

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY

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

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



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STATE OF NORTH CAROLINA
Office of the State Auditor



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, North Carolina Agricultural and Technical State University

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

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

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

A handwritten signature in cursive script that reads 'Beth A. Wood'.

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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



INDEPENDENT AUDITOR'S REPORT

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Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Agricultural and Technical State University
Greensboro, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The North Carolina A&T Real Estate Foundation, Inc., the University's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of The North Carolina A&T Real Estate Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

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

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 December 8, 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

December 8, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

North Carolina Agricultural and Technical State University (University) provides the following discussion and analysis in order to give the reader a summary of its financial activities and to provide assistance in understanding the financial statements for the fiscal year ended June 30, 2016. Comparative data for the fiscal year ended June 30, 2015 is also included. All information provided has been prepared by University staff for the purpose of identifying significant transactions, trends, and events that have had an impact on the fiscal health of the University and that may continue to exert influence in future years. To properly use and interpret the information provided in this discussion and analysis, it is recommended that it be read in conjunction with the related financial statements and the accompanying notes to the financial statements for further explanation and details.

The Financial Statements

The financial statements for North Carolina Agricultural and Technical State University include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

Each statement has been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and reflects an economic resource measurement focus and the accrual basis of accounting. This discussion and analysis will concentrate on the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position using condensed versions. Full-length versions of each of the financial statements are presented as exhibits immediately following management's discussion and analysis.

Statement of Net Position

The Statement of Net Position presented below summarizes the financial wellness of the University at June 30, 2016. It presents the financial position of the University as defined by the balances of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Assets and liabilities are classified as current or noncurrent. Current assets and liabilities include those resources and obligations that pertain to current operating requirements. Noncurrent assets and liabilities include those resources and obligations that pertain to future operating requirements. Deferred outflows of resources are made up of charges incurred for refunded bonds, current year contributions to the Teachers' and State Employees' Retirement Program (TSERS) on behalf of university employees, and adjustments to the components of the net pension liability. Deferred inflows of resources related to pensions are also adjusted for changes in the components of the net pension liability. Net position (assets and deferred outflows of resources, net of liabilities and deferred inflows of resources) is grouped into three categories: net investment in capital assets, restricted net position, and unrestricted net position. Restricted net position is further classified as nonexpendable or expendable. Endowments and loan funds comprise the nonexpendable net position and the expendable net position is made up primarily of contracts, grants, and restricted gifts.

Condensed Statement of Net Position

	2016	2015	Dollar Change	Percent Change
Assets				
Current Assets	\$ 81,996,369.74	\$ 66,447,038.46	\$ 15,549,331.28	23.40%
Noncurrent Capital Assets, Net of Accumulated Depreciation	339,715,116.20	333,149,779.38	6,565,336.82	1.97%
Other Noncurrent Assets	114,035,541.92	43,176,070.89	70,859,471.03	164.12%
Total Assets	<u>535,747,027.86</u>	<u>442,772,888.73</u>	<u>92,974,139.13</u>	21.00%
Deferred Outflows of Resources				
Deferred Charges on Refunding	336,601.21	164,547.55	172,053.66	104.56%
Deferred Outflows Related to Pensions	6,077,363.76	6,069,187.96	8,175.80	0.13%
Total Deferred Outflows of Resources	<u>6,413,964.97</u>	<u>6,233,735.51</u>	<u>180,229.46</u>	2.89%
Liabilities				
Current Liabilities	14,431,306.54	10,886,601.10	3,544,705.44	32.56%
Long-Term Liabilities, Net	134,466,693.30	46,205,909.15	88,260,784.15	191.02%
Other Noncurrent Liabilities	1,118,667.36	1,084,181.61	34,485.75	3.18%
Total Liabilities	<u>150,016,667.20</u>	<u>58,176,691.86</u>	<u>91,839,975.34</u>	157.86%
Deferred Inflows of Resources				
Deferred Inflows Related to Pensions	3,266,930.00	17,478,186.00	(14,211,256.00)	-81.31%
Net Position				
Net Investment in Capital Assets	293,589,561.30	303,335,850.17	(9,746,288.87)	-3.21%
Restricted-Nonexpendable	34,860,431.55	32,425,729.67	2,434,701.88	7.51%
Restricted-Expendable	20,412,598.08	19,891,736.40	520,861.68	2.62%
Unrestricted	40,014,804.70	17,698,430.14	22,316,374.56	126.09%
Total Net Position	<u>\$ 388,877,395.63</u>	<u>\$ 373,351,746.38</u>	<u>\$ 15,525,649.25</u>	4.16%

Current assets were \$81,996,369.74 at June 30, 2016, an increase of \$15,549,331.28 over the prior year. The major components of the change in current assets were increases in cash of \$17,241,069.46, offset by decreases in current receivables and short-term investments totaling \$2,142,423.08. Current receivables decreased by \$504,347.91, with the largest decrease occurring in student accounts receivable of \$901,677.62, offset by increases in this account totaling \$397,329.71. Student accounts receivable decreased by \$901,677.62 due to increased collections during fiscal year 2016. Short-term investments decreased by \$1,638,075.17 primarily because \$1,609,790.88 held at June 30, 2015 required for construction projects was used during fiscal year 2016 on construction costs for the new student center.

The \$17,241,069.46 increase in current cash and cash equivalents was due primarily to the following:

- Annual activities of auxiliary services provided a net increase in cash of \$7,989,411.91. Revenue increased due to increases in fees and service revenue as well as increases in student enrollment. Sales and services were enhanced by a one-time investment payment by the University's food service provider.

- The University retained \$4,637,334.90 in state appropriations and advance collections on student charges for tuition and fees at June 30, 2016, an increase of \$2,534,986.17 over the prior fiscal year.
- Cash in restricted funds increased by \$1,381,369.76 and included: (1) additional funds of \$852,660.08 available for scholarships and professorships from endowment earnings; (2) additional federal contract and grant cash of \$184,390.63 due primarily to changes in policy by the federal government that resulted in more efficient and timely reimbursements; and (3) additional private contract and grant cash of \$775,520.52 primarily due to new awards received in fiscal year 2016.
- Proceeds from the sale of bonds in the current fiscal year to fund the construction of a new student center facility replenished cash spent in the prior fiscal year and resulted in an increase in current cash of \$4,401,418.83 for capital projects.
- Although overhead reimbursement was slightly down in fiscal year 2016, prudent budgeting of expenditures resulted in an increase in cash of \$414,339.74. In addition, cash held by unrestricted trust funds increased by \$514,405.80, which was the result of new fees and cost-cutting measures implemented by the University.

Noncurrent capital assets, net of accumulated depreciation, increased by a total of \$6,565,336.82. Depreciable capital assets, net of accumulated depreciation, increased \$743,679.79 and nondepreciable capital assets increased \$5,821,657.03. Net capital asset additions were \$18,722,092.39 and disposals were \$2,049,438.42. Construction costs for the new student center was a major factor in the increase of capital asset additions accounting for \$10,514,138.37 of new additions with the remaining additions mainly in other building additions and equipment acquisitions. Accumulated depreciation totaled \$10,107,317.15, the difference between the current fiscal year's expense of \$11,414,876.11 and accumulated depreciation on asset disposals of \$1,307,558.96.

