

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



NORTH CAROLINA CENTRAL UNIVERSITY

DURHAM, NORTH CAROLINA

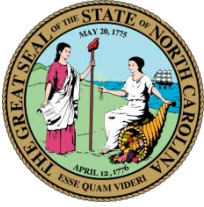
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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



NC  **OSA**
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of North Carolina Central 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

TABLE OF CONTENTS

| | PAGE |
|--|------|
| INDEPENDENT AUDITOR’S REPORT | 1 |
| MANAGEMENT’S DISCUSSION AND ANALYSIS | 4 |
| BASIC FINANCIAL STATEMENTS | |
| UNIVERSITY EXHIBITS | |
| A-1 Statement of Net Position | 11 |
| A-2 Statement of Revenues, Expenses, and Changes in Net Position | 13 |
| A-3 Statement of Cash Flows | 14 |
| COMPONENT UNIT EXHIBITS | |
| B-1 Statement of Financial Position | 16 |
| B-2 Statement of Activities | 17 |
| NOTES TO THE FINANCIAL STATEMENTS | 18 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| C-1 Schedule of the Proportionate Net Pension Liability (Teachers’ and State Employees’ Retirement System) | 51 |
| C-2 Schedule of University Contributions (Teachers’ and State Employees’ Retirement System) | 52 |
| NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (TEACHERS’ AND STATE EMPLOYEES’ RETIREMENT SYSTEM) | 53 |
| INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 54 |
| ORDERING INFORMATION | 56 |

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Central University
Durham, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Central 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 NCCU Real Estate Foundation, Inc., which represent 5 percent of the assets of the University; nor the financial statements of the North Carolina Central University Foundation, Inc. (NCCU Foundation, Inc.), the University's discretely presented component unit. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the NCCU Real Estate Foundation, Inc. and the NCCU 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 reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Carolina Central 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 14, 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.

A handwritten signature in black ink that reads "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 14, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis is intended to give the reader an overview of factors that have affected operations and may affect operations in the future for North Carolina Central University (the University). Management has prepared the discussion and analysis to be read in conjunction with the financial statements and accompanying notes to the financial statements. The University is required by the Governmental Accounting Standards Board (GASB) to present three basic financial statements. Those statements are the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements provide both long-term and short-term financial information for the University.

Brief Institutional Highlights

North Carolina Central University retained its 12th place as one of the top historically black colleges and universities (HBCUs) on the U.S. News & World Report's 2016 rankings. In addition, the University was named the third-highest rated public HBCU in the country and the second highest among North Carolina HBCUs. In July 2016, NCCU was honored as the 2016 HBCU of the Year by HBCU Digest among the nation's 111 historically black colleges and universities. NCCU's Biomanufacturing Research Institute and Technology Enterprise (BRITE) was named as the Best Science, Technology, Engineering and Math (STEM) Program during the 2016 HBCU Digest Awards. The University was the twelfth-highest-rated HBCU in the country and the third-highest-rated public HBCU, by College Choice, an independent online publication for college applicants. NCCU's School of Law was ranked third out of ten selected programs by U.S. News & World Report for value, as measured by least average debt of 2015 law graduates. The University's graduate program in Educational Technology was ranked 17th nationally and 1st among HBCU's for online graduate education programs by U.S. News & World Report.

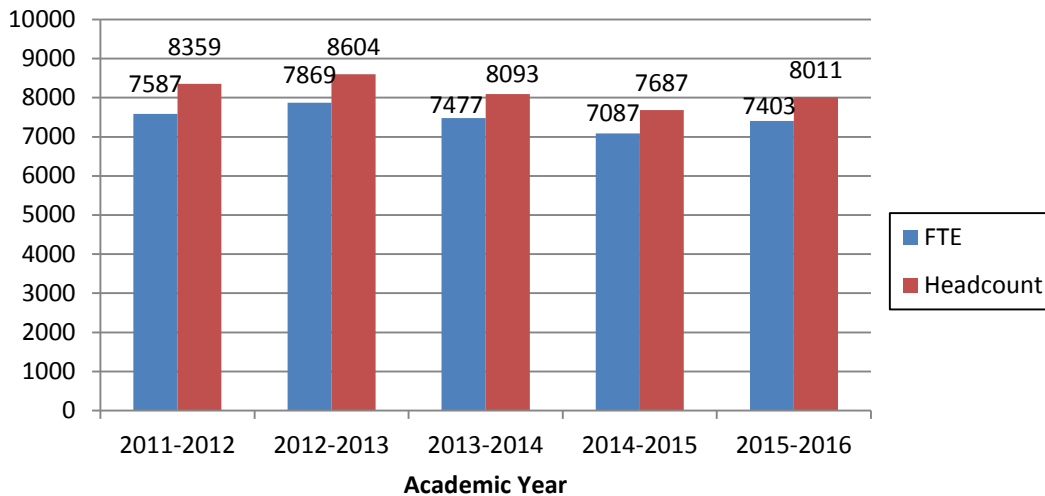
NCCU is committed to the field of research and continues to apply for grants. The U.S. Department of Education's Minority Science and Engineering Improvement Program awarded NCCU a three-year grant totaling \$750,000 aimed at strengthening education programs in STEM at minority serving institutions. The National Institute on Alcohol Abuse and Alcoholism (NIAAA) of the National Institutes of Health (NIH) awarded \$6.0 million to NCCU and \$1.5 million to the UNC School of Medicine in a collaborative five year grant to research factors causing alcohol related health disparities in African Americans. The National Cancer Institute (NCI) awarded over \$6 million to NCCU and over \$5 million to UNC Lineberger Comprehensive Cancer Center for a five year grant to research and address disparities in cancer incidence and death for African Americans in North Carolina.

For fiscal year ended June 30, 2016, adjusted state appropriations were \$80.0 million, which was a \$2.4 million, or 2.9%, decrease from fiscal year 2015 adjusted state appropriations of \$82.4 million. The University's fiscal year 2016 total state budget decreased by \$6.8 million, or 5.2%, from \$132.2 million in 2015 to \$125.4 million in 2016. The state appropriation and budget decreases were attributable to recalibrations due to an enrollment decrease of 5% in the prior fiscal year 2014-15.

During fiscal year 2015-16, the University's total enrollment increased by 324 students, a 4% increase from the previous fiscal year. The increase follows a decline in enrollment over the prior two fiscal years, attributable in part to the increase in minimum admissions requirements for the UNC System schools that were effective for the Fall of 2013. The first time freshman to sophomore retention rate increased from 77% to 79%, from 2014-15 to 2015-16. The positive trend in enrollment and retention can be attributed to NCCU's

increased recruitment efforts to target high-caliber students. The University also entered into a partnership with Durham Technical Community College that began in fiscal year 2014-15 for a dual enrollment and residence initiative designed to help students meet the academic requirements for admissions into and persistence at NCCU.

FTE and Head Count 2012 to 2016



Financial Highlights

The Statement of Net Position reports all of the University's assets, deferred outflows of resources, liabilities and deferred inflows of resources. The sum of assets and deferred outflows of resources, less the liabilities and deferred inflows of resources is reported as "net position." The statement classifies those assets and liabilities as current and noncurrent depending on the availability of the assets or satisfaction of the obligation within 12 months (current) or longer (noncurrent). The reader may use the net position to gauge the financial position of the University as of June 30, 2016.

Condensed Statement of Net Position

| | 2016 | 2015 |
|----------------------------------|----------------|----------------|
| Assets | | |
| Current Assets | \$ 41,904,042 | \$ 35,321,360 |
| Capital Assets, Net | 270,460,978 | 276,602,512 |
| Other Noncurrent Assets | 32,707,335 | 33,538,023 |
| Total Assets | 345,072,355 | 345,461,895 |
| Deferred Outflows of Resources | 13,437,735 | 5,723,084 |
| Liabilities | | |
| Current Liabilities | 11,207,801 | 13,164,446 |
| Noncurrent Liabilities | | |
| Long-Term Liabilities | 108,691,584 | 92,264,969 |
| Other Noncurrent Liabilities | 4,347,325 | 3,921,246 |
| Total Liabilities | 124,246,710 | 109,350,661 |
| Deferred Inflows of Resources | 3,798,870 | 16,577,514 |
| Net Position | | |
| Net Investment in Capital Assets | 203,641,140 | 207,302,563 |
| Restricted - Nonexpendable | 15,445,193 | 16,012,354 |
| Restricted - Expendable | 17,937,369 | 18,987,844 |
| Unrestricted | (6,559,192) | (17,045,957) |
| Total Net Position | \$ 230,464,510 | \$ 225,256,804 |

As of June 30, 2016, the University's total assets were \$345.1 million as compared to \$345.5 million in the prior year, a decrease of \$0.4 million. The change in assets reflects an increase of \$6.6 million in current assets, a decrease of \$6.2 million in net capital assets and a decrease of \$0.8 million in other noncurrent assets. The increase in current assets is due to an increase in cash as the result of the following: an increase in cash carry-forward of \$2.1 million; an increase in the housing occupancy rate of 7%, which provided an increase of \$1.8 million; an increase in meal plan participation, which provided an increase of \$0.4 million; the addition of new student fees, which provided an increase of \$0.8 million, and a modest enrollment growth that increased application and enrollment fees by \$0.2 million. The decrease in net capital assets is due to accumulated depreciation of \$8.6 million netted against current year capital asset increases of \$2.5 million.

