of the University's component units.

Blended Component Units - Although legally separate, the Donald R. Watson Foundation, Inc. (Watson Foundation), the UNCW Corporation (Corporation), the UNCW Corporation II (Corporation II), and the UNCW Research Foundation (Research Foundation), component units of the University, are reported as if they were part of the University.

The Watson Foundation was organized to support charitable, religious, scientific and educational institutions located in the State of North Carolina provided that each supported organization is tax exempt and eligible to receive charitable donations. The Watson Foundation is a public not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. The Watson Foundation is governed by a five-member board of which three are appointed by the Board of Trustees, and two are appointed by the benefactor. Because a majority of the directors of the Watson Foundation are appointed by the members of the University of North Carolina Wilmington's Board of Trustees and the Watson Foundation's primary purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

The Corporation was organized to enhance the University of North Carolina Wilmington's educational mission, including overseeing and assisting in the acquisition and financing of capital assets for the University. The Corporation is a public not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements. The Corporation is governed by a six-member board of which three are delegates of the University. The

remaining three positions are filled by persons external to the University's operations and business functions and are appointed by the UNCW Chancellor to serve on the board. As the Corporation's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

The Corporation II includes the activities of the single member entities, UNCW Corporation Oleander One, LLC, and UNCW Corporation College Station, LLC. The Corporation II was organized to enhance the University of North Carolina Wilmington's educational mission, including constructing or managing facilities for the University. These entities acquire real property that is used solely by the University for auxiliary support, off-campus parking, or other agreed upon activities. The Corporation II is a public not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements. The Corporation II is governed by a seven-member board of which four are delegates of the University. The remaining three positions are filled by persons external to the University's operations and business functions and are appointed by the UNCW Chancellor to serve on the board. As the Corporation II's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

The Research Foundation includes the activities of the single member entities, UNCW Corporation Research I, LLC, MARBIONC Development Group, LLC, The CREST Millennial Campus, LLC, the UNCW Entrepreneurship Center, LLC, and the UNCW Innovation Coalition Corporation. The Research Foundation was organized to enhance the University of North Carolina Wilmington's educational mission. These entities, through collaborative research relationships, pursue commercialization opportunities and the economic development of research discoveries, materials and intellectual properties for the benefit of the University. The Research Foundation is a public not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements. The Research Foundation is governed by a four-member board, all of which are delegates of the University. As the Research Foundation's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

Separate financial statements for the Watson Foundation, the Corporation, the Corporation II, and the Research Foundation may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC 28403-5934, or by calling (910) 962-3139. 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.

- 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.

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, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out method.
- H. **Prepaid Items** - Prepaid items are comprised of prepayments of royalties and bond insurance to be written off in future periods.
- I. **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 more than one year.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-100 years
Machinery & Equipment	4-50 years
General Infrastructure	10-50 years

The University extended the useful life of most existing buildings from 50 years to 100 years to more accurately reflect the remaining life of the buildings.

The Randall Library Special collection is 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. This collection is considered inexhaustible and is therefore not depreciated.

- J. **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.

- K. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, special indebtedness, 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 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 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 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 copy centers, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

consist of moneys for intercollegiate athletics and agency funds held directly by the University.

Cash on hand at June 30, 2016 was \$36,445. The carrying amount of the University's deposits not with the State Treasurer was \$1,921,972 and the bank balance was \$1,806,778. 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 exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$1,056,774.

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

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in 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 endowment 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 unit, the Watson Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. 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 \$144,090,848 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.

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Endowment fund ownership is measured using the unit value method. Under this method, the pool uses a unit basis to determine each participating fund’s market value and to distribute the fund’s earnings. The investment strategy, including the selection of investment managers, is based on the directives of the University’s Endowment Board.