Other noncurrent assets increased during the year by \$70,859,471.03. The majority of the increase was due to an increase in noncurrent restricted cash of \$71,083,803.29 and a decrease in investments of \$222,061.46. The University issued bonds to fund the construction of a new student center. The proceeds, net of project expenditures and interest income, totaled \$71,009,261.77 at fiscal year-end. Unfavorable market conditions were the primary cause of the \$222,061.46 decrease in investments.

Deferred outflows pertaining to the charges on refunding was impacted by the issuance of bonds to finance the new student center construction and resulted in an increase of \$172,053.66. Deferred outflows related to pensions remained fairly constant with a total change of \$8,175.80.

Current liabilities increased by \$3,544,705.44. Increases in the current portion of long-term liabilities, accrued interest payable, and unearned revenue accounted for \$3,143,470.70 of the increase. During the fiscal year, the University issued \$87,715,000.00 in series 2015A and 2015B bonds to finance construction of a new student center and refund a portion of the series 2006B bond. The current portion of that bond issuance caused increases in the current portion of long-term liabilities from the prior fiscal year. The series 2015A and 2015B bonds also caused increases in accrued interest payable of \$828,987.16. Unearned revenue increased \$653,603.10 over the prior fiscal year balance due to various new grants received in advance during the current fiscal year.

Noncurrent liabilities increased by \$88,295,269.90, an increase of 186.71%. Revenue bonds payable increased \$85,082,778.28 over the prior fiscal year due to the issuance of General Revenue Bonds, Series 2015A and 2015B, to fund the new student center. Pension liability increased to \$14,713,153.00 at year-end, an increase of \$9,873,868.00 from fiscal year 2015. The increase in revenue bonds payable and pension liability was offset by decreases in notes payable, compensated absences (also referred to as accrued vacation leave), and bond anticipation notes. The decreases in notes payable and bond anticipation notes of \$294,629.69 and \$5,000,000.00, respectively were due to annual principal payments on the notes payable debt and retirement of the bond anticipation notes. Accrued vacation leave decreased by \$1,276,419.00, primarily caused by faculty and staff retirements during the fiscal year and reduction in bonus leave balances.

Deferred inflows of resources related to pensions decreased by \$14,211,256.00 due primarily to differences in the projected and actual investment earnings and expenses of the Teachers' and State Employees' Retirement System, a defined benefit pension plan.

The increase in total net position of \$15,525,649.25 was composed of the following: a decrease of \$9,746,288.87 in net investment in capital assets, increases in nonexpendable and expendable net positions of \$2,434,701.88 and \$520,861.68, respectively, and an increase of \$22,316,374.56 in unrestricted net position. The decrease in net investment in capital assets was caused by increases in debt incurred for the construction of the student center and other capital projects of \$16,311,625.69, offset by increases in capital assets, net of depreciation, of \$6,565,336.82. The increase in nonexpendable net position was due primarily to endowment gifts totaling \$2,454,897.32. Resources held for capital projects increased expendable restricted net position by \$1,479,632.78, however, that increase was offset by a decrease in other expendable restricted funds of \$958,771.10 primarily due to the decline in market value of endowment earnings. Unrestricted net position increased by \$22,316,374.56. A strong performance in auxiliary services accounted for \$8,999,293.87 of the increase. Unrestricted net position was further increased by the reclassification of pension contributions from an expense to deferred inflows of \$5,437,055.15, a decrease in accrued vacation of \$1,320,352.00, and \$5,579,674.56 due to a decrease in resources allocated to capital improvement projects from the prior fiscal year.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reports the activity of the University during the year and is subdivided into four major components: operating revenues, operating expenses, nonoperating revenues (expenses), and other revenues, expenses, gains or losses. Revenues are reported by major source and expenses are reported by natural classification. Intra-departmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded.

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

	2016	2015	Dollar Change	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 60,524,020.18	\$ 56,474,471.05	\$ 4,049,549.13	7.17%
Federal Appropriations	7,953,440.90	7,835,525.60	117,915.30	1.50%
Grants and Contracts	22,044,476.98	23,693,977.94	(1,649,500.96)	-6.96%
Sales and Services, Net	28,016,854.71	21,788,923.09	6,227,931.62	28.58%
Other Operating Revenues	2,058,104.17	2,181,645.10	(123,540.93)	-5.66%
Total Operating Revenues	120,596,896.94	111,974,542.78	8,622,354.16	7.70%
Operating Expenses				
Salaries and Benefits	153,424,134.41	154,667,408.41	(1,243,274.00)	-0.80%
Supplies and Materials	16,337,948.57	13,071,660.21	3,266,288.36	24.99%
Services	46,412,882.81	42,537,414.00	3,875,468.81	9.11%
Scholarships and Fellowships	18,853,180.78	19,246,195.03	(393,014.25)	-2.04%
Utilities	5,367,842.48	5,446,059.64	(78,217.16)	-1.44%
Depreciation	11,414,876.11	11,325,403.14	89,472.97	0.79%
Total Operating Expenses	251,810,865.16	246,294,140.43	5,516,724.73	2.24%
Operating Loss	(131,213,968.22)	(134,319,597.65)	3,105,629.43	-2.31%
Nonoperating Revenues (Expenses)				
State Appropriations	92,648,666.21	91,756,351.90	892,314.31	0.97%
Noncapital Grants and Gifts	52,414,842.01	51,435,919.96	978,922.05	1.90%
Interest and Fees on Debt	(2,816,444.12)	(1,151,613.64)	(1,664,830.48)	144.57%
Grant to Union Square Campus, Inc.	(1,000,000.00)	(1,000,000.00)		
Other Nonoperating Expenses	(741,879.46)	(4,567,350.88)	3,825,471.42	-83.76%
Other Nonoperating Revenues	701,810.16	3,167,107.38	(2,465,297.22)	-77.84%
Net Nonoperating Revenues	141,206,994.80	139,640,414.72	1,566,580.08	1.12%
Income Before Other Revenues	9,993,026.58	5,320,817.07	4,672,209.51	87.81%
Other Revenues				
Capital Appropriations and Grants	2,121,222.50	74,449.70	2,046,772.80	2749.20%
Capital Gifts	956,502.85	20,000.00	936,502.85	4682.51%
Additions to Endowments	2,454,897.32	1,825,372.30	629,525.02	34.49%
Total Other Revenues	5,532,622.67	1,919,822.00	3,612,800.67	188.18%
Total Increase in Net Position	15,525,649.25	7,240,639.07	8,285,010.18	114.42%
Net Position - Beginning of the Year	373,351,746.38	386,094,080.31	(12,742,333.93)	-3.30%
Restatement		(19,982,973.00)	19,982,973.00	100.00%
Net Position - End of the Year	\$ 388,877,395.63	\$ 373,351,746.38	\$ 15,525,649.25	4.16%

The Statement of Revenues, Expenses, and Changes in Net Position consists of total revenues of \$271,894,837.99 and total expenses of \$256,369,188.74, resulting in an overall increase in net position at year-end of \$15,525,649.25, an increase of \$8,285,010.18 from the prior fiscal year. Highlights of the changes from the prior fiscal year are as follows:

- Total operating revenues increased by \$8,622,354.16. This was due to significant changes in tuition and fees and sales and services revenue of \$4,049,549.13 and \$6,227,931.62, respectively. The 7.17% increase in tuition and fees was

attributable to an increase in enrollment as well as increases in tuition and fees rates, particularly for out-of-state students. There was also an increase in the indebtedness fee for the student center and a general increase in athletics fees. Sales and services' 28.58% increase was primarily due to a one-time receipt from the University's food service provider of \$4,368,659.62 for investment purposes related to the Aggie Dome dining facility. Athletic conference revenues were also up \$586,122.24. These increases were offset by decreases in grants and contracts revenue which was due to timing in the revenue collections.