Deferred outflows of resources were \$13.4 million as of June 30, 2016, compared to \$5.7 million as of the prior fiscal year, an increase of \$7.7 million. This increase is primarily due to the \$7.1 million deferred loss on refunding for the Series 2016 Revenue Refunding Bonds issuance for advance refunding of the outstanding 2009C Pool Revenue Bonds.

The University's liabilities totaled \$124.2 million at June 30, 2016 and \$109.4 million at June 30, 2015, reflecting a \$14.9 million or 13.6% increase in total liabilities. The net increase of \$14.9 million includes an \$8.8 million increase in net pension liability due to the change in actuarial valuation for the defined benefit pension plan, and a \$5.9 million unamortized bond premium from the Series 2016 Revenue Refunding Bonds. The June 30, 2016 total liabilities balance is primarily composed of debt service on the Series

2016 Revenue Refunding Bonds of \$55.9 million and student housing bonds of \$17.3 million. (See Note 8 of the Notes to the Financial Statements for more information about debt administration.)

The total current liabilities of \$11.2 million were covered 3.7 times by current assets of \$41.9 million which is an indication of the University's ability to pay current liabilities as they become due. Deferred inflows of resources decreased \$12.8 million due primarily to the recognition of differences between projected/actual investment earnings of the defined benefit pension plan, in accordance with GASB Statement No. 68.

As of June 30, 2016, the University's net position was \$230.5 million, which is an increase of \$5.2 million over the prior year. This is attributable to the University experiencing growth in operating and nonoperating revenues.

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

| | 2016 | 2015 |
|------------------------------------|-----------------------|-----------------------|
| Operating Revenues | | |
| Student Tuition and Fees, Net | \$ 40,212,322 | \$ 38,001,106 |
| Contracts and Grants | 7,749,637 | 8,324,800 |
| Sales and Services, Net | 25,213,596 | 22,909,909 |
| Other Operating Revenues | 1,353,857 | 1,640,535 |
| Total Operating Revenues | <u>74,529,412</u> | <u>70,876,350</u> |
| Operating Expenses | | |
| Salaries and Benefits | 114,336,857 | 115,283,724 |
| Supplies and Materials | 12,017,709 | 10,978,788 |
| Services | 29,211,640 | 27,216,863 |
| Scholarships and Fellowships | 12,927,598 | 12,807,416 |
| Utilities | 4,807,433 | 5,507,658 |
| Depreciation | 8,957,952 | 8,841,480 |
| Operating Expenses | <u>182,259,189</u> | <u>180,635,929</u> |
| Operating Loss | <u>(107,729,777)</u> | <u>(109,759,579)</u> |
| Nonoperating Revenues and Expenses | | |
| State Appropriations | 80,007,483 | 82,405,806 |
| Noncapital Grants | 33,847,423 | 31,008,076 |
| Noncapital Gifts | 547,193 | 433,685 |
| Investment Income, Net | 67,517 | 2,934,811 |
| Other Nonoperating Expenses | (3,034,555) | (4,281,998) |
| Income Before Other Revenues | <u>3,705,284</u> | <u>2,740,801</u> |
| State Capital Appropriations | <u>1,502,422</u> | <u>79</u> |
| Increase in Net Position | 5,207,706 | 2,740,880 |
| Net Position - Beginning of Year | <u>225,256,804</u> | <u>222,515,924</u> |
| Net Position - End of Year | <u>\$ 230,464,510</u> | <u>\$ 225,256,804</u> |

Fiscal year 2015-2016 total revenues are \$191,310,512 and total expenses are \$186,102,806.

Fiscal year 2014-2015 total revenues are \$187,757,690 and total expenses are \$185,016,810.

The Statement of Revenues, Expenses, and Changes in Net Position reports the revenues earned and expenses incurred during the fiscal year. The increase or decrease of revenues over expenses directly affects (increases/decreases) the total net position reported on the Statement of Net Position. These transactions are classified as operating or nonoperating. Operating revenues primarily consist of student tuition and fees reported net of discounts and scholarship allowances, federal and state contracts and grants, and auxiliary sales and services revenues. Operating expenses consist of salaries, supplies, services, scholarships, utilities, and depreciation.

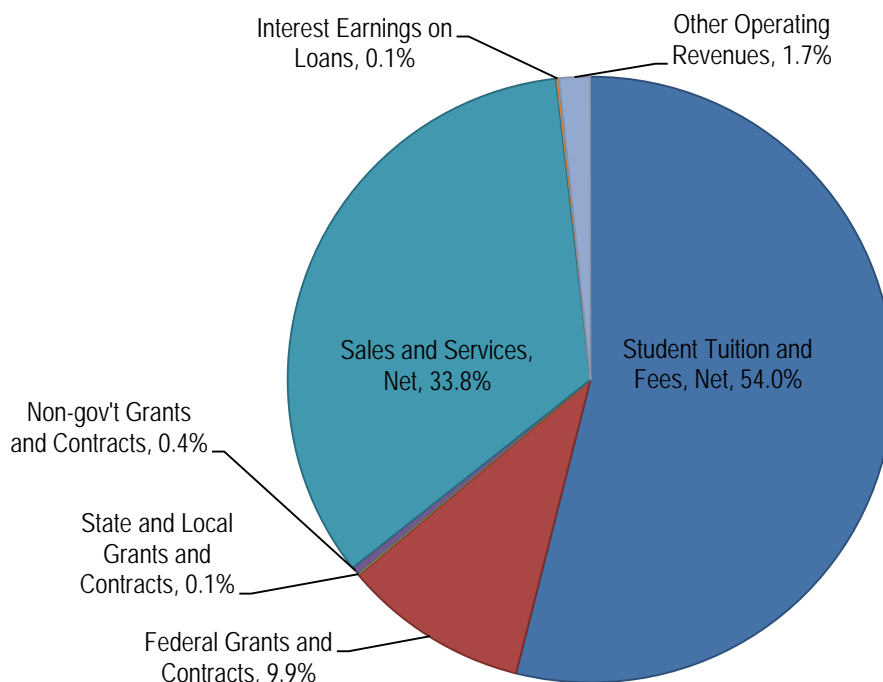
Operating revenues were \$74.5 million at June 30, 2016, an increase of \$3.6 million or 5.2% from 2015. Revenues from tuition and fees increased by \$2.2 million which is attributable to the 4% percent increase in enrollment, as well as newly implemented infrastructure fees and campus security fees. Sales and services revenue increased by \$2.3 million. The largest components of sales and services revenue are residential housing services and meal plan sales, which also realized increases due to the upward trend in enrollment. Grant revenues, and all other operating revenues, experienced modest decreases of \$0.6 million and \$0.3 million respectively.

Total operating expenses for fiscal year 2016 increased by \$1.6 million, or less than 1% over fiscal year 2015. Salaries and benefits expenses decreased by \$0.9 million as a result of continued strategic management of expenses. Services expenses increased by \$2.0 million, which includes increases in renovation expenses. Supplies and materials increased by \$1.0 million, utilities decreased by \$0.7 million, while scholarship and fellowship expenses, and depreciation, were largely unchanged.

Overall, the University sustained a total operating loss of \$107.7 million in fiscal year 2016, which is \$2.0 million less than the operating loss in fiscal year 2015. Operating losses are projected to continue in the future due to the accounting requirement to categorize state appropriations, a major source of funding, as nonoperating revenues. The state appropriations for fiscal year 2016 were \$80.0 million.

Nonoperating revenues and expenses stem from transactions that occur outside of the primary scope of the University's purpose for existence and for which no goods or services are provided. State appropriations, noncapital grants and gifts, investment income/expenses, and capital-related interest primarily represent the nonoperating revenues and expenses. At June 30, 2016, investment income was \$0.1 million, a decrease of \$2.9 million from the prior fiscal year due to fluctuating market conditions. Noncapital Grants revenue increased by \$2.8 million, primarily the result of receiving additional federal non-exchange monies.