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

Long-Term Investment Pool

Investment Type	Amount
UNC Investment Fund	\$ 44,191,172
Equity Mutual Funds	31,912,210
Total Long-Term Investment Pool	\$ 76,103,382

UNC Investment Fund, LLC - At June 30, 2016, the University’s investments include \$44,191,172 which represents the University’s equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The

UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

Investment Type	Amount	Investment Maturities (in Years)	
		1 to 5	6 to 10
Debt Securities			
Debt Mutual Funds	\$ 409,454	\$ 43,991	\$ 365,463
Other Securities			
Equity Mutual Funds	1,019,476		
Total Non-Pooled Investments	\$ 1,428,930		

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

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	\$ 409,454	\$ 218,741	\$ 23,844	\$ 51,312	\$ 72,097	\$ 42,415	\$ 1,045

Rating Agency: Standard & Poor's

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

Investment Type	Amount
Debt Securities	
Debt Mutual Funds	\$ 409,454
Other Securities	
UNC Investment Fund	44,191,172
Equity Mutual Funds	32,931,686
Total Investments	\$ 77,532,312

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	\$ 36,445
Amount of Deposits with Private Financial Institutions	1,921,972
Deposits in the Short-Term Investment Fund	144,090,848
Long-Term Investment Pool	76,103,382
Non-Pooled Investments	<u>1,428,930</u>
Total Deposits and Investments	<u>\$ 223,581,577</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 116,886,777
Restricted Cash and Cash Equivalents	18,438,230
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>10,724,258</u>
Total Deposits	<u>146,049,265</u>
Investments	
Noncurrent:	
Endowment Investments	<u>77,532,312</u>
Total Investments	<u>77,532,312</u>
Total Deposits and Investments	<u>\$ 223,581,577</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

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				
Debt Securities				
Debt Mutual Funds	\$ 409,454	\$ 409,454	\$ 0	\$ 0
Other Securities				
Short-Term Investment Fund	144,090,848		144,090,848	
UNC Investment Fund	44,191,172			44,191,172
Equity Mutual Funds	32,931,686	32,931,686		
Total Investments by Fair Value Level	<u>\$ 221,623,160</u>	<u>\$ 33,341,140</u>	<u>\$ 144,090,848</u>	<u>\$ 44,191,172</u>

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

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

Debt and Equity Securities - Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

NOTE 4 - ENDOWMENT INVESTMENTS

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 4.5% of the average market value of the endowment over the three previous years. To the extent that the total return for the current year exceeds the payout, the excess is reinvested with principal. 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, net appreciation of \$24,966,657 was available to be spent, of which \$22,243,648 was classified in net position as restricted for specific purposes, including scholarships and fellowships, research, professorships, departmental and other uses. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,994,336	\$ 197,797	\$ 1,796,539
Accounts	1,717,498	6,482	1,711,016
Intergovernmental	1,376,254		1,376,254
Pledges	407,470	19,924	387,546
Interest on Loans	135,693		135,693
Other	453		453
Total Current Receivables	\$ 5,631,704	\$ 224,203	\$ 5,407,501
Noncurrent Receivables:			
Pledges	\$ 670,883	\$ 30,825	\$ 640,058
Other Receivables	22,727		22,727
Total Noncurrent Receivables	\$ 693,610	\$ 30,825	\$ 662,785
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 483,489	\$ 46,842	\$ 436,647
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 3,673,227	\$ 367,323	\$ 3,305,904
Institutional Student Loan Programs	270,300		270,300
Total Notes Receivable - Noncurrent	\$ 3,943,527	\$ 367,323	\$ 3,576,204

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 Permanent Easements	\$ 11,567,590	\$ 0	\$ 0	\$ 11,567,590
Art, Literature, and Artifacts	1,802,023	9,244		1,811,267
Construction in Progress	<u>12,297,968</u>	<u>4,255,289</u>	<u>10,589,977</u>	<u>5,963,280</u>
Total Capital Assets, Nondepreciable	<u>25,667,581</u>	<u>4,264,533</u>	<u>10,589,977</u>	<u>19,342,137</u>
Capital Assets, Depreciable:				
Buildings	586,431,649	13,048,249		599,479,898
Machinery and Equipment	41,205,167	7,611,581	1,263,801	47,552,947
General Infrastructure	<u>30,083,836</u>	<u>2,983,823</u>	<u>409,900</u>	<u>32,657,759</u>
Total Capital Assets, Depreciable	<u>657,720,652</u>	<u>23,643,653</u>	<u>1,673,701</u>	<u>679,690,604</u>
Less Accumulated Depreciation for:				
Buildings	151,024,348	8,748,322		159,772,670
Machinery and Equipment	24,581,543	2,523,486	1,063,071	26,041,958
General Infrastructure	<u>12,325,136</u>	<u>631,936</u>	<u>20,496</u>	<u>12,936,576</u>
Total Accumulated Depreciation	<u>187,931,027</u>	<u>11,903,744</u>	<u>1,083,567</u>	<u>198,751,204</u>
Total Capital Assets, Depreciable, Net	<u>469,789,625</u>	<u>11,739,909</u>	<u>590,134</u>	<u>480,939,400</u>
Capital Assets, Net	<u>\$ 495,457,206</u>	<u>\$ 16,004,442</u>	<u>\$ 11,180,111</u>	<u>\$ 500,281,537</u>