- Total operating expenses increased by \$5,516,724.73. However, salaries and benefits expense decreased by \$1,243,274.00 as a result of several factors: lower vacation expenses of \$1,772,357.00 due to retirements and bonus vacation use, a decrease in pension expense of \$623,861.00, which is the actuarial amount provided by the State Treasurer. A \$1,188,628.50 increase in bonus/incentive wages offset the reductions in vacation and pension expenses. The significant changes occurred within the supplies and materials and services expense accounts. Supplies and materials increased by \$3,266,288.36 predominately due to an increase in the purchase of library electronic resources of \$1,024,730.16, as well as software upgrades and general supply purchases. Services increased by \$3,875,468.81 primarily due to an increase of \$986,091.15 for expenses related to subcontract agreements, an increase in information technology services of \$967,368.28, and an increase in food service contract expenses of \$1,103,655.05.
- The University experienced an increase in net nonoperating revenues of \$1,566,580.08. State appropriations increased in fiscal year 2016 by \$892,314.31, a result of a one-time bonus/incentive award. Noncapital grants and gifts increased by \$978,922.05, the net of an increase in financial aid awards of \$1,356,828.52, offset by a decrease in other noncapital grants and gifts of \$397,979.47. Interest and fees on debt increased by \$1,664,830.48 primarily due to the issuance of the new student center bond. Demolition of the student center building in the prior fiscal year accounted for the \$3,825,471.42 current year reduction in other nonoperating expenses. Other nonoperating revenues decreased by \$2,465,297.22 as net investment returns on endowment assets decreased from the prior year due to market conditions.
- Other revenues increased by \$3,612,800.67 primarily due to capital gifts of \$956,502.85 and increased state funding of \$2,046,772.80 in capital appropriations for various repair and renovation projects.

The University presents expenses by natural classification in the Statement of Revenues, Expenses, and Changes in Net Position. Personnel services accounted for 60.93% of operating expenses, followed by services at 18.43%, scholarships at 7.49%, supplies and materials at 6.49%, depreciation at 4.53%, and utility costs at 2.13%.

Capital Asset and Debt Administration

To fund construction of a new student center that will replace the now demolished 48 year-old building, the University issued \$87,715,000.00 in bonds. The bond proceeds were used to refund a portion of the 2006 revenue bonds and refund the bond anticipation note. The bond proceeds, along with \$10,380,348.00 in University resources, will be used to finance the construction of the new student center. The debt will be financed through available resources for a period of 30 years. The new student center is scheduled for

opening in the spring of 2018 and will include state-of-the-art amenities for students, alumni, faculty and staff, and visitors to the University.

Total capital debt at June 30, 2016, in the amount of \$115,053,848.43, consisted primarily of the new student center debt of \$82,955,000.00, \$9,580,000.00 from the 2013-14 health center construction, and \$5,949,156.09 in long-term notes, the result of two energy projects undertaken to provide long-term utility cost savings.



The Deese Clock Tower

These two energy projects accounted for \$6,479,717.71 of the fiscal year's \$8,993,858.64 increase in capital asset additions. A clock tower, constructed in the heart of campus, contributed \$1,166,908.75 to building additions. Student center construction costs of \$26,107,189.79 accounted for virtually all of the \$27,333,614.58 construction in progress balance, which increased \$5,362,287.62 from fiscal year 2015.

In March 2016, North Carolina voters approved a \$2,000,000,000 bond issuance in a campaign to rebuild infrastructure called "Connect NC." The bond is intended to connect North Carolina to the 21st century through statewide investments in safety, education, parks, recreation, and water and sewer infrastructure. The University will receive \$90,000,000 of the Connect NC funds to build an engineering research and innovation complex (ERIC) that will begin construction in the spring of 2018, around the time the student center is being readied for opening.

As a result of sound debt management practices, the University has continued to receive an A1 credit rating and stable outlook from Moody's.

More information about the University's capital assets and long-term liabilities is presented in Notes 6 and 8.

Future Outlook

While celebrating its 125th anniversary in fiscal year 2015-16, the University was ranked as the No. 1 public historically black university in the nation in the "2016 Best Colleges" rankings published by *U.S. News and World Report*. This accolade was soon followed by a *MONEY* magazine rating as the No. 1 best value historically black college or university (HBCU) in the nation, as evaluated by its educational quality, affordability, and alumni success.

Despite these unprecedented recognitions, the University continues to face reductions in state appropriations, limited tuition increases, and other fiscal challenges. The University's leadership has taken proactive measures over the past several years to address these challenges by repositioning fiscal resources to critical academic, student services, and administrative areas. Senior leadership continues to actively plan for future state funding scenarios, both positive and negative, and is well prepared to successfully address them as they materialize.

Remaining fully committed to affordable education and prudent use of resources, the University is focused on enhancing and developing diverse revenue sources by restructuring its graduate, undergraduate, and professional academic programs; increasing distance education/online offerings; and expanding campus enterprise services, endowment growth, and debt management to supplement state funding.

As fiscal year 2017 progresses, the University will build on its efforts to plan and manage its resources to create unparalleled learning opportunities for students, to perform world-changing research, and to establish strong ties to communities throughout North Carolina and beyond. Every member of the University community is fully committed to playing an active role in the continued success of North Carolina Agricultural and Technical State University as the nation's preeminent HBCU, higher research doctoral, land-grant university.