Operating Revenues by Source



Capital Assets and Debt Administration

As of June 30, 2016, there was no construction in progress. During fiscal year 2016, \$2.0 million of construction costs related to the ESCO project, an energy savings project, were capitalized with \$1.3 million of those costs incurred during the fiscal year. There were also \$0.3 million in land purchases and \$1.2 million in equipment purchases incurred this fiscal year. For additional information concerning capital assets, see Notes 1(H), 6 and 16(A) in the Notes to the Financial Statements.

As of June 30, 2016, the University had \$86.0 million in outstanding bonds, notes, and leases payable of which \$54.6 million were 2016 Revenue Refunding Bonds issued June 1, 2016 with an average interest rate of 3.74% to advance refund \$52.5 million of 2009C UNC System Pool Revenue Bonds with an average interest rate of 5.33%. As a result of the refunding, total debt service payments will be reduced by \$5,418,814 over the next 18 years for a current economic gain of \$5,237,533. An additional \$1.4 million in bonds were issued for deferred maintenance.

The University's Moody's Investor Service rating at June 30, 2016 was A3, with a stable outlook. The rating has the potential to affect the cost of capital for any future borrowing that the University undertakes.

For additional information concerning debt administration, see Note 8 in the Notes to the Financial Statements.

Economic Outlook

The University will continue to build upon the foundation that has allowed a 4% increase in enrollment and two-point increase in the retention rate for fiscal year ended June 30, 2016. These foundational measures include enhanced recruitment and marketing strategies; expanded community college outreach; intentional and directed academic advising via the University College; data mining and benchmarking using predictive analytics; curricula changes, and elevation of the NCCU brand.

Moreover, the University has been at the forefront of championing for policy and regulations that may have a beneficial impact on enrollment. We embarked upon a pilot program in the prior academic years that challenged the minimum admissions standards. This pilot program is expected to lead to higher freshman enrollment.

North Carolina Central University will continue its research and economic development thrust. The Biomanufacturing Research Institute and Technology Enterprise (BRITE) is home to the largest proprietary chemical compound library among universities in the United States and as such fosters many dynamic research opportunities for its undergraduate and Ph.D. students. Additionally, BRITE spawned the Curl Bio LLC, which is a start-up company that studies diabetes, metabolic syndrome, and obesity. Likewise, NCCU, Duke University, UNC-Chapel Hill, and North Carolina State University have announced a partnership to build a network of alumni angel groups to invest in startup companies founded by alumni, parents, staff, faculty and students affiliated with the universities.

In March 2016, North Carolina voters approved the Connect NC Bond referendum which included \$30 million toward the design and construction of a new School of Business for NCCU. This opportunity will provide state-of-the art facilities in which to prepare the 21st century business leaders and garner additional business partnerships.

The aforementioned positive trends and research and economic activities are the catalysts for a brighter outlook. In continuance of the vision of Eagle Excellence set for by Chancellor Debra Saunders-White, North Carolina Central University is poised to soar to greater heights.



FINANCIAL STATEMENTS

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

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

| | |
|--------------------------------------|-------------------|
| Cash and Cash Equivalents | \$ 23,922,587 |
| Restricted Cash and Cash Equivalents | 7,801,053 |
| Restricted Short-Term Investments | 1,233,711 |
| Receivables, Net (Note 5) | 7,999,083 |
| Due from University Component Units | 48,907 |
| Inventories | 710,545 |
| Notes Receivable, Net (Note 5) | 188,156 |
| Total Current Assets | <u>41,904,042</u> |

Noncurrent Assets:

| | |
|--|--------------------|
| Restricted Cash and Cash Equivalents | 3,127,857 |
| Restricted Due from Primary Government | 1,232 |
| Endowment Investments | 27,340,340 |
| Notes Receivable, Net (Note 5) | 2,237,906 |
| Capital Assets - Nondepreciable (Note 6) | 8,424,831 |
| Capital Assets - Depreciable, Net (Note 6) | 262,036,147 |
| Total Noncurrent Assets | <u>303,168,313</u> |

| | |
|--------------|--------------------|
| Total Assets | <u>345,072,355</u> |
|--------------|--------------------|

DEFERRED OUTFLOWS OF RESOURCES

| | |
|---|-------------------|
| Deferred Loss on Refunding | 7,146,207 |
| Accumulated Decrease in Fair Value of Hedging Derivatives | 1,307,911 |
| Deferred Outflows Related to Pensions | 4,983,617 |
| Total Deferred Outflows of Resources | <u>13,437,735</u> |

LIABILITIES

Current Liabilities:

| | |
|---|-------------------|
| Accounts Payable and Accrued Liabilities (Note 7) | 3,992,377 |
| Due to Primary Government | 21,892 |
| Funds Held for Others | 48,907 |
| Unearned Revenue | 3,761,903 |
| Interest Payable | 412,232 |
| Long-Term Liabilities - Current Portion (Note 8) | 2,970,490 |
| Total Current Liabilities | <u>11,207,801</u> |

Noncurrent Liabilities:

| | |
|-------------------------------------|--------------------|
| Deposits Payable | 400 |
| Funds Held for Others | 1,105,766 |
| U. S. Government Grants Refundable | 1,933,248 |
| Hedging Derivative Liability | 1,307,911 |
| Long-Term Liabilities, Net (Note 8) | 108,691,584 |
| Total Noncurrent Liabilities | <u>113,038,909</u> |

| | |
|-------------------|--------------------|
| Total Liabilities | <u>124,246,710</u> |
|-------------------|--------------------|

DEFERRED INFLOWS OF RESOURCES

| | |
|--------------------------------------|------------------|
| Deferred Inflows Related to Pensions | <u>3,798,870</u> |
|--------------------------------------|------------------|

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

Exhibit A-1
Page 2 of 2

NET POSITION

| | |
|----------------------------------|-----------------------|
| Net Investment in Capital Assets | 203,641,140 |
| Restricted for: | |
| Nonexpendable: | |
| Scholarships and Fellowships | 4,688,106 |
| Endowed Professorships | 9,943,855 |
| Loans | 813,232 |
| Expendable: | |
| Scholarships and Fellowships | 3,661,901 |
| Research | 275,128 |
| Endowed Professorships | 10,033,951 |
| Departmental Uses | 1,826,897 |
| Capital Projects | 2,138,848 |
| Other | 644 |
| Unrestricted | (6,559,192) |
| Total Net Position | <u>\$ 230,464,510</u> |

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

North Carolina Central 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 11) | \$ 40,212,322 |
| Federal Grants and Contracts | 7,369,377 |
| State and Local Grants and Contracts | 67,083 |
| Nongovernmental Grants and Contracts | 313,177 |
| Sales and Services, Net (Note 11) | 25,213,596 |
| Interest Earnings on Loans | 106,453 |
| Other Operating Revenues | 1,247,404 |
| | <hr/> |
| Total Operating Revenues | 74,529,412 |
| | <hr/> |

EXPENSES

| | |
|------------------------------|---------------|
| Operating Expenses: | |
| Salaries and Benefits | 114,336,857 |
| Supplies and Materials | 12,017,709 |
| Services | 29,211,640 |
| Scholarships and Fellowships | 12,927,598 |
| Utilities | 4,807,433 |
| Depreciation | 8,957,952 |
| | <hr/> |
| Total Operating Expenses | 182,259,189 |
| | <hr/> |
| Operating Loss | (107,729,777) |
| | <hr/> |

NONOPERATING REVENUES (EXPENSES)

| | |
|--|-------------|
| State Appropriations | 80,007,483 |
| Noncapital Grants - Student Financial Aid | 20,601,691 |
| Noncapital Grants | 13,245,732 |
| Noncapital Gifts | 547,193 |
| Investment Income (Net of Investment Expense of \$140,446) | 67,517 |
| Interest and Fees on Debt | (3,843,617) |
| Other Nonoperating Revenues | 809,062 |
| | <hr/> |
| Net Nonoperating Revenues | 111,435,061 |
| | <hr/> |
| Income Before Other Revenues | 3,705,284 |
| Capital Appropriations | 1,502,422 |
| | <hr/> |
| Increase in Net Position | 5,207,706 |

NET POSITION

| | |
|------------------------------|----------------------------|
| Net Position - July 1, 2015 | <hr/> 225,256,804 |
| Net Position - June 30, 2016 | <hr/> <hr/> \$ 230,464,510 |