During the year ended June 30, 2016, the University incurred \$10,328,544 in interest costs related to the acquisition and construction of capital assets. Of this total, \$10,238,030 was charged in interest expense, and \$90,514 was capitalized.

Due to the implementation of GASB 72, \$4,745,964 of assets previously classified as investments in real estate are now shown as land and buildings.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 2,393,659
Accrued Payroll	726,361
Contract Retainage	835,109
Intergovernmental Payables	<u>3,460</u>
Total Current Accounts Payable and Accrued Liabilities	<u>\$ 3,958,589</u>

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Revenue Bonds Payable	\$ 97,197,038	\$ 0	\$ 6,148,078	\$ 91,048,960	\$ 5,677,482
Special Indebtedness	117,970,000		1,695,000	116,275,000	2,035,000
Plus: Unamortized Premium	9,753,310		474,276	9,279,034	
Less: Unamortized Discount	(177,823)		(7,731)	(170,092)	
Total Revenue Bonds Payable and Special Indebtedness, Net	224,742,525		8,309,623	216,432,902	7,712,482
Net Pension Liability	4,270,426	8,894,207		13,164,633	
Notes Payable	7,351,374	6,846,011	376,390	13,820,995	3,191,810
Compensated Absences	8,279,336	5,976,524	5,311,779	8,944,081	201,128
Total Long-Term Liabilities, Net	\$ 244,643,661	\$ 21,716,742	\$ 13,997,792	\$ 252,362,611	\$ 11,105,420

Additional information regarding the net pension liability is included in Note 12.
Additional information regarding the blended component units is included in Note 17.

B. Revenue Bonds Payable and Special Indebtedness - The University was indebted for revenue bonds payable and special indebtedness (which includes Certificates of Participation and 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						
UNCW General Revenue Bonds						
Construct MARBIONC Facility	2010	3.27 - 5.97 *	01/01/2040	\$ 15,750,000	\$ 1,880,000	\$ 13,870,000
Schwartz/Suites & Wagoner Renovation Projects	2011	3.64	03/01/2026	9,000,000	2,496,040	6,503,960
Refund 2003A Union	2012	2.84	01/01/2028	11,755,000	150,000	11,605,000
Total UNCW General Revenue Bonds				36,505,000	4,526,040	31,978,960
The University of North Carolina System Pool Revenue Bonds						
Refund Series J and Recreation (2005A)	(A)	5.0 - 5.25	04/01/2019	12,630,000	10,205,000	2,425,000
Union Addition & Parking (2006A)	(B)	4.5 - 5.0	10/01/2033	19,400,000	6,665,000	12,735,000
Refund Series 2002A & 2003A; Rec Ctr Exp (2010C)	(C)	3.0 - 5.25	10/01/2026	32,170,000	8,920,000	23,250,000
Recreation Center Expansion (2010D)	(D)	6.627 - 6.727 *	10/01/2039	20,660,000		20,660,000
Total The University of North Carolina System Pool Revenue Bonds				84,860,000	25,790,000	59,070,000
Special Indebtedness						
Student Housing-Seahawk Crossing & Parking Deck	2008	4.0 - 5.0	06/01/2038	61,460,000	3,880,000	57,580,000
Student Housing-Seahawk Village & Seahawk Landing	2015	3.0 - 5.0	06/01/2037	59,550,000	855,000	58,695,000
Total Special Indebtedness				121,010,000	4,735,000	116,275,000
Total Revenue Bonds Payable and Special Indebtedness (principal only)				\$ 242,375,000	\$ 35,051,040	207,323,960
Less: Unamortized Discount						(170,092)
Plus: Unamortized Premium						9,279,034
Total Revenue Bonds Payable and Special Indebtedness, Net						\$ 216,432,902