FINANCIAL STATEMENTS

North Carolina Agricultural and Technical State University
Statement of Net Position
June 30, 2016

Exhibit A-1

Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 54,239,486.47
Restricted Cash and Cash Equivalents	16,983,219.63
Restricted Short-Term Investments	195,753.28
Receivables, Net (Note 5)	9,274,147.05
Inventories	574,304.02
Prepaid items	538,541.67
Notes Receivable	190,917.62
	<hr/>
Total Current Assets	81,996,369.74

Noncurrent Assets:

Restricted Cash and Cash Equivalents	72,626,785.66
Endowment Investments	40,778,417.11
Restricted Investments	2,103.65
Notes Receivable, Net (Note 5)	628,235.50
Capital Assets - Nondepreciable (Note 6)	40,198,613.15
Capital Assets - Depreciable, Net (Note 6)	299,516,503.05
	<hr/>
Total Noncurrent Assets	453,750,658.12
	<hr/>
Total Assets	535,747,027.86

DEFERRED OUTFLOWS OF RESOURCES

Deferred Charges on Refunding	336,601.21
Deferred Outflows Related to Pensions	6,077,363.76
	<hr/>
Total Deferred Outflows of Resources	6,413,964.97

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	6,366,846.04
Due to Primary Government	49,149.14
Unearned Revenue	3,021,434.78
Interest Payable	1,068,038.45
Long-Term Liabilities - Current Portion (Note 8)	3,925,838.13
	<hr/>
Total Current Liabilities	14,431,306.54

Noncurrent Liabilities:

Funds Held for Others	233,043.99
U. S. Government Grants Refundable	885,623.37
Long-Term Liabilities, Net (Note 8)	134,466,693.30
	<hr/>
Total Noncurrent Liabilities	135,585,360.66
	<hr/>
Total Liabilities	150,016,667.20

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	3,266,930.00
	<hr/>

North Carolina Agricultural and Technical State University
Statement of Net Position
June 30, 2016

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	293,589,561.30
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	21,136,453.22
Endowed Professorships	12,617,286.56
Departmental Uses	882,292.91
Loans	224,398.86
Expendable:	
Scholarships and Fellowships	6,643,753.09
Research	271,461.28
Endowed Professorships	5,361,607.66
Departmental Uses	6,656,143.27
Capital Projects	1,479,632.78
Unrestricted	<u>40,014,804.70</u>
Total Net Position	<u><u>\$ 388,877,395.63</u></u>

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

North Carolina Agricultural and Technical State University
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)	\$ 60,524,020.18
Federal Appropriations	7,953,440.90
Federal Grants and Contracts	19,097,056.90
State and Local Grants and Contracts	1,323,557.87
Nongovernmental Grants and Contracts	1,623,862.21
Sales and Services, Net (Note 10)	28,016,854.71
Interest Earnings on Loans	3,824.00
Other Operating Revenues	2,054,280.17

Total Operating Revenues 120,596,896.94

EXPENSES

Operating Expenses:

Salaries and Benefits	153,424,134.41
Supplies and Materials	16,337,948.57
Services	46,412,882.81
Scholarships and Fellowships	18,853,180.78
Utilities	5,367,842.48
Depreciation	11,414,876.11

Total Operating Expenses 251,810,865.16

Operating Loss (131,213,968.22)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	92,648,666.21
Noncapital Grants - Student Financial Aid	40,393,594.78
Noncapital Grants	11,120,337.30
Noncapital Gifts	900,909.93
Investment Income	701,810.16
Interest and Fees on Debt	(2,816,444.12)
Grant to Union Square Campus, Inc.	(1,000,000.00)
Other Nonoperating Expenses	(741,879.46)

Net Nonoperating Revenues 141,206,994.80

Income Before Other Revenues 9,993,026.58

Capital Appropriations	2,121,222.50
Capital Gifts	956,502.85
Additions to Endowments	2,454,897.32

Increase in Net Position 15,525,649.25

NET POSITION

Net Position - July 1, 2015 373,351,746.38

Net Position - June 30, 2016 \$ 388,877,395.63

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

North Carolina Agricultural and Technical State University
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	\$ 118,196,826.79
Payments to Employees and Fringe Benefits	(159,256,435.59)
Payments to Vendors and Suppliers	(70,931,223.90)
Payments for Scholarships and Fellowships	(18,853,632.16)
Loans Issued	(94,105.00)
Collection of Loans	120,023.26
Interest Earned on Loans	26,683.26
Other Receipts	2,054,280.17
	<hr/>
Net Cash Used by Operating Activities	(128,737,583.17)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	92,648,666.21
Noncapital Grants - Student Financial Aid	40,467,081.72
Noncapital Grants	12,911,554.09
Noncapital Gifts	900,909.93
Additions to Endowments	2,454,897.32
William D. Ford Direct Lending Receipts	81,184,392.00
William D. Ford Direct Lending Disbursements	(81,184,392.00)
Related Activity Agency Receipts	45,965.54
Related Activity Agency Disbursements	(14,051.87)
Grant to Union Square Campus, Inc.	(1,000,000.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	148,415,022.94

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	87,703,170.55
Capital Appropriations	2,121,222.50
Capital Gifts	938,502.85
Acquisition and Construction of Capital Assets	(16,182,409.49)
Principal Paid on Capital Debt	(6,113,279.69)
Interest and Fees Paid on Capital Debt	(2,381,030.23)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	66,086,176.49

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	17,734,033.18
Investment Income	1,967,874.22
Purchase of Investments and Related Fees	(17,140,650.91)
	<hr/>
Net Cash Provided by Investing Activities	2,561,256.49
Net Increase in Cash and Cash Equivalents	88,324,872.75
Cash and Cash Equivalents - July 1, 2015	55,524,619.01
	<hr/>
Cash and Cash Equivalents - June 30, 2016	\$ 143,849,491.76

The North Carolina A&T Real Estate Foundation, Inc.
Consolidated Statement of Financial Position
June 30, 2016

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,566,702
Investments	9,151,238
Pledges Receivable, Net	500,111
Prepaid Expenses	49,753
Due from NC A&T State University	40,028
Accounts Receivable, Net	519,566

Total Current Assets	14,827,398
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	5,750,216
Investments	4,639,238
Pledges Receivable, Net	18,505
Cash Surrender Value of Life Insurance	13,573
Property and Equipment, Net	29,899,005
Land Held for Resale	187,900

Total Noncurrent Assets	40,508,437
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Total Assets	\$ 55,335,835
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 134,376
Due to NC A&T State University	22,568
Deferred Revenue	175,454
Funds Held for Others	946,773
Bonds Payable - Current Maturities	715,000

Total Current Liabilities	1,994,171
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Long-Term Liabilities:

Interest Rate Swap Agreement	1,002,689
Bonds Payable - Long-Term	34,060,560

Total Liabilities	37,057,420
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NET ASSETS

Unrestricted	6,227,054
Temporarily Restricted	7,623,956
Permanently Restricted	4,427,405

Total Net Assets	18,278,415
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Total Liabilities and Net Assets	\$ 55,335,835
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The accompanying notes to the financial statements are an integral part of this statement.