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

North Carolina Central 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 | \$ 73,465,726 |
| Payments to Employees and Fringe Benefits | (117,858,085) |
| Payments to Vendors and Suppliers | (46,298,455) |
| Payments for Scholarships and Fellowships | (12,927,598) |
| Loans Issued | (319,346) |
| Collection of Loans | 327,856 |
| Interest Earned on Loans | 99,675 |
| Other Receipts | 689,828 |
| | <hr/> |
| Net Cash Used by Operating Activities | (102,820,399) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|--------------|
| State Appropriations | 80,007,483 |
| Noncapital Grants - Student Financial Aid | 20,601,691 |
| Noncapital Grants | 12,687,407 |
| Noncapital Gifts | 547,193 |
| William D. Ford Direct Lending Receipts | 85,524,097 |
| William D. Ford Direct Lending Disbursements | (85,524,097) |
| Related Activity Agency Receipts | 337,602 |
| Other Receipts | 205,274 |
| | <hr/> |
| Net Cash Provided by Noncapital Financing Activities | 114,386,650 |

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

| | |
|---|-------------|
| Proceeds from Capital Debt | 1,610,507 |
| Capital Appropriations | 1,502,422 |
| Acquisition and Construction of Capital Assets | (2,585,373) |
| Principal Paid on Capital Debt and Leases | (3,412,324) |
| Interest and Fees Paid on Capital Debt and Leases | (3,509,867) |
| | <hr/> |
| Net Cash Used by Capital Financing and Related Financing Activities | (6,394,635) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|---------------|
| Proceeds from Sales and Maturities of Investments | 8,207,737 |
| Investment Income | 1,449,241 |
| Purchase of Investments and Related Fees | (6,064,256) |
| | <hr/> |
| Net Cash Provided by Investing Activities | 3,592,722 |
| | <hr/> |
| Net Increase in Cash and Cash Equivalents | 8,764,338 |
| Cash and Cash Equivalents - July 1, 2015 | 26,087,159 |
| | <hr/> |
| Cash and Cash Equivalents - June 30, 2016 | \$ 34,851,497 |

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

Exhibit A-3
Page 2 of 2

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

| | |
|--|--------------------------------|
| Operating Loss | \$ (107,729,777) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 8,957,952 |
| Allowances and Write-Offs | (1,260,346) |
| Pension Expense | 1,125,937 |
| Changes in Assets, Liabilities, and Deferred Outflows of Resources: | |
| Receivables, Net | 189,861 |
| Inventories | 145,354 |
| Notes Receivable, Net | 8,510 |
| Accounts Payable and Accrued Liabilities | 46,885 |
| Due to Primary Government | (54,577) |
| Due to Federal Agencies | (487) |
| Unearned Revenue | 211,398 |
| Deferred Outflows for Contributions Subsequent to the Measurement Date | (4,840,399) |
| US Refundable Grant | 689,829 |
| Compensated Absences | (310,539) |
| | <hr/> |
| Net Cash Used by Operating Activities | <u><u>\$ (102,820,399)</u></u> |

RECONCILIATION OF CASH AND CASH EQUIVALENTS

| | |
|---|-----------------------------|
| Current Assets: | |
| Cash and Cash Equivalents | \$ 23,922,587 |
| Restricted Cash and Cash Equivalents | 7,801,053 |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | 3,127,857 |
| | <hr/> |
| Total Cash and Cash Equivalents - June 30, 2016 | <u><u>\$ 34,851,497</u></u> |

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | |
|---|------------|
| Assets Acquired through the Assumption of a Capital Lease | 603,788 |
| Change in Fair Value of Investments | (919,948) |
| Loss on Disposal of Capital Assets | (150,890) |
| Amortization of Bond Premiums/Discounts | (117,379) |
| Funds Escrowed to Defeasement Debt | 59,864,443 |
| Bond Issuance Cost Withheld | 420,538 |

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

North Carolina Central University Foundation, Inc.
Statement of Financial Position
June 30, 2016

Exhibit B-1

ASSETS

| | | |
|--|----|-------------|
| Cash and Cash Equivalents | \$ | 2,828,711 |
| Investments | | 12,444,180 |
| Cash Surrender Value of Life Insurance | | 264,366 |
| Assets Held in Charitable Trusts and Annuities | | 1,755,188 |
| Receivables, Net | | 785,608 |
| Property and Equipment, Net | | 20,414 |
| | | <hr/> |
| Total Assets | | 18,098,467 |
| | | <hr/> <hr/> |

LIABILITIES

| | | |
|--|--|-------------|
| Accounts Payable and Accrued Liabilities | | 5,955 |
| Funds Held for Others | | 49,187 |
| | | <hr/> |
| Total Liabilities | | 55,142 |
| | | <hr/> <hr/> |

NET ASSETS

| | | |
|----------------------------------|----|-------------|
| Unrestricted | | 694,973 |
| Temporarily Restricted | | 4,380,437 |
| Permanently Restricted | | 12,967,915 |
| | | <hr/> |
| Total Net Assets | | 18,043,325 |
| | | <hr/> |
| Total Liabilities and Net Assets | \$ | 18,098,467 |
| | | <hr/> <hr/> |

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

North Carolina Central University Foundation, Inc.
Statement of Activities and Changes in Net Assets
For the Fiscal Year Ended June 30, 2016

Exhibit B-2

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| REVENUES | | | | |
| Revenues, Gains, and Other Support: | | | | |
| Contributions | \$ 335,600 | \$ 3,693,460 | \$ 685,054 | \$ 4,714,114 |
| Interest and Dividends, Net | 45,341 | 169,227 | 4,032 | 218,600 |
| Realized and Unrealized Loss on Investments | (79,411) | (141,091) | (15,049) | (235,551) |
| Other Income | 55,348 | 10,222 | (93,738) | (28,168) |
| Net Assets Released from Donor Restrictions | <u>3,782,851</u> | <u>(3,782,851)</u> | | |
| Total Revenues, Gains, and Other Support | <u>4,139,729</u> | <u>(51,033)</u> | <u>580,299</u> | <u>4,668,995</u> |
| EXPENSES | | | | |
| Program Services: | | | | |
| Scholarships and Grants | 941,914 | | | 941,914 |
| University Support | 2,691,767 | | | 2,691,767 |
| Management and General | 594,086 | | | 594,086 |
| Provision for Bad Debts | | 6,761 | 76,157 | 82,918 |
| Total Expenses | <u>4,227,767</u> | <u>6,761</u> | <u>76,157</u> | <u>4,310,685</u> |
| Changes in Net Assets Before Net Asset Transfers | <u>(88,038)</u> | <u>(57,794)</u> | <u>504,142</u> | <u>358,310</u> |
| Transfers | <u>(10,277)</u> | <u>8,576</u> | <u>1,701</u> | |
| Changes in Net Assets | (98,315) | (49,218) | 505,843 | 358,310 |
| NET ASSETS | | | | |
| Net Assets at Beginning of Year | <u>793,288</u> | <u>4,429,655</u> | <u>12,462,072</u> | <u>17,685,015</u> |
| Net Assets at End of Year | <u>\$ 694,973</u> | <u>\$ 4,380,437</u> | <u>\$ 12,967,915</u> | <u>\$ 18,043,325</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 Central 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 units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are either blended or discretely presented in the University's financial statements. See below for further discussion of the University's component units.

Blended Component Unit - Although legally separate, the NCCU Real Estate Foundation, Inc. (Real Estate Foundation), a component unit of the University, is reported as if it were part of the University.

The Real Estate Foundation is governed by a five-member board whose purpose is to acquire property and to construct and own residential facilities for students. Because the elected directors of the Real Estate Foundation are appointed by the Chancellor and the Real Estate Foundation's sole purpose is to benefit North Carolina Central University, its financial statements have been blended with those of the University.

Separate financial statements for the Real Estate Foundation may be obtained from the University Controller's Office, 1801 Fayetteville Street, Durham, North Carolina 27707 or by calling 919-530-7432. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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

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

The NCCU Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The NCCU Foundation board consists of 18 members. Although the University does not control the timing or amount of receipts from the NCCU 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 NCCU Foundation can only be used by, or for the benefit of the University, the NCCU 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 NCCU Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2016, the NCCU Foundation distributed \$2,691,767 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University Comptroller's Office, 1801 Fayetteville Street, Durham, North Carolina 27707, or by calling 919-530-7432.

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

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

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

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all

eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market mutual funds that have a remaining maturity at the time of purchase on one year or less are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out method.
- H. 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 | 50-75 years |
| Machinery & Equipment | 5-25 years |
| General Infrastructure | 10-75 years |

Art collections are capitalized at cost or acquisition value at 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, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

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

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 13 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 central stores, copy centers, motor pool, and postal services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and

sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Cash on hand at June 30, 2016 was \$2,400. The carrying amount of the University's deposits not with the State Treasurer was \$1,550,510 and the bank balance was \$1,573,642. 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 uninsured and uncollateralized bank balance was \$1,476,801.

B. Investments

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

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

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

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

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

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

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

Investments are subject to the following risks.

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

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

Short-Term Investment Fund - At June 30, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$33,298,587 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.