(A) The University of North Carolina System Pool Revenue Bonds, Series 2005A
(B) The University of North Carolina System Pool Revenue Bonds, Series 2006A
(C) The University of North Carolina System Pool Revenue Bonds, Series 2010C
(D) The University of North Carolina System Pool Revenue Bonds, Series 2010D

* 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	\$ 5,677,482	\$ 4,435,749	\$ 2,035,000	\$ 5,388,300	\$ 3,191,810	\$ 403,481
2018	5,017,592	4,164,985	2,425,000	5,318,700	472,056	361,436
2019	5,488,435	3,923,518	3,085,000	5,218,913	504,064	344,936
2020	4,920,036	3,686,768	3,550,000	5,110,562	546,090	327,248
2021	5,122,423	3,481,676	3,845,000	4,966,281	576,085	308,214
2022-2026	24,607,992	14,321,556	23,440,000	21,768,300	3,452,492	1,213,219
2027-2031	15,995,000	9,811,970	29,770,000	15,707,669	4,071,023	539,899
2032-2036	13,370,000	5,673,803	37,305,000	8,170,663	1,007,375	41,781
2037-2040	10,850,000	1,544,523	10,820,000	719,750		
Total Requirements	\$ 91,048,960	\$ 51,044,548	\$ 116,275,000	\$ 72,369,138	\$ 13,820,995	\$ 3,540,214

*Interest on the variable rate UNCW Corporation II notes payable is based on Libor + 2.05% calculated at 2.52% at June 30, 2016.

D. 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
Oleander One	BB&T	Variable	11/05/2016	\$ 2,638,698	\$ 712,609	\$ 1,926,089
College Station	BB&T	Variable	11/05/2016	1,394,730	390,570	1,004,160
Energy Conservation Loan	BB&T	3.47%	03/01/2030	4,542,387	497,652	4,044,735
Energy Conservation Loan	PNC Equipment Finance, LLC	3.42%	06/30/2033	6,846,011		6,846,011
Total Notes Payable				\$ 15,421,826	\$ 1,600,831	\$ 13,820,995

The University plans to refinance the notes maturing on November 5, 2016 with other long-term financing.

NOTE 9 - LEASE OBLIGATIONS

Operating Lease Obligations - The University entered into operating leases for \$1,593,002 for an aquaculture facility, land, IT server, printer, and copier. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

Fiscal Year	Amount
2017	\$ 222,126
2018	198,966
2019	91,910
2020	40,000
2021	40,000
2022-2026	200,000
2027-2031	200,000
2032-2036	200,000
2037-2041	200,000
2042-2046	200,000
Total Minimum Lease Payments	\$ 1,593,002

Rental expense for all operating leases during the year was \$227,490.

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	\$ 122,874,993	\$ 0	\$ 16,826,391	\$ (43,808)	\$ 106,092,410
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 25,578,599	\$ 149,963	\$ 3,437,469	\$ 17,609	\$ 21,973,558
Dining	14,414,133	52,358	1,430,428	9,064	12,922,283
Physical Plant	3,964,672	3,787,364			177,308
Parking	3,424,410	97,290	154,805	4,963	3,167,352
Communications	3,251,098	3,251,098			
Recreational Services	2,503,518	75,444		21,975	2,406,099
Printing and Duplicating	1,462,919	1,261,655			201,264
Bookstore	1,108,474				1,108,474
Postal Services	394,565	180,146		430	213,989
Other	2,607,823	864,883		23,425	1,719,515
Sales and Services of Education and Related Activities	4,931,913	239,639		4,545	4,687,729
Total Sales and Services, Net	\$ 63,642,124	\$ 9,959,840	\$ 5,022,702	\$ 82,011	\$ 48,577,571
Nonoperating - Noncapital Gifts, Net	\$ 3,858,992	\$ 0	\$ 0	\$ 37,445	\$ 3,821,547