The North Carolina A&T Real Estate Foundation, Inc.
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2016

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions and Gifts	\$ 23,998	\$ 2,980,827	\$ 133,456	\$ 3,138,281
Rental Income	7,469,037			7,469,037
Fee Income	258,864			258,864
Interest and Dividends	328,147	208,170	12,283	548,600
Net Unrealized Loss on Investments	(597,687)	(394,211)		(991,898)
Loss on Interest Rate Swap	(89,340)			(89,340)
Other Income	29,051	324,133		353,184
Special Events	288,954			288,954
Net Assets Released From Restrictions	3,750,219	(3,734,861)	(15,358)	
Total Support and Revenue	11,461,243	(615,942)	130,381	10,975,682
EXPENSES				
Program Services:				
University Support	4,120,811			4,120,811
Student Housing	5,550,059			5,550,059
Total Program Services	9,670,870			9,670,870
Supporting Services:				
Management and General	764,023			764,023
Fund Raising	226,586			226,586
Total Supporting Services	990,609			990,609
Total Expenses	10,661,479			10,661,479
Changes in Net Assets	799,764	(615,942)	130,381	314,203
Net Assets at Beginning of Year	5,427,290	8,239,898	4,297,024	17,964,212
Net Assets at End of Year	<u>\$ 6,227,054</u>	<u>\$ 7,623,956</u>	<u>\$ 4,427,405</u>	<u>\$ 18,278,415</u>

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. North Carolina Agricultural and Technical State University (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 unit. 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 unit is discretely presented in the University's financial statements. See below for further discussion of the University's component unit.

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

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

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

During the year ended June 30, 2016, the Foundation distributed \$1,551,101.98 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from 200 North Benbow Road, Greensboro, NC 27411. The mailing address is P.O. Box 20366, Greensboro, NC 27420.

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

- E. Investments** – To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the average cost of last invoice price or first-in, first-out method depending on the product. In the case of agricultural supplies inventory, the current market value method is applied.
- H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of 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	10-50 years
Machinery & Equipment	10-25 years
General Infrastructure	10-50 years

The Heritage Art Center and Art Gallery collections are capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

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

required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, 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. The University amortizes bond premiums over the life of the bonds using the straight-line method that approximates the effective interest 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.

- K. 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.

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

Net Investment in Capital Assets - This represents the University's total investment in capital assets, net of outstanding liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

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

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

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

M. 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.

N. Revenue and Expense Recognition - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net

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

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

- O. **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 student newspaper advertisements. 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 \$18,000.00. The carrying amount of the University's deposits not with the State Treasurer was \$67,057.10 and the bank balance was \$61,760.07. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2016, the University's bank balance was not exposed to custodial credit risk.

B. Investments

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

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

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

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

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

Investments of 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 \$143,764,434.66 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. Fund ownership is measured using the unitized method. Under this method, each participating fund's investment balance is determined on number of units purchased multiplied by the current unit market value. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

following table presents 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	Investment Maturities (in Years)	
		1 to 5	6 to 10
Debt Securities			
U.S. Agencies	\$ 1,796,372.01	\$ 0.00	\$ 1,796,372.01
Domestic Corporate Bonds	1,775,693.82	1,046,347.22	729,346.60
Total Debt Securities	3,572,065.83	\$ 1,046,347.22	\$ 2,525,718.61
Other Securities			
UNC Investment Fund	23,861,015.45		
Investment in Real Estate	11,690.00		
Domestic Stocks	8,923,097.23		
Foreign Stocks (denominated in US dollars)	4,410,548.60		
Total Long-Term Investment Pool	\$ 40,778,417.11		

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

	Amount	AA Aa	A
U.S. Agencies	\$ 1,796,372.01	\$ 1,796,372.01	\$ 0.00
Domestic Corporate Bonds	1,775,693.82		1,775,693.82
Totals	<u>\$ 3,572,065.83</u>	<u>\$ 1,796,372.01</u>	<u>\$ 1,775,693.82</u>

Rating Agency: Moody's / Standard & Poor's / Fitch

UNC Investment Fund, LLC - At June 30, 2016, the University's investments include \$23,861,015.45 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 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) Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 104,116.28	<u>\$ 104,116.28</u>
Other Securities		
Domestic Stocks	2,103.65	
Other - Insurance Policy Surrender Value	91,637.00	
Total Non-Pooled Investments	<u>\$ 197,856.93</u>	

At June 30, 2016, the Money Market Mutual Funds, with an amortized cost of \$104,116.28, were rated Aaa by Moody's Investors Service.

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

Investment Type	<u>Amount</u>
Debt Securities	
U.S. Agencies	\$ 1,796,372.01
Money Market Mutual Funds	104,116.28
Domestic Corporate Bonds	1,775,693.82
Other Securities	
UNC Investment Fund	23,861,015.45
Investment in Real Estate	11,690.00
Domestic Stocks	8,925,200.88
Foreign Stocks (denominated in US dollars)	4,410,548.60
Other - Insurance Policy Surrender Value	<u>91,637.00</u>
Total Investments	<u>\$ 40,976,274.04</u>

Component Unit - Investments of the University's discretely presented component unit, The North Carolina A&T Real Estate Foundation, Inc. (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. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment Type	<u>Amount</u>
Money Market Funds	\$ 140,750
Bond Funds	2,081,164
Equity Funds	8,344,908
Other Assets	3,215,528
Limited Partnership	<u>8,126</u>
Total Investments	<u>\$ 13,790,476</u>

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

Cash on Hand	\$ 18,000.00
Amount of Deposits with Private Financial Institutions	67,057.10
Deposits in the Short-Term Investment Fund	143,764,434.66
Long-Term Investment Pool	40,778,417.11
Non-Pooled Investments	<u>197,856.93</u>
Total Deposits and Investments	<u>\$ 184,825,765.80</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 54,239,486.47
Restricted Cash and Cash Equivalents	16,983,219.63
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>72,626,785.66</u>
Total Deposits	<u>143,849,491.76</u>
Investments	
Current:	
Restricted Short-Term Investments	195,753.28
Noncurrent:	
Endowment Investments	40,778,417.11
Restricted Investments	<u>2,103.65</u>
Total Investments	<u>40,976,274.04</u>
Total Deposits and Investments	<u>\$ 184,825,765.80</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt Securities				
U. S. Agencies	\$ 1,796,372.01	\$ 1,796,372.01	\$ 0.00	\$ 0.00
Domestic Corporate Bonds	1,775,693.82	1,775,693.82		
Total Debt Securities	3,572,065.83	3,572,065.83		
Other Securities				
Short-Term Investment Fund	143,764,434.66		143,764,434.66	
UNC Investment Fund	23,861,015.45			23,861,015.45
Investment in Real Estate	11,690.00			11,690.00
Domestic Stocks	8,925,200.88	8,925,200.88		
Foreign Stocks (denominated in US dollars)	4,410,548.60	4,410,548.60		
Other - Insurance Policy Surrender Value	91,637.00			91,637.00
Total Investment by Fair Value Level	\$ 184,636,592.42	\$ 16,907,815.31	\$ 143,764,434.66	\$ 23,964,342.45

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.

Investment in Real Estate - The University currently holds a parcel of land for resale valued at \$11,690.00. This investment is classified in Level 3. The real estate was donated to the University to be sold. The investment is measured at fair value by comparing the value to the county tax value.

Insurance Policy Surrender Value - Other investments include an insurance policy with a cash surrender value of \$91,637.00. This investment is classified in Level 3. The University uses the value that is supplied by the insurer and is based on the amount available in cash upon cancellation of the insurance policy before maturity.