UNC Investment Fund, LLC - At June 30, 2016, the University's investments include \$20,252,421 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:

| Investment Type | <i>Non-Pooled Investments</i> | |
|-------------------------------------|---|--------------------|
| | <u>Investment Maturities (in Years)</u> | |
| | <u>Amount</u> | <u>Less Than 1</u> |
| Debt Securities | | |
| Money Market Mutual Funds | \$ 190,370 | \$ 190,370 |
| Other Securities | | |
| Domestic Stocks | <u>8,131,260</u> | |
| Total Non-Pooled Investments | <u><u>\$ 8,321,630</u></u> | |

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

| | <u>Amount</u> | <u>A3</u> |
|---------------------------|-------------------|-------------------|
| Money Market Mutual Funds | <u>\$ 190,370</u> | <u>\$ 190,370</u> |

Rating Agency: Moody's

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

| Investment Type | <u>Amount</u> |
|---------------------------|-----------------------------|
| Debt Securities | |
| Money Market Mutual Funds | \$ 190,370 |
| Other Securities | |
| UNC Investment Fund | 20,252,421 |
| Domestic Stocks | <u>8,131,260</u> |
| Total Investments | <u><u>\$ 28,574,051</u></u> |

Component Unit - Investments of the University's discretely presented component unit, the NCCU Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the NCCU Foundation, Inc. reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

| | <u>Amount</u> |
|------------------------------|----------------------|
| Investment Type | |
| Money Market Funds | \$ 834,116 |
| Equity Securities | 7,861,049 |
| Debt Securities | 1,740,761 |
| U. S. Government Obligations | 1,077,230 |
| Commodities | 203,720 |
| Asset Backed Securities | <u>727,304</u> |
| Total Investments | <u>\$ 12,444,180</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 | \$ 2,400 |
| Amount of Deposits with Private Financial Institutions | 1,550,510 |
| Deposits in the Short-Term Investment Fund | 33,298,587 |
| Investment in the UNC Investment Fund | 20,252,421 |
| Non-Pooled Investments | <u>8,321,630</u> |
| Total Deposits and Investments | <u>\$ 63,425,548</u> |
| Deposits | |
| Current: | |
| Cash and Cash Equivalents | \$ 23,922,587 |
| Restricted Cash and Cash Equivalents | 7,801,053 |
| Noncurrent: | |
| Restricted Cash and Cash Equivalents | <u>3,127,857</u> |
| Total Deposits | <u>34,851,497</u> |
| Investments | |
| Current: | |
| Restricted Short-Term Investments | 1,233,711 |
| Noncurrent: | |
| Endowment Investments | <u>27,340,340</u> |
| Total Investments | <u>28,574,051</u> |
| Total Deposits and Investments | <u>\$ 63,425,548</u> |

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

| | Fair Value Measurements Using | | | |
|--|-------------------------------|---------------------|----------------------|----------------------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Investments by Fair Value Level | | | | |
| Other Securities | | | | |
| Short-Term Investment Fund | \$ 33,298,587 | \$ 0 | \$ 33,298,587 | \$ 0 |
| UNC Investment Fund | 20,252,421 | | | 20,252,421 |
| Domestic Stocks | 8,131,260 | 8,131,260 | | |
| Total Investments by Fair Value Level | \$ 61,682,268 | \$ 8,131,260 | \$ 33,298,587 | \$ 20,252,421 |
| Derivative Instruments | | | | |
| Hedging Derivative Instruments | | | | |
| Interest Rate Swaps | \$ (1,307,911) | \$ 0 | \$ (1,307,911) | \$ 0 |

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

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.

Domestic Stocks - Equity securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Derivative Investments – Derivative instruments classified as Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates. This method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. The fair value is the present value of these payments.

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. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for

expenditure. 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 determined by 5.5% of the 12 quarter moving average of the fund's market value. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation to make up the difference. Expenditures in excess of the payout are authorized by the University's Board of Trustees of the Endowment Fund. At June 30, 2016, net appreciation of \$12,722,270 was available to be spent, of which \$11,662,523 was classified in net position as Restricted Expendable: Scholarships and Fellowships and Restricted Expendable Endowed Professorships, as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016 were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|---------------------------------------|----------------------|---|---------------------|
| Current Receivables: | | | |
| Students | \$ 7,709,481 | \$ 4,500,079 | \$ 3,209,402 |
| Accounts | 973,835 | | 973,835 |
| Intergovernmental | 3,661,436 | | 3,661,436 |
| Interest on Loans | 154,410 | | 154,410 |
| | <u>\$ 12,499,162</u> | <u>\$ 4,500,079</u> | <u>\$ 7,999,083</u> |
| Notes Receivable: | | | |
| Notes Receivable - Current: | | | |
| Federal Loan Programs | <u>\$ 559,488</u> | <u>\$ 371,332</u> | <u>\$ 188,156</u> |
| Notes Receivable - Noncurrent: | | | |
| Federal Loan Programs | <u>\$ 6,656,689</u> | <u>\$ 4,418,783</u> | <u>\$ 2,237,906</u> |

NOTES TO THE FINANCIAL STATEMENTS

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 | \$ 7,274,669 | \$ 285,322 | \$ 0 | \$ 7,559,991 |
| Art, Literature, and Artifacts | 864,840 | | | 864,840 |
| Construction in Progress | 778,398 | 1,258,750 | 2,037,148 | |
| Total Capital Assets, Nondepreciable | 8,917,907 | 1,544,072 | 2,037,148 | 8,424,831 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 331,376,621 | 2,283,689 | | 333,660,310 |
| Machinery and Equipment | 40,329,991 | 1,176,695 | 458,925 | 41,047,761 |
| General Infrastructure | 21,769,608 | | | 21,769,608 |
| Total Capital Assets, Depreciable | 393,476,220 | 3,460,384 | 458,925 | 396,477,679 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 93,388,229 | 5,768,817 | | 99,157,046 |
| Machinery and Equipment | 19,580,902 | 2,329,018 | 308,035 | 21,601,885 |
| General Infrastructure | 12,822,484 | 860,117 | | 13,682,601 |
| Total Accumulated Depreciation | 125,791,615 | 8,957,952 | 308,035 | 134,441,532 |
| Total Capital Assets, Depreciable, Net | 267,684,605 | (5,497,568) | 150,890 | 262,036,147 |
| Capital Assets, Net | \$ 276,602,512 | \$ (3,953,496) | \$ 2,188,038 | \$ 270,460,978 |

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014. The value of the energy savings improvement assets associated with the agreement is \$1,891,638 and is subject to security provisions in the agreement to ensure timely debt service payments. Additional information regarding the UNC System Energy Savings Installment Financing Agreement—Note Payable can be found in Note 8.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

| | Amount |
|---|---------------------|
| Current Accounts Payable and Accrued Liabilities | |
| Accounts Payable | \$ 2,380,876 |
| Accrued Payroll | 1,193,978 |
| Contract Retainage | 100,018 |
| Intergovernmental Payables | 308,252 |
| Other | 9,253 |
| Total Current Accounts Payable and Accrued Liabilities | \$ 3,992,377 |

NOTE 8 - LONG-TERM LIABILITIES

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

| | Balance July 1, 2015 | Additions | Reductions | Balance June 30, 2016 | Current Portion |
|---|-------------------------|----------------------|----------------------|--------------------------|---------------------|
| Revenue Bonds Payable | \$ 71,955,000 | \$ 55,940,000 | \$ 54,675,000 | \$ 73,220,000 | \$ 535,000 |
| Plus: Unamortized Premium | | 5,945,772 | 26,732 | 5,919,040 | |
| Less: Unamortized Discount | (269,526) | | (144,111) | (125,415) | |
| Total Revenue Bonds Payable, Net | 71,685,474 | 61,885,772 | 54,557,621 | 79,013,625 | 535,000 |
| Net Pension Liability | 4,589,911 | 8,791,411 | | 13,381,322 | |
| Notes Payable | 12,221,296 | | 917,639 | 11,303,657 | 1,149,144 |
| Capital Leases Payable | 1,184,898 | 603,788 | 354,685 | 1,434,001 | 338,042 |
| Compensated Absences | 6,840,008 | 4,503,599 | 4,814,138 | 6,529,469 | 948,304 |
| Total Long-Term Liabilities | \$ 96,521,587 | \$ 75,784,570 | \$ 60,644,083 | \$ 111,662,074 | \$ 2,970,490 |

Additional information regarding capital lease obligations is included in Note 10.
Additional information regarding the net pension liability is included in Note 13.