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	Total
Instruction	\$ 93,882,247	\$ 6,844,693	\$ 9,145,772	\$ 286,352	\$ 2,537	\$ 0	\$ 110,161,601
Research	6,348,660	461,421	2,864,500	63,896	242		9,738,719
Public Service	2,292,373	408,775	1,268,231	184,166	1,249		4,154,794
Academic Support	11,520,079	5,972,352	3,278,683	2,014	1,210		20,774,338
Student Services	8,263,280	1,053,984	2,506,833	30,595	242		11,854,934
Institutional Support	18,613,789	2,890,969	4,176,100	11,300	10,904		25,703,062
Operations and Maintenance of Plant	13,245,264	2,654,278	4,178,938		5,543,998		25,622,478
Student Financial Aid	2,536			17,459,907			17,462,443
Auxiliary Enterprises	14,581,062	3,050,988	29,304,074	772,920	2,542,785		50,251,829
Depreciation						11,903,744	11,903,744
Total Operating Expenses	\$ 168,749,290	\$ 23,337,460	\$ 56,723,131	\$ 18,811,150	\$ 8,103,167	\$ 11,903,744	\$ 287,627,942

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 \$4,904,056, and employee contributions were \$3,215,774 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 \$13,164,633 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 0.35723%, which was a decrease of 0.00701 from its proportion measured as of June 30, 2014.

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

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

* Salary increases include 3.5% inflation and productivity factor.

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

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

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

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

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

asset class included in the pension plan’s target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

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

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

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

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

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 39,621,912	\$ 13,164,633	\$ (9,287,419)

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 \$1,114,203. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0	\$ 1,496,819
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		1,426,276
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		473,358
Contributions Subsequent to the Measurement Date	4,904,056	
Total	<u>\$ 4,904,056</u>	<u>\$ 3,396,453</u>

The amount of \$4,904,056 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	\$ (1,882,678)
2018	(1,882,678)
2019	(1,793,969)
2020	2,162,872
Total	<u>\$ (3,396,453)</u>

B. Defined Contribution Plan - The Optional Retirement Program (Program) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty and staff 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 \$139,398,731, of which \$65,191,893 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$4,459,125 and \$3,911,514, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions. The University had \$268,566 of forfeitures reflected in pension expense in the current year.

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 \$6,652,135, \$6,275,091, and \$5,947,985, 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 \$487,031, \$468,632, and \$484,651, 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 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 \$25,000 per occurrence deductible.

The University has purchased all-risk coverage for all of its buildings and the contents located within those buildings. The University attempts to cover all buildings and contents based on their replacement values. The University has covered all building and content losses subject to a \$25,000 per occurrence deductible.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. 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 purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Policies include boiler and machinery, crime, oceanographic equipment, watercraft and watercraft pollution coverage, and professional liability.

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 \$7,884,061 and for other purchases were \$1,786,694 at June 30, 2016.
- 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.

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

Purpose	Amount
Endowment Pledges	\$ 1,239,303

NOTE 16 - RELATED PARTIES

Foundations - There are four separately incorporated nonprofit foundations associated with the University. These foundations are the UNCW Student Aid Association, Inc., the Foundation of the University of North Carolina at Wilmington, Inc. (Foundation), the Alumni Association of the University of North Carolina at Wilmington, and the Friends of the University of North Carolina at Wilmington, Inc.

The UNCW Student Aid Association, Inc. fosters and promotes the education of student athletes by obtaining donations for the scholarship program at the University. The association also raises funds for the improvement and construction of physical facilities used by the University for athletic purposes, for the University’s athletic scholarship fund, and to provide operational and supplementary support for the entire sports program. In addition, the association exists to encourage a fraternal spirit of loyalty and interest in the University by alumni, friends, and benefactors. Direct support from the UNCW Student Aid Association, Inc. totaled \$1,639,075 for the year ended June 30, 2016.

The Foundation assists the University by soliciting and receiving private gifts from individuals, corporations, and other organizations. These gifts support the University by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds for athletic programs. In addition, the Foundation can accept and liquidate non-cash gifts for the University and acquire property on the University’s behalf. The Foundation’s direct support to the University totaled \$151,355 for the year ended June 30, 2016.

The Alumni Association of the University of North Carolina at Wilmington serves to connect and involve alumni, students, and friends in the promotion and advancement of the University. Occasionally, donations are made from

this association to the University. This support totaled \$3,000 for the year ended June 30, 2016.

The Friends of the University of North Carolina at Wilmington, Inc. contribute gifts to the University based on grant requests and may at a donor's request, contribute to a University academic scholarship fund. This support totaled \$11,816 for the year ended June 30, 2016.