Component Unit - The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June, 30, 2016:

Type	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Money Market Funds	\$ 140,750	\$ 140,750	\$ 0	\$ 0
Bond Funds	2,081,164	2,081,164		
Equity Funds	8,344,908	8,344,908		
Other Assets	3,215,528	3,215,528		
Limited Partnership	8,126			8,126
Total Investment by Fair Value Level	\$ 13,790,476	\$ 13,782,350	\$ 0	\$ 8,126

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 not more than 5% of the endowment's average market value at June 30th for the prior twelve quarters. To the extent that the total return for the current year exceeds the payout, the excess is added to 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 \$7,867,003.13 was available to be spent, of which \$6,906,305.75 was classified in net position as restricted expendable for scholarships, professorships, and departmental uses as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net

appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2016 the amount of investment losses reported against the nonexpendable endowment balances was \$23,446.09.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,531,460.17	\$ 498,863.11	\$ 1,032,597.06
Accounts	62,807.90	48,582.48	14,225.42
Intergovernmental	7,307,570.16		7,307,570.16
Interest on Loans	204,434.45		204,434.45
Other	715,319.96		715,319.96
Total Current Receivables	<u>\$ 9,821,592.64</u>	<u>\$ 547,445.59</u>	<u>\$ 9,274,147.05</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 1,310,006.60</u>	<u>\$ 681,771.10</u>	<u>\$ 628,235.50</u>

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land	\$ 10,014,832.16	\$ 441,369.41	\$ 0.00	\$ 10,456,201.57
Art, Literature, and Artifacts	2,490,797.00	18,000.00		2,508,797.00
Construction in Progress	21,871,326.96	10,514,138.37	5,151,850.75	27,233,614.58
Total Capital Assets, Nondepreciable	<u>34,376,956.12</u>	<u>10,973,507.78</u>	<u>5,151,850.75</u>	<u>40,198,613.15</u>
Capital Assets, Depreciable:				
Buildings	362,716,906.16	8,993,858.64	275,705.00	371,435,059.80
Machinery and Equipment	62,997,709.98	3,906,576.72	1,773,733.42	65,130,553.28
General Infrastructure	19,097,255.70			19,097,255.70
Total Capital Assets, Depreciable	<u>444,811,871.84</u>	<u>12,900,435.36</u>	<u>2,049,438.42</u>	<u>455,662,868.78</u>
Less Accumulated Depreciation for:				
Buildings	107,968,149.01	7,590,345.83		115,558,494.84
Machinery and Equipment	30,860,545.50	3,242,280.22	1,307,558.96	32,795,266.76
General Infrastructure	7,210,354.07	582,250.06		7,792,604.13
Total Accumulated Depreciation	<u>146,039,048.58</u>	<u>11,414,876.11</u>	<u>1,307,558.96</u>	<u>156,146,365.73</u>
Total Capital Assets, Depreciable, Net	<u>298,772,823.26</u>	<u>1,485,559.25</u>	<u>741,879.46</u>	<u>299,516,503.05</u>
Capital Assets, Net	<u>\$ 333,149,779.38</u>	<u>\$ 12,459,067.03</u>	<u>\$ 5,893,730.21</u>	<u>\$ 339,715,116.20</u>

During the fiscal year ended June 30, 2016, the University incurred \$2,880,458.56 in interest costs related to the acquisition and construction of capital assets. Of this total, \$2,397,214.85 was charged in interest expense, and \$483,243.71 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (agreement) dated September 1, 2014. The value of the energy savings improvement assets associated with the agreement is \$1,872,199.27 and is subject to security provisions in the agreement to ensure timely debt service payments. Additional information regarding the UNC System Energy Savings Installment Financing Agreement - Notes Payable can be found in Note 8.

The University entered into an installment financing agreement to fund energy savings equipment and improvements on April 8, 2014. The total cost of the equipment and improvements purchased under this agreement is \$4,463,503.11. At June 30, 2016, accumulated depreciation on these assets totaled \$111,587.58, resulting in a net book value of \$4,351,915.53. The equipment and improvements are pledged to secure the debt based on provisions of the financing agreement. Additional information regarding the installment financing agreement can be found in Note 8.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 5,059,909.95
Accrued Payroll	835,414.75
Contract Retainage	343,327.27
Intergovernmental Payables	128,194.07
Total Current Accounts Payable and Accrued Liabilities	\$ 6,366,846.04

NOTE 8 - LONG-TERM LIABILITIES

UNIVERSITY

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

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Revenue Bonds Payable	\$ 21,500,000.00	\$ 87,715,000.00	\$ 5,900,000.00	\$ 103,315,000.00	\$ 2,615,000.00
Plus: Unamortized Premium	941,914.06	5,069,520.55	221,742.27	5,789,692.34	
Total Revenue Bonds Payable, Net	22,441,914.06	92,784,520.55	6,121,742.27	109,104,692.34	2,615,000.00
Net Pension Liability	4,839,285.00	9,873,868.00		14,713,153.00	
Notes Payable	6,243,785.78		294,629.69	5,949,156.09	419,443.13
Compensated Absences	9,945,882.00	5,858,668.00	7,179,020.00	8,625,530.00	891,395.00
Bond Anticipation Notes	5,000,000.00		5,000,000.00		
Total Long-Term Liabilities, Net	\$ 48,470,866.84	\$ 108,517,056.55	\$ 18,595,391.96	\$ 138,392,531.43	\$ 3,925,838.13

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

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

Purpose	Series	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2016	Principal Outstanding June 30, 2016
Revenue Bonds Payable						
The University of North Carolina Revenue Bonds						
Student Health Center	2013	2.00%-5.00%	10/01/2037	\$ 10,210,000.00	\$ 630,000.00	\$ 9,580,000.00
Parking System	2015A	2.00%-5.00%	10/01/2033	4,760,000.00		4,760,000.00
Student Center	2015A	2.00%-5.00%	10/01/2045	72,220,000.00		72,220,000.00
Student Center	2015B	.80%-3.169%	10/01/2022	10,735,000.00		10,735,000.00
Total The University of North Carolina Revenue Bonds				97,925,000.00	630,000.00	97,295,000.00
The University of North Carolina System Pool Revenue Bonds						
Parking System	(A)	3.75%-5.00%	10/01/2033	5,965,000.00	5,840,000.00	125,000.00
Dining System	(A)	3.75%-5.00%	10/01/2020	7,525,000.00	4,335,000.00	3,190,000.00
Stadium System	(B)	2.00%-4.50%	10/01/2031	3,365,000.00	660,000.00	2,705,000.00
Total The University of North Carolina System Pool Revenue Bonds				16,855,000.00	10,835,000.00	6,020,000.00
Total Revenue Bonds Payable (principal only)				\$ 114,780,000.00	\$ 11,465,000.00	103,315,000.00
Plus: Unamortized Premium						5,789,692.34
Total Revenue Bonds Payable, Net						\$ 109,104,692.34

(A) The University of North Carolina System Pool Revenue Bonds, Series 2006B
 (B) The University of North Carolina System Pool Revenue Bonds, Series 2011C