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 | See Table Below |
|--|--------|-----------------------------|---------------------------|--------------------------------|--|---|-----------------------|
| Revenue Bonds Payable | | | | | | | |
| The University of North Carolina System Pool Revenue Bonds | | | | | | | |
| Housing System, Parking Facility | 2009C | 4.0% to 5.5% | 10/01/2034 | \$ 60,675,000 | \$ 60,675,000 | \$ 0 | |
| Refunded Bonds, Deferred Maintenance and Infrastructure Improvements | 2016 | 3.0% to 5.0% | 10/01/2034 | 55,940,000 | | 55,940,000 | |
| Total of The University of North Carolina System Pool Revenue Bonds | | | | 116,615,000 | 60,675,000 | 55,940,000 | |
| NCCU Real Estate Foundation, Inc. | | | | | | | |
| Real Estate Foundation Housing System | 2003A | 3.58% * | 10/01/2034 | 21,475,000 | 4,195,000 | 17,280,000 | (1) |
| Total Revenue Bonds Payable (principal only) | | | | \$ 138,090,000 | \$ 64,870,000 | 73,220,000 | |
| Plus: Unamortized Premium | | | | | | 5,919,040 | |
| Less: Unamortized Discount | | | | | | (125,415) | |
| Total Revenue Bonds Payable, Net | | | | | | \$ 79,013,625 | |

* For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

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

| Ref | Revenue Source | Total Future Revenues Pledged | Current Year | | | Estimate of % of Revenues Pledged |
|-----|------------------|----------------------------------|-----------------------------|------------|-----------|--------------------------------------|
| | | | Revenues Net of Expenses | Principal | Interest | |
| (1) | Housing Revenues | \$ 19,845,860 | \$ 880,683 | \$ 505,000 | \$ 20,854 | 34% |

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

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

Student Housing Facilities Revenue Bonds (Series 2003): In October of 2003, the North Carolina Capital Facilities Finance Agency issued revenue bonds consisting of Series 2003A for \$21,475,000 that has a final maturity date of October 1, 2034. The series was issued to provide funds to the NCCU Real Estate Foundation, Inc. (Real Estate Foundation) for the purpose of financing the acquisition and construction of certain student housing facilities at North Carolina Central University. The bond proceeds were used to fund a portion of construction period interest, to fund a debt service reserve fund for the 2003A bonds, and to pay certain costs of issuance of the bonds. The University entered into a loan agreement with the Real Estate Foundation dated October 1, 2003, whereby the bond proceeds were loaned to the Real Estate Foundation. Under the terms of the loan agreement, the Real Estate Foundation agrees to provide funds for the principal and interest payments due on the bonds. The loan will be repaid over a 30-year period with variable interest rates set on a weekly basis, which was 0.40% for Series 2003A bonds at June 30, 2016. The interest rate can be converted from time to time to another interest rate made at the option of the Foundation given certain established criteria. The 2003A bonds are subject to mandatory sinking fund redemption at the principal amount on the interest payment dates.

The payment of principal and interest on the Series 2003A bonds is secured by an irrevocable, direct-pay letter of credit issued by a financial institution, which originally expired on October 15, 2006. The letter of credit was subsequently extended until September 30, 2019 as agreed to by the NCCU Real Estate Foundation, Inc. and Wells Fargo Bank, N.A. as part of a current year amendment to the existing agreement. The Foundation is entitled to draw up to \$17,475,840. A commitment fee was paid to the financial institution in the amount of \$109,098 for the letter of credit on the date the bonds were issued. The Foundation is required to pay a quarterly fee for the letter of credit of 1.2% per annum based on the unused portion of the letter of credit commitment. The Foundation paid credit facility fees in the amount of \$215,239 during the year ended June 30, 2016. The total amount drawn and paid on the letter of credit for the year ended June 30, 2016 was \$525,854.

Under the letter of credit agreement, the proceeds of each drawing under the letter of credit to pay the portion of the purchase price of Series 2003A bonds allocable to principal will constitute a tender advance and must be reimbursed as provided in the agreement. The Real Estate Foundation is required to repay each tender advance to Wells Fargo

Bank, N.A. plus an interest rate of prime plus 1.0%. According to the Reimbursement Agreement Amendment dated May 2008, the amount of any tender advance made is repaid based on the earliest to occur of the date the credit provider bonds purchased pursuant to such tender advances are remarketed, the close of business on the date that is 366 days after the tender was made, and/or the termination date.

The Series 2003A bonds have remarketing fees, an upfront charge paid to the remarketing agent to reset the interest rates on a weekly basis. At June 30, 2016, the remarketing fee rate for the bonds was 0.125%. During the year ended June 30, 2016, the Foundation paid remarketing fees of \$21,587.

Swap Payments and Associated Debt: As rates vary, variable-rate debt and net swap payments will vary. As of June 30, 2016, debt service requirements of the University's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their terms were as follows:

| Fiscal Year | Interest Rate Swap | | | | | Total |
|---------------------------|----------------------|-------------------|---------------------|-------------------|--------------------------|----------------------|
| | Principal | Interest | Letter of Credit | Remarketing | Interest Rate Swaps, Net | |
| 2017 | \$ 535,000 | \$ 67,658 | \$ 202,975 | \$ 21,198 | \$ 215,305 | \$ 1,042,136 |
| 2018 | 565,000 | 65,424 | 196,272 | 20,503 | 208,194 | 1,055,393 |
| 2019 | 595,000 | 63,069 | 189,209 | 19,770 | 200,700 | 1,067,748 |
| 2020 | 630,000 | 60,744 | 182,232 | 19,047 | 192,775 | 1,084,798 |
| 2021 | 665,000 | 57,950 | 173,849 | 18,178 | 184,404 | 1,099,381 |
| 2022-2026 | 3,915,000 | 245,103 | 735,309 | 76,998 | 536,804 | 5,509,214 |
| 2027-2031 | 5,135,000 | 153,666 | 460,998 | 48,549 | | 5,798,213 |
| 2032-2036 | 5,240,000 | 38,286 | 114,857 | 12,504 | | 5,405,647 |
| Total Requirements | \$ 17,280,000 | \$ 751,900 | \$ 2,255,701 | \$ 236,747 | \$ 1,538,182 | \$ 22,062,530 |

D. 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 | Interest Rate Swaps, Net | Principal | Interest |
| 2017 | \$ 535,000 | \$ 1,927,658 | \$ 215,305 | \$ 1,149,144 | \$ 372,868 |
| 2018 | 565,000 | 2,297,424 | 208,194 | 1,198,186 | 339,936 |
| 2019 | 2,385,000 | 2,268,219 | 200,700 | 1,247,164 | 305,379 |
| 2020 | 3,060,000 | 2,190,444 | 192,775 | 1,293,468 | 269,192 |
| 2021 | 3,190,000 | 2,088,550 | 184,404 | 1,339,147 | 231,401 |
| 2022-2026 | 18,545,000 | 8,388,853 | 536,804 | 4,448,739 | 599,288 |
| 2027-2031 | 23,180,000 | 4,375,016 | | 627,809 | 30,198 |
| 2032-2036 | 21,760,000 | 1,048,236 | | | |
| Total Requirements | \$ 73,220,000 | \$ 24,584,400 | \$ 1,538,182 | \$ 11,303,657 | \$ 2,148,262 |

The effective interest rate on the variable rate Student Housing Facilities Revenue Bonds (including the effect of the swap) is calculated at 3.58% at June 30, 2016. Interest rates are reset each week by the remarketing agent based upon a combination of the University's credit rating and market conditions. This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 9 Derivative Instruments.

E. Bond Defeasance - The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows: On June 1, 2016, the University issued \$54,585,000 in 2016 Revenue Refunding Bonds with an average interest rate of 3.74%. The bonds were issued to advance refund \$52,535,000 of outstanding 2009C Pool Revenue Bonds with an average interest rate of 5.33%. 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 \$5,418,814 over the next 18 years and resulted in an economic gain of \$5,237,533. At June 30, 2016, the outstanding balance was \$52,535,000 for the defeased 2009C Pool Revenue Bonds.

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2016, the outstanding balance of prior year defeased bonds was \$7,850,000.