All of these foundations are self-sustaining; however, the University does support their operations through donated administrative services. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. Separate financial statements for these foundations may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC 28403-5952, or by calling (910) 962-3139.

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	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Eliminations*	Total
ASSETS							
Current Assets	\$ 139,539,136	\$ 1,448,440	\$ 4,352,822	\$ 729,803	\$ 420,747	\$ (5,017,919)	\$ 141,473,029
Capital Assets	497,276,449			3,005,088			500,281,537
Other Noncurrent Assets	93,403,206		119,122,716		85,442	(119,124,389)	93,486,975
Total Assets	730,218,791	1,448,440	123,475,538	3,734,891	506,189	(124,142,308)	735,241,541
TOTAL DEFERRED OUTFLOWS OF RESOURCES	8,036,211		1,348,501			(1,348,501)	8,036,211
LIABILITIES							
Current Liabilities	22,680,202		2,474,265	3,283,449	41,316	(3,133,243)	25,345,989
Long-Term Liabilities, Net	241,257,191		120,113,574			(120,113,574)	241,257,191
Other Noncurrent Liabilities	6,625,003		887,699		2,975	(890,674)	6,625,003
Total Liabilities	270,562,396		123,475,538	3,283,449	44,291	(124,137,491)	273,228,183
TOTAL DEFERRED INFLOWS OF RESOURCES	3,396,453		1,348,501			(1,348,501)	3,396,453
NET POSITION							
Net Investment in Capital Assets	281,284,042			728,203			282,012,245
Restricted - Nonexpendable	54,102,563	999,796					55,102,359
Restricted - Expendable	31,785,257	448,644			122,613		32,356,514
Unrestricted	97,124,291			(276,761)	339,285	(4,817)	97,181,998
Total Net Position	\$ 464,296,153	\$ 1,448,440	\$ 0	\$ 451,442	\$ 461,898	\$ (4,817)	\$ 466,653,116

*The elimination of \$4,817 of Net Position is due to timing differences in expense recognition between The UNCW Research Foundation and the University.

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

	University	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Eliminations*	Total
OPERATING REVENUES							
Student Tuition and Fees, Net	\$ 106,092,410	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 106,092,410
Federal Grants and Contracts	5,999,522						5,999,522
State and Local Grants and Contracts	904,509						904,509
Nongovernmental Grants and Contracts	1,544,889				4,954	(4,954)	1,544,889
Sales and Services, Net	48,527,289		5,631,068	73,403	123,761	(5,777,950)	48,577,571
Interest Earnings on Loans	34,825						34,825
Other Operating Revenues	5,883,534	1,596	73,128	242,185	193,453	(442,150)	5,951,746
Total Operating Revenues	168,986,978	1,596	5,704,196	315,588	322,168	(6,225,054)	169,105,472
OPERATING EXPENSES							
Operating Expenses	275,790,765	90,813	73,128	49,438	387,267	(667,213)	275,724,198
Depreciation	11,903,744						11,903,744
Total Operating Expenses	287,694,509	90,813	73,128	49,438	387,267	(667,213)	287,627,942
Operating Income (Loss)	(118,707,531)	(89,217)	5,631,068	266,150	(65,099)	(5,557,841)	(118,522,470)
NONOPERATING REVENUES (EXPENSES)							
State Appropriations	114,065,933						114,065,933
Noncapital Grants - Student Financial Aid	23,577,465						23,577,465
Noncapital Gifts, Net	3,743,281				78,266		3,821,547
Investment Income, Net	1,022,350	(2,901)				(68,520)	950,929
Interest and Fees on Debt	(10,189,506)		(5,631,068)	(73,403)		5,631,068	(10,262,909)
Federal Interest Subsidy on Debt	697,046						697,046
Other Nonoperating Expenses	(98,406)						(98,406)
Net Nonoperating Revenues (Expenses)	132,818,163	(2,901)	(5,631,068)	(73,403)	78,266	5,562,548	132,751,605
Capital Appropriations	2,119,200						2,119,200
Capital Grants	1,201,905						1,201,905
Capital Gifts	1,141,618						1,141,618
Additions to Endowments	2,397,133						2,397,133
Increase (Decrease) in Net Position	20,970,488	(92,118)		192,747	13,167	4,707	21,088,991
NET POSITION							
Net Position, July 1, 2015	443,325,665	1,540,558		258,695	448,731	(9,524)	445,564,125
Net Position, June 30, 2016	\$ 464,296,153	\$ 1,448,440	\$ 0	\$ 451,442	\$ 461,898	\$ (4,817)	\$ 466,653,116

*The elimination of \$4,817 of Net Position is due to timing differences in expense recognition between The UNCW Research Foundation and the University.