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		Notes Payable	
	Principal	Interest	Principal	Interest
2017	\$ 2,615,000.00	\$ 4,186,683.38	\$ 419,443.14	\$ 177,587.09
2018	2,695,000.00	4,132,076.08	444,429.56	167,271.60
2019	2,770,000.00	4,064,317.08	465,176.27	155,738.49
2020	2,880,000.00	3,983,047.28	486,629.05	143,644.67
2021	2,965,000.00	3,893,510.25	508,810.46	130,970.11
2022-2026	12,875,000.00	18,131,784.36	1,737,340.63	474,443.65
2027-2031	16,490,000.00	15,096,750.04	1,486,929.98	222,313.96
2032-2036	18,400,000.00	11,451,687.50	400,397.00	10,590.18
2037-2041	19,220,000.00	6,875,500.00		
2041-2046	22,405,000.00	2,311,900.00		
Total Requirements	\$ 103,315,000.00	\$ 74,127,255.97	\$ 5,949,156.09	\$ 1,482,559.75

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

On November 24, 2015, the University issued \$4,760,000.00 in General Revenue Bonds, Series 2015A refunding bonds with an average interest rate of 4.05%. The bonds were issued to advance refund \$4,865,000.00 of outstanding University of North Carolina System Pool Revenue Bonds, Series 2006B bonds with an average interest rate of 4.86%. The net

proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$694,446.22 over the next 19 years and resulted in an economic gain of \$530,475.49. At June 30, 2016, the outstanding balance was \$4,865,000.00 for the defeased University of North Carolina System Pool Revenue Bonds, Series 2006B.

E. Notes Payable - The University was indebted for notes payable at June 30, 2016 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
Energy Performance Contract	Capital One Public Funding, LLC	3.68%	09/01/2032	\$ 4,183,984.78	\$ 229,716.21	\$ 3,954,268.57
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp.	1.84%	02/14/2023	2,059,801.00	64,913.48	1,994,887.52
Total Notes Payable				<u>\$ 6,243,785.78</u>	<u>\$ 294,629.69</u>	<u>\$ 5,949,156.09</u>

COMPONENT UNIT

Bonds payable as of June 30, 2016 consist of the following:

North Carolina Capital Facilities Finance Agency (NCCFFA):	Interest Rate/Ranges	Final Maturity (serially)	Original Issue	Principal Outstanding
(A) Variable Rate Student Housing Revenue Bonds Series 2004B	3.00%-5.00%	2035	\$ 21,000,000.00	\$ 13,990,000.00
(B) Student Housing Revenue Refunding Bonds Series 2015A	3.00%-5.00%	2035	22,495,000.00	22,495,000.00
Total Bonds Payable (principal only)			<u>\$ 43,495,000.00</u>	36,485,000.00
Plus: Unamortized Premium				1,750,853.00
Less: Bond Issuance Costs				<u>(3,460,293.00)</u>
Total Bonds Payable, Net				<u>\$ 34,775,560.00</u>

(A) Series 2004B Bonds were issued August 10, 2004 to finance the construction, equipping, and installation of student housing facilities, a fitness facility, and a conference and special events facility.

The Series 2004B Bonds consist of serial bonds which mature in varying amounts from 2005 to 2035. Semi-annual interest payments are due December 1 and June 1, and annual principal payments are due June 1. Series 2004B Bonds are subject to extraordinary redemption at any time by the NCCFFA, at the discretion of the Foundation, in the event of damage to, destruction or condemnation of, or taking under power of eminent domain of substantial portion of the Foundation's premises.

As security for the payment of the 2004 Bonds, the Bond Indenture grants to the Trustee a lien upon and security interest in all of the Foundation's rights, title and interest in assets of the Housing Foundation.

- (B) Series 2015A Bonds in the amount of \$22,495,000 were issued October 1, 2015 to: (a) refund the entire outstanding amount of NCCFFA Student Housing Revenue Refunding Bonds Series 2004A and a portion (\$2,000,000) of the Series 2004B Bonds; (b) fund the related debt service fund; (c) pay the premium for a financial guaranty policy, and (d) pay certain expenses incurred in connection with the issuance of the 2015A Bonds.

The refunding also remarketed the 2004B variable rate bonds, replacing the six months Letter of Credit (LOC) with a three year Letter of Credit and novating the existing SWAP with an extended term while lowering the interest rate without extension of the final bond maturity.

The series 2015A Bonds consist of Serial, and Variable Rate Bonds which mature in varying amounts from 2017 through 2035 and bear interest at rates that range from 3.0% to 5.0%. Series 2015A Bonds are subject to extraordinary redemption at any time by NCCFFA, at the discretion of the Foundation, in the event of damage to, destruction or condemnation of, or taking under power of eminent domain of a substantial portion of the Foundation's premises. Series 2015A Bonds maturing on or after June 1, 2026 are also subject to option redemption by NCCFA, at the discretion of the Foundation from available funds.

Minimum maturities on all debt of the Foundation at June 30, 2016 are detailed as follows:

Fiscal Year	Principal
2017	\$ 715,000
2018	810,000
2019	1,670,000
2020	1,745,000
2021	1,815,000
Thereafter	<u>29,730,000</u>
Total (principal only)	<u>\$ 36,485,000</u>

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for equipment and property. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 932,532.75
2018	527,051.04
2019	62,592.00
2020	4,059.00
Total Minimum Lease Payments	\$ 1,526,234.79

Rental expense for all operating leases during the year was \$2,015,526.20.

NOTE 10 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees, Net	<u>\$ 92,553,109.95</u>	<u>\$ 0.00</u>	<u>\$ 31,610,225.69</u>	<u>\$ 418,864.08</u>	<u>\$ 60,524,020.18</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 11,110,798.72	\$ 0.00	\$ 3,584,916.26	\$ 81,697.91	\$ 7,444,184.55
Dining	19,042,775.01		4,971,472.39	111,395.45	13,959,907.17
Bookstore	761,874.40			0.53	761,873.87
Parking	1,398,537.27				1,398,537.27
Athletic	3,259,964.24				3,259,964.24
Other	863,629.14				863,629.14
Sales and Services of Education and Related Activities	<u>2,077,143.69</u>	<u>1,748,385.22</u>			<u>328,758.47</u>
Total Sales and Services, Net	<u>\$ 38,514,722.47</u>	<u>\$ 1,748,385.22</u>	<u>\$ 8,556,388.65</u>	<u>\$ 193,093.89</u>	<u>\$ 28,016,854.71</u>