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

| Purpose | Financial Institution | Interest Rate | Final Maturity Date | Original Amount of Issue | Principal Paid Through June 30, 2016 | Principal Outstanding June 30, 2016 |
|------------------------------|--------------------------------------|---------------|---------------------|--------------------------|--------------------------------------|-------------------------------------|
| Energy Performance Contract | Fifth Third Bank | 4.81% | 12/09/2026 | \$ 6,532,959 | \$ 1,215,260 | \$ 5,317,699 |
| 2014 Refund Note-2004B Bonds | PNC Bank National Association | 2.06% | 04/01/2023 | 4,987,000 | 1,018,000 | 3,969,000 |
| UNC ESCO Energy Project | Bank of America Public Capital Corp. | 1.84% | 02/14/2023 | 2,082,589 | 65,631 | 2,016,958 |
| Total Notes Payable | | | | <u>\$ 13,602,548</u> | <u>\$ 2,298,891</u> | <u>\$ 11,303,657</u> |

NOTE 9 - DERIVATIVE INSTRUMENTS

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

| Type | Notional | Change in Fair Value | | Fair Value at June 30, 2016 | |
|--|--------------|-------------------------------|------------|-----------------------------|--------------|
| | | Classification | Decrease | Classification | Liability |
| <i>Hedging Derivative Instruments</i> | | | | | |
| <i>Cash Flow Hedges</i> | | | | | |
| Pay-Fixed Interest Rate Swap 2003A Bonds | \$ 6,912,000 | Deferred Outflow of Resources | \$ 244,874 | Hedging Derivative | \$ 1,307,911 |

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

| Type | Objective | Notional Amount | Effective Date | Maturity Date | Terms |
|--------------------------------|---------------------------|-----------------|----------------|---------------|-------------|
| Hedging Derivative Instruments | Hedge of Changes in Cash | | | | |
| Cash Flow Hedges | Flows on the Student | | | | Pay 3.515% |
| Pay-Fixed Interest Rate | Facilities Revenue Series | | | | Receive 70% |
| Swap 2003A Bonds | 2003A Bonds | \$ 6,912,000 | 4/1/2004 | 10/1/2024 | 1 Mo. LIBOR |

The fair value of the pay-fixed interest rate swap was developed by the financial institution. This method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. The fair value is the present value of these payments.

The University's interest rate swap hedging derivative has been determined to be effective as of June 30, 2016 using the regression analysis method.

Hedging Derivative Risks

Credit Risk: At June 30, 2016, the NCCU Real Estate Foundation, Inc. (Foundation) was not exposed to credit risk because the swap had a negative fair value. When the fair value of the swap is negative, the Foundation owes the counterparty and, therefore, it does not possess credit risk. However, should interest rates change and the fair value of the swap becomes positive, the Foundation would be exposed to credit risk. Wells Fargo's current long-term ratings are Aa2 by Moody's Investor's Service and AA- by Standard & Poor's Corporation (S&P).

Interest Rate Risk: The Foundation is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. Because bonds are trading at a yield above 70% of USD-LIBOR-BBA Index, the swap has a negative fair value as of June 30, 2016.

Basis Risk: The swap exposes the Foundation to basis risk when the variable payment received is based on an index other than SIFMA. Should the relationship between LIBOR and SIFMA converge, the synthetic rates on the debt would change. The Foundation receives 70% of 1-month USD-LIBOR-BBA Index. If the relationship of the Foundation's bonds trade to a percentage of LIBOR greater than 70%, the Foundation will experience an increase in debt service above the fixed rate on the swap. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.52% and the actual rate of 3.58% at June 30, 2016. As of June 30, 2016, the rate on the Foundation's bonds was 0.40% whereas 70% of LIBOR was 0.325%.

Termination Risk: The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the Foundation being required to make an unanticipated termination payment.

Rollover Risk: The University is exposed to rollover risk when the swap matures on October 1, 2024. When the swap matures, the interest rate on the underlying debt will return to a variable rate until it matures on October 1, 2034.

NOTE 10 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to general infrastructure and machinery and equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2016:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--|---------------------|
| 2017 | \$ 394,730 |
| 2018 | 300,322 |
| 2019 | 212,780 |
| 2020 | <u>664,310</u> |
| Total Minimum Lease Payments | 1,572,142 |
| Amount Representing Interest (2.98% to 7.9% Rate of Interest) | <u>138,141</u> |
| Present Value of Future Lease Payments | <u>\$ 1,434,001</u> |

Building improvements, of \$246,541 were made under capital lease at June 30, 2016. General infrastructure acquired under capital lease amounted to \$566,900 and machinery and equipment acquired under capital lease amounted to \$1,414,248 at June 30, 2016.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$301,506 at June 30, 2016.

B. Operating Lease Obligations - The University entered into operating leases for rental of real property for athletic events and storage for copier rentals. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

| <u>Fiscal Year</u> | <u>Amount</u> |
|------------------------------|-------------------|
| 2017 | \$ 237,828 |
| 2018 | 234,286 |
| 2019 | 193,964 |
| 2020 | 193,964 |
| 2021 | <u>109,985</u> |
| Total Minimum Lease Payments | <u>\$ 970,027</u> |

Rental expense for all operating leases during the year was \$879,533.

NOTE 11 - REVENUES

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

| | Gross Revenues | Internal Sales Eliminations | Less Scholarship Discount | Less Allowance for Uncollectibles | Net Revenues |
|--|----------------------|-----------------------------|---------------------------|-----------------------------------|----------------------|
| Operating Revenues: | | | | | |
| Student Tuition and Fees, Net | \$ 55,837,681 | \$ 0 | \$ 15,039,378 | \$ 585,981 | \$ 40,212,322 |
| Sales and Services: | | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | | |
| Residential Life | \$ 15,005,155 | \$ 61,400 | \$ 3,408,632 | \$ 0 | \$ 11,535,123 |
| Dining | 9,440,470 | 203,485 | 2,516,933 | | 6,720,052 |
| Student Union Services | 1,533,574 | 1,394 | 408,521 | | 1,123,659 |
| Health, Physical Education, and Recreational Services | 909,258 | 1,189 | 242,213 | | 665,856 |
| Bookstore | 210,808 | | | | 210,808 |
| Parking | 1,543,635 | 496,485 | | | 1,047,150 |
| Athletic | 1,850,575 | 452,830 | 510,009 | | 887,736 |
| Other | 1,968,489 | 87,629 | | | 1,880,860 |
| Sales and Services of Education and Related Activities | 2,016,939 | 874,587 | | | 1,142,352 |
| Total Sales and Services | \$ 34,478,903 | \$ 2,178,999 | \$ 7,086,308 | \$ 0 | \$ 25,213,596 |

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

| | Salaries and Benefits | Supplies and Materials | Services | Scholarships and Fellowships | Utilities | Depreciation | Total |
|-------------------------------------|-----------------------|------------------------|----------------------|------------------------------|---------------------|---------------------|-----------------------|
| Instruction | \$ 62,128,743 | \$ 4,099,366 | \$ 6,941,950 | \$ 0 | \$ 5,673 | \$ 0 | \$ 73,175,732 |
| Research | 3,881,716 | 830,352 | 1,051,338 | | | | 5,763,406 |
| Public Service | 603,254 | 8,216 | 116,998 | | | | 728,468 |
| Academic Support | 12,400,562 | 3,402,501 | 1,540,215 | | | | 17,343,278 |
| Student Services | 3,694,684 | 337,744 | 1,181,228 | | | | 5,213,656 |
| Institutional Support | 9,710,996 | 649,456 | 3,476,265 | | | | 13,836,717 |
| Operations and Maintenance of Plant | 7,590,048 | 655,664 | 1,429,369 | | 4,412,713 | | 14,087,794 |
| Student Financial Aid | 1,403,158 | 96 | 25,111 | 12,927,598 | | | 14,355,963 |
| Auxiliary Enterprises | 11,797,759 | 2,034,314 | 13,449,166 | | 389,047 | | 27,670,286 |
| Pension Expense | 1,125,937 | | | | | | 1,125,937 |
| Depreciation | | | | | | 8,957,952 | 8,957,952 |
| Total Operating Expenses | \$ 114,336,857 | \$ 12,017,709 | \$ 29,211,640 | \$ 12,927,598 | \$ 4,807,433 | \$ 8,957,952 | \$ 182,259,189 |

NOTE 13 - PENSION PLANS

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The University's contributions to the pension plan were \$4,840,399, and employee contributions were \$3,174,032 for the year ended June 30, 2016.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are

due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

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

Net Pension Liability: At June 30, 2016, the University reported a liability of \$13,381,322 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the University's proportion was 0.363%, which was a decrease of 0.028 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%) |
| \$ 40,274,088 | \$ 13,381,322 | \$ (9,440,290) |

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 \$1,125,937. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Difference Between Actual and Expected Experience | \$ 0 | \$ 1,521,456 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | | 1,449,753 |
| Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions | 143,218 | 827,661 |
| Contributions Subsequent to the Measurement Date | 4,840,399 | |
| Total | \$ 4,983,617 | \$ 3,798,870 |

The amount of \$4,840,399 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 | \$ (1,920,273) |
| 2018 | (1,920,273) |
| 2019 | (1,876,060) |
| 2020 | <u>2,060,954</u> |
| Total | <u>\$ (3,655,652)</u> |

B. Defined Contribution Plan - The Optional Retirement Program (Program) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of 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 \$91,888,174, of which \$25,305,087 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,730,868 and \$1,518,305, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions.