Condensed Statement of Cash Flows
June 30, 2016

	University	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Total
Net Cash Provided (Used) by Operating Activities	\$ (117,894,548)	\$ (6,116)	\$ 7,332,582	\$ 320,941	\$ 27,940	\$ (110,219,201)
Net Cash Provided by Noncapital Financing Activities	142,858,492					142,858,492
Net Cash Used by Capital and Related Financing Activities	(14,590,641)		(7,332,582)	(320,941)		(22,244,164)
Net Cash Provided by Investing Activities	2,849,326	277				2,849,603
Net Increase (Decrease) in Cash and Cash Equivalents	13,222,629	(5,839)			27,940	13,244,730
Cash and Cash Equivalents - July 1, 2015	132,437,518	25,349		2,850	338,818	132,804,535
Cash and Cash Equivalents - June 30, 2016	\$ 145,660,147	\$ 19,510	\$ 0	\$ 2,850	\$ 366,758	\$ 146,049,265

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 - SUBSEQUENT EVENTS

On July 6, 2016, the University executed and delivered \$57,235,000 in Refunding Limited Obligation Bonds, Series 2016 with an average interest rate of 3.584433%. The bonds were executed and delivered to advance refund \$57,580,000 of outstanding Certificates of Participation, Series 2008 with an average interest rate of 4.787971%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. The refunded bonds are considered to be defeased and the liability was removed from the statement of net position subsequent to June 30, 2016. This advance refunding was undertaken to reduce total debt service payments by \$8,241,467 over the next twenty-two years and resulted in a net present value savings of \$7,722,214.



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit B-1

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.35723%	0.36424%	0.38300%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 13,164,633	\$ 4,270,426	\$ 23,252,003
Covered-Employee Payroll	\$ 53,297,118	\$ 52,894,845	\$ 55,820,098
Net Pension Liability as a Percentage of Covered-Employee Payroll	24.70%	8.07%	41.66%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

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

Exhibit B-2

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 4,904,056	\$ 4,876,686	\$ 4,596,562	\$ 4,649,814	\$ 4,220,585
Contributions in Relation to the Contractually Determined Contribution	<u>4,904,056</u>	<u>4,876,686</u>	<u>4,596,562</u>	<u>4,649,814</u>	<u>4,220,585</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-Employee Payroll	\$ 53,596,237	\$ 53,297,118	\$ 52,894,845	\$ 55,820,098	\$ 56,728,297
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	\$ 2,874,128	\$ 2,073,920	\$ 1,970,758	\$ 1,667,988	\$ 1,307,243
Contributions in Relation to the Contractually Determined Contribution	<u>2,874,128</u>	<u>2,073,920</u>	<u>1,970,758</u>	<u>1,667,988</u>	<u>1,307,243</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-Employee Payroll	\$ 58,298,735	\$ 58,092,990	\$ 58,653,497	\$ 54,688,144	\$ 49,144,505
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

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

Changes of Benefit Terms:

<u>Cost of Living Increase</u>									
<u>2015*</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

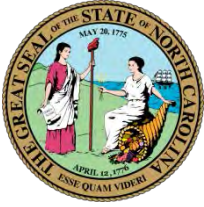
Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also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

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

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

Board of Trustees
University of North Carolina Wilmington
Wilmington, 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 University of North Carolina Wilmington (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 3, 2016. Our report includes a reference to other auditors who audited the financial statements of the Donald R. Watson Foundation, Inc. (Watson Foundation), the UNCW Corporation (Corporation), the UNCW Corporation II (Corporation II), and the UNCW Research Foundation (Research Foundation), as described in our report on the University's financial statements. The financial statements of the (Watson Foundation, Corporation, Corporation II, and the Research Foundation) 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 opinion 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 3, 2016

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State of North Carolina
2 South Salisbury Street
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For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