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	<u>Salaries and Benefits</u>	<u>Supplies and Materials</u>	<u>Services</u>	<u>Scholarships and Fellowships</u>	<u>Utilities</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 67,985,220.48	\$ 1,557,389.07	\$ 2,211,256.11	\$ 1,227,046.01	\$ 10,434.80	\$ 0.00	\$ 72,991,346.47
Research	17,119,249.59	2,241,824.05	6,898,328.73	1,632,130.17			27,891,532.54
Public Service	5,471,237.65	266,864.89	1,301,864.29	82,487.31			7,122,454.14
Academic Support	16,768,336.08	5,551,318.82	4,061,759.84	1,414,368.26			27,795,783.00
Student Services	5,501,904.77	290,398.29	1,152,622.67	18,394.89			6,963,320.62
Institutional Support	16,206,985.11	1,120,707.21	7,120,530.49	292,659.35	3,856.50		24,744,738.66
Operations and Maintenance of Plant	8,874,231.61	2,477,452.16	3,574,164.56		4,026,896.00		18,952,744.33
Student Financial Aid	293,268.45	178,946.19	122,007.00	10,395,595.50			10,989,817.14
Auxiliary Enterprises	15,203,700.67	2,653,047.89	19,970,349.12	3,790,499.29	1,326,655.18		42,944,252.15
Depreciation						11,414,876.11	11,414,876.11
Total Operating Expenses	<u>\$ 153,424,134.41</u>	<u>\$ 16,337,948.57</u>	<u>\$ 46,412,882.81</u>	<u>\$ 18,853,180.78</u>	<u>\$ 5,367,842.48</u>	<u>\$ 11,414,876.11</u>	<u>\$ 251,810,865.16</u>

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 \$5,873,784.80, and employee contributions were \$3,851,662.16 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 \$14,713,153.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. 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 .39925%, which was a decrease of .01351 from its proportion measured as of June 30, 2014.

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

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

* Salary increases include 3.5% inflation and productivity factor.

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

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

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

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

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

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

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

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

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

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

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 44,282,530.00	\$ 14,713,153.00	\$ (20,407,296.00)

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 \$1,502,514.00. 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	\$ 0.00	\$ 1,672,885.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		1,594,045.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	203,578.96	
Contributions Subsequent to the Measurement Date	5,873,784.80	
Total	<u>\$ 6,077,363.76</u>	<u>\$ 3,266,930.00</u>

The amount of \$5,873,784.80 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	\$ (1,846,883.00)
2018	(1,846,883.00)
2019	(1,797,948.00)
2020	2,428,362.96
Total	\$ (3,063,351.04)

B. Defined Contribution Plan - The Optional Retirement Program (Program) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

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

For the current fiscal year, the University had a total payroll of \$125,504,624.41, of which \$38,110,997.98 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,606,792.26 and \$2,286,659.88, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures totaling \$195,204.18.

The Federal Retirement System is a multiple-employer system. University extension employees participate in the Civil Service Retirement System (CSRS), a program for participants employed prior to January 1, 1987. Participants contributed 7% of their salary to CSRS and the University match was 7%. For the year ended June 30, 2016,

covered payroll was \$163,971.43, and total employer and employee contributions were \$11,478.00 each.

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 \$5,729,100.57, \$5,586,742.25, and \$5,671,902.69, 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 \$419,452.01, \$417,224.83, and \$462,155.03, 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 \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

Receipts-supported auxiliary units purchased extended or broad form coverage through the Fund. The University purchased extended coverage for both the building and contents for Williams Cafeteria in the amount of \$27,174,230. Broad form coverage on buildings and contents totaled \$166,268,195 for residence halls, \$2,542,120 for the hazardous materials facility, and \$7,888,150 for the campus recreation buildings. The University also carried insurance in the amount of \$6,922,929 on the building and contents of Brown Hall (excluding the bookstore contents) which houses the ticket office, mail center and the bookstore. All risk insurance in the amount of \$4,371,988 was purchased for certain equipment located in Paul Robeson Theatre, the research center in Kannapolis, the Bryan Fitness and Wellness Center, and the motor sport program. Losses covered for each of these items is subject to a \$5,000 deductible per occurrence.

The University was required to maintain all risk replacement cost insurance for equipment that is leased from Kitchens To Go as provided in the lease agreement, in the amount of \$1,554,400.

The University was also required to insure the leased Sprung Instant Structure for occupancy liability hazards in the amount of the full purchase price of \$446,326, for any loss due to physical damage to the structure. Contents of the dome that are owned by the University were insured for \$418,550.

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.

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 \$56,307,964.93 and on other purchases were \$5,945,888.38 at June 30, 2016.
- B. Pending Litigation and Claims** - The University is a party to other 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
Pledges to Endowments	\$ 3,235,224.33

NOTE 16 - RELATED PARTIES

Gateway University Research Park, Inc. – The University and the University of North Carolina at Greensboro have formed a jointly governed nonprofit organization, Gateway University Research Park, Inc., which is also a component unit of the State of North Carolina. The purpose of this organization is to provide a collaborative research environment that fosters academic enrichment, research growth, technology transfer, commercialization, and discovery while encouraging and promoting regional economic development. During the fiscal year, the University paid a \$125,000.00 annual management fee and \$1,555,481.00 in operations and maintenance funds to Gateway University Research Park, Inc.

Union Square Campus, Inc. – The University has partnered with the University of North Carolina at Greensboro, Guilford Technical Community College, and Cone Health to form Union Square Campus, Inc., a nonprofit entity. The purpose of the organization is to construct and maintain an educational facility for healthcare professionals. The goal of the partnership is to provide a state-of-the-art educational environment while sharing significant cost savings. During the fiscal year, the University paid \$1,000,000.00 in construction costs to Union Square Campus, Inc.

NOTE 17 - 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.



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.39925%	0.41276%	0.42120%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 14,713,153.00	\$ 4,839,285.00	\$ 25,571,132.00
Covered-Employee Payroll	\$ 64,055,133.27	\$ 64,416,518.84	\$ 66,743,118.20
Net Pension Liability as a Percentage of Covered-Employee Payroll	22.97%	7.51%	38.31%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

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

Exhibit C-2

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 5,873,784.80	\$ 5,861,044.69	\$ 5,597,795.49	\$ 5,559,701.75	\$ 4,988,312.34
Contributions in Relation to the Contractually Determined Contribution	<u>5,873,784.80</u>	<u>5,861,044.69</u>	<u>5,597,795.49</u>	<u>5,559,701.75</u>	<u>4,988,312.34</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>				
Covered-Employee Payroll	\$ 64,194,369.39	\$ 64,055,133.27	\$ 64,416,518.84	\$ 66,743,118.20	\$ 67,047,208.84
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	\$ 3,566,826.96	\$ 2,523,015.42	\$ 2,263,691.30	\$ 1,923,706.79	\$ 1,581,550.26
Contributions in Relation to the Contractually Determined Contribution	<u>3,566,826.96</u>	<u>2,523,015.42</u>	<u>2,263,691.30</u>	<u>1,923,706.79</u>	<u>1,581,550.26</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>				
Covered-Employee Payroll	\$ 72,349,431.21	\$ 70,672,700.79	\$ 67,371,764.86	\$ 63,072,353.92	\$ 59,456,776.53
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

North Carolina Agricultural and Technical State University
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
North Carolina Agricultural and Technical State University
Greensboro, 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 North Carolina Agricultural and Technical State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 8, 2016. Our report includes a reference to other auditors who audited the financial statements of The North Carolina A&T Real Estate Foundation, Inc., as described in our report on the University's financial statements. The financial statements of The North Carolina A&T Real Estate Foundation, Inc. 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 this entity.

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

December 8, 2016

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