NOTE 14 - 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 \$4,379,515, \$4,034,776 and \$4,212,332, 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 \$320,643, \$301,322, and \$343,227 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 15 - 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. The University maintains Broad Form Coverage on all University buildings, including those not supported by the General Fund. Broad Form covers loss from fire and lightning as well as, falling objects, weight of snow, ice or sleet, water damage, collapse, and glass breakage. All buildings have a \$5,000 deductible.

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These types of insurance include Master Musical Insurance to cover musical instruments owned by the University; Fine Art insurance to protect items considered works of art; Boiler and Machinery insurance to cover heavy equipment; and Postal Bond insurances to cover possible losses of United States Postal Service property.

The University also carries professional internship insurance on students working in health fields. Departments that secure this coverage include Nursing, Psychology, Communication Disorders, Physical Education and Recreation, Athletic Training and Social Work. Medical Liability insurance is carried on employees of the University who are accredited medical professionals and who practice in a clinical setting on campus.

NOTE 16 - 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 \$673,331 at June 30, 2016.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 17 - BLENDED COMPONENT UNIT

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

*Condensed Statement of Net Position
June 30, 2016*

| | NCCU | NCCU Real Estate Foundation, Inc | Eliminations | Total |
|--------------------------------------|-----------------------|-------------------------------------|--------------------|-----------------------|
| ASSETS | | | | |
| Current Assets | \$ 39,501,543 | \$ 6,164,402 | \$ (3,761,903) | \$ 41,904,042 |
| Capital Assets | 256,278,104 | 14,182,874 | | 270,460,978 |
| Other Noncurrent Assets | 32,707,335 | | | 32,707,335 |
| Total Assets | <u>328,486,982</u> | <u>20,347,276</u> | <u>(3,761,903)</u> | <u>345,072,355</u> |
| Total Deferred Outflows of Resources | <u>12,129,824</u> | <u>1,307,911</u> | | <u>13,437,735</u> |
| LIABILITIES | | | | |
| Current Liabilities | 10,467,578 | 4,502,126 | (3,761,903) | 11,207,801 |
| Long-Term Liabilities, Net | 94,507,488 | 17,154,586 | | 111,662,074 |
| Other Noncurrent Liabilities | 603,924 | 772,911 | | 1,376,835 |
| Total Liabilities | <u>105,578,990</u> | <u>22,429,623</u> | <u>(3,761,903)</u> | <u>124,246,710</u> |
| Total Deferred Inflows of Resources | <u>3,798,870</u> | | | <u>3,798,870</u> |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 205,064,969 | (1,423,829) | | 203,641,140 |
| Restricted - Nonexpendable | 15,445,193 | | | 15,445,193 |
| Restricted - Expendable | 17,937,369 | | | 17,937,369 |
| Unrestricted | (7,208,585) | 649,393 | | (6,559,192) |
| Total Net Position | <u>\$ 231,238,946</u> | <u>\$ (774,436)</u> | <u>\$ 0</u> | <u>\$ 230,464,510</u> |

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

| | NCCU | NCCU Real Estate Foundation, Inc. | Eliminations | Total |
|---|-----------------------|--------------------------------------|--------------------|-----------------------|
| OPERATING REVENUES | | | | |
| Operating Revenues | \$ 74,529,412 | \$ 2,349,960 | \$ (2,349,960) | \$ 74,529,412 |
| OPERATING EXPENSES | | | | |
| Operating Expenses | 174,335,424 | 1,315,773 | (2,349,960) | 173,301,237 |
| Depreciation | 8,555,719 | 402,233 | | 8,957,952 |
| Total Operating Expenses | <u>182,891,143</u> | <u>1,718,006</u> | <u>(2,349,960)</u> | <u>182,259,189</u> |
| Operating Income (Loss) | <u>(108,361,731)</u> | <u>631,954</u> | | <u>(107,729,777)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State Appropriations | 80,007,483 | | | 80,007,483 |
| Noncapital Grants and Gifts | 34,394,616 | | | 34,394,616 |
| Investment Income | 67,408 | 109 | | 67,517 |
| Other Nonoperating Expenses | (2,533,835) | (500,720) | | (3,034,555) |
| Net Nonoperating Revenues (Expenses) | <u>111,935,672</u> | <u>(500,611)</u> | | <u>111,435,061</u> |
| Capital Appropriations | <u>1,502,422</u> | | | <u>1,502,422</u> |
| Increase in Net Position | 5,076,363 | 131,343 | | 5,207,706 |
| NET POSITION | | | | |
| Net Position, July 1, 2015 | <u>226,162,583</u> | <u>(905,779)</u> | | <u>225,256,804</u> |
| Net Position, June 30, 2016 | <u>\$ 231,238,946</u> | <u>\$ (774,436)</u> | <u>\$ 0</u> | <u>\$ 230,464,510</u> |

Condensed Statement of Cash Flows

June 30, 2016

| | NCCU | NCCU Real Estate Foundation, Inc. | Total |
|---|------------------|--------------------------------------|------------------|
| Net Cash Provided (Used) by Operating Activities | \$ (104,324,678) | \$ 1,504,279 | \$ (102,820,399) |
| Net Cash Provided by Noncapital Financing Activities | 114,386,650 | | 114,386,650 |
| Net Cash Used by Capital and Related Financing Activities | (5,374,229) | (1,020,406) | (6,394,635) |
| Net Cash Provided by Investing Activities | 3,592,722 | | 3,592,722 |
| Net Increase in Cash and Cash Equivalents | 8,280,465 | 483,873 | 8,764,338 |
| Cash and Cash Equivalents, July 1, 2015 | 20,415,004 | 5,672,155 | 26,087,159 |
| Cash and Cash Equivalents, June 30, 2016 | \$ 28,695,469 | \$ 6,156,028 | \$ 34,851,497 |

NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

GASB Statement No. 72 - Fair Value Measurement and Application

GASB Statement No. 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68

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

GASB Statement No. 79 - Certain External Investment Pools and Pool Participants

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

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68 - *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67 - *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

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

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



REQUIRED SUPPLEMENTARY INFORMATION

**North Carolina Central 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 | 0.363% | 0.391% | 0.394% |
| Proportionate Share of TSERS Collective Net Pension Liability | \$ 13,381,322 | \$ 4,589,911 | \$ 23,919,815 |
| Covered-Employee Payroll | \$ 48,803,246 | \$ 54,290,369 | \$ 55,276,382 |
| Net Pension Liability as a Percentage of Covered-Employee Payroll | 27.42% | 8.45% | 43.27% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 94.64% | 98.24% | 90.60% |

**North Carolina Central 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 | \$ 4,840,399 | \$ 4,465,497 | \$ 4,717,833 | \$ 4,604,523 | \$ 4,155,823 |
| Contributions in Relation to the Contractually Determined Contribution | <u>4,840,399</u> | <u>4,465,497</u> | <u>4,717,833</u> | <u>4,604,523</u> | <u>4,155,823</u> |
| Contribution Deficiency (Excess) | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| Covered-Employee Payroll | \$ 52,900,534 | \$ 48,803,246 | \$ 54,290,369 | \$ 55,276,382 | \$ 55,857,838 |
| Contributions as a Percentage of Covered-Employee Payroll | 9.15% | 9.15% | 8.69% | 8.33% | 7.44% |

| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|------------------|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$ 2,762,230 | \$ 2,335,363 | \$ 2,075,446 | \$ 1,867,940 | \$ 1,386,335 |
| Contributions in Relation to the Contractually Determined Contribution | <u>2,762,230</u> | <u>2,335,363</u> | <u>2,075,446</u> | <u>1,867,940</u> | <u>1,386,335</u> |
| Contribution Deficiency (Excess) | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| Covered-Employee Payroll | \$ 56,029,005 | \$ 65,416,340 | \$ 61,769,224 | \$ 61,243,936 | \$ 52,117,847 |
| Contributions as a Percentage of Covered-Employee Payroll | 4.93% | 3.57% | 3.36% | 3.05% | 2.66% |

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

Changes of Benefit Terms:

Cost of Living Increase

| 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 1.00% | N/A | 1.00% | N/A | N/A | N/A | 2.20% | 2.20% | 3.00% | 2.00% |

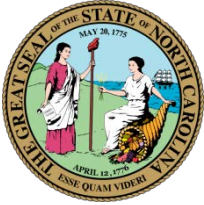
Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were

*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 Central University
Durham, 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 Central 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 14, 2016. Our report includes a reference to other auditors who audited the financial statements of the NCCU Real Estate Foundation, Inc. and the NCCU Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the NCCU Real Estate Foundation, Inc. and the NCCU 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 those entities.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 14, 2016

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

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

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

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



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



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

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



This audit required 845 hours at an approximate cost of \$87,035.00.