

STATE OF NORTH CAROLINA

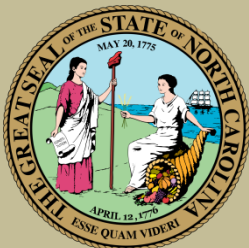
OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

CHARLOTTE, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2017

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



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The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, The University of North Carolina at Charlotte

We have completed a financial statement audit of The University of North Carolina at Charlotte for the year ended June 30, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood, CPA
State Auditor

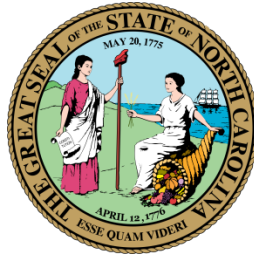


Beth A. Wood, CPA
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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Charlotte (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., which represent 4.88 percent, 6.61 percent, and 1.07 percent respectively, of the assets, net position, and revenues of the University; nor the financial statements of The University of North Carolina at Charlotte Facilities Development Corporation, Inc., which represent 0.95 percent, 0.33 percent, and 0.15 percent respectively, of the assets, net position, and revenues of the University. In addition, we did not audit the financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., the University's discretely presented component unit. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial

statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and The Foundation of the University of North Carolina at Charlotte, Inc., were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Charlotte, and its discretely presented component unit, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

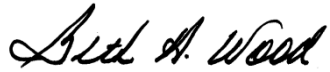
Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the

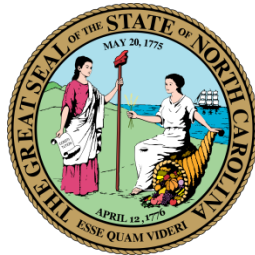
results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 20, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The University of North Carolina at Charlotte (UNC Charlotte or University) provides the following discussion and analysis as an overview of the University's financial position and activities for the year ended June 30, 2017, and to provide assistance in understanding the accompanying financial statements and notes. Comparative information for the year ended June 30, 2016 is included, emphasizing current year data and material changes between the two fiscal years, as well as information on currently known facts, decisions, and conditions affecting the financial affairs of the University.

Using the Financial Statements

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

UNC Charlotte is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*. Note that while the Foundation of the University of North Carolina at Charlotte, Inc. (Foundation) is reported as a discretely presented component unit of the University due to the nature and significance of its relationship to the University, this discussion and analysis excludes it except where specifically noted.

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

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

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

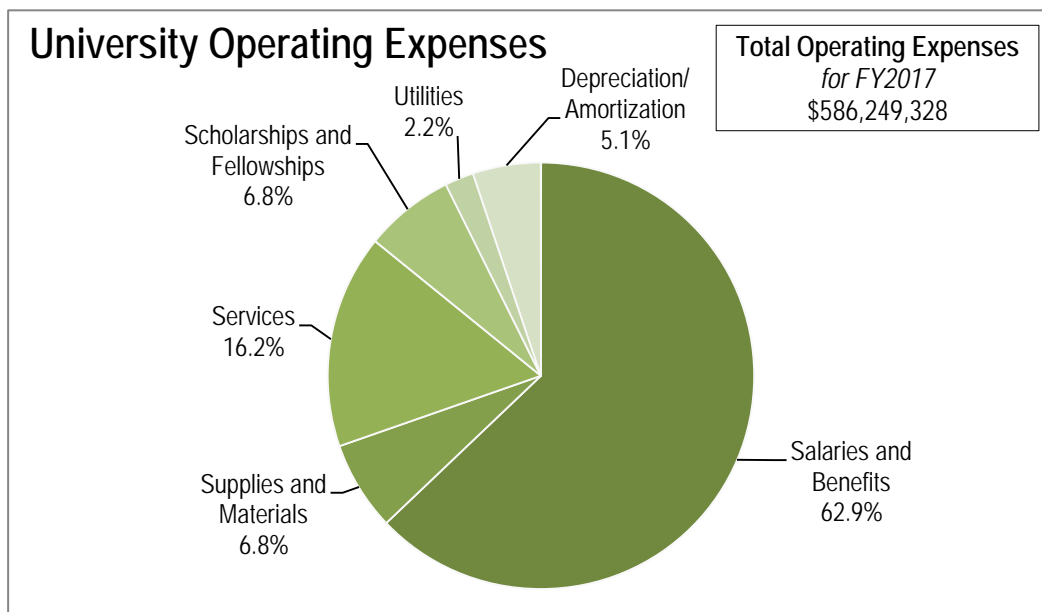
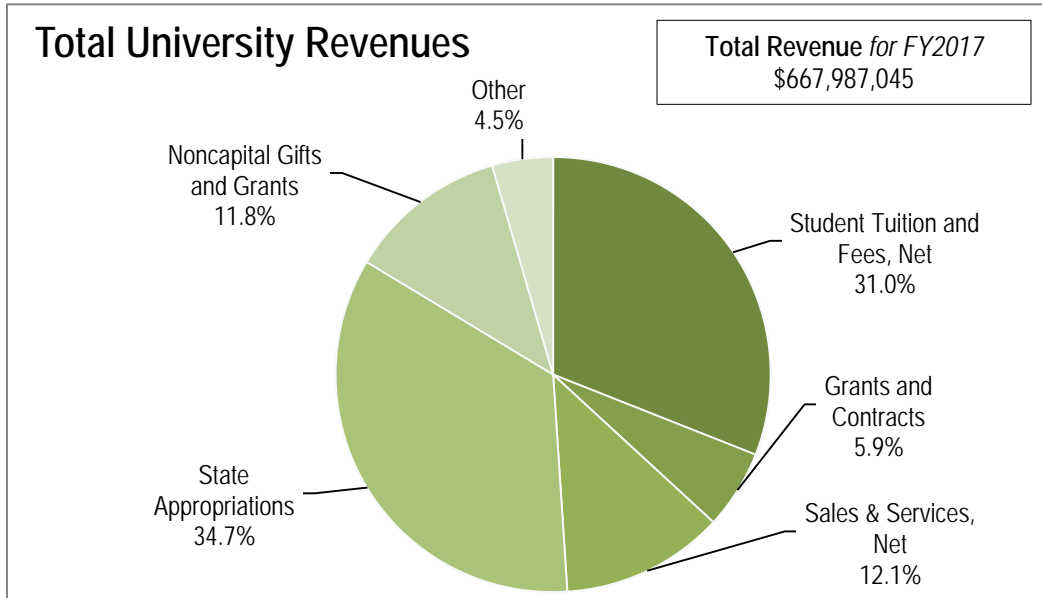
- Statement of Financial Position
- Statement of Activities

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

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

Financial Highlights

The University's total assets increased this fiscal year by 2.9%, or \$49.3 million, to \$1.72 billion at June 30, 2017. Net position increased by \$59.0 million during the year, to \$1.1 billion, reflecting continued growth and overall financial strength. The change in net position is a key measure of the sum effect of the University's fiscal year activities on its financial health. More than a half-billion dollars were spent to operate the University this year (\$586.2 million), and revenues of \$668.0 million were recognized. Revenues and operating expenses as percentages of totals are shown below.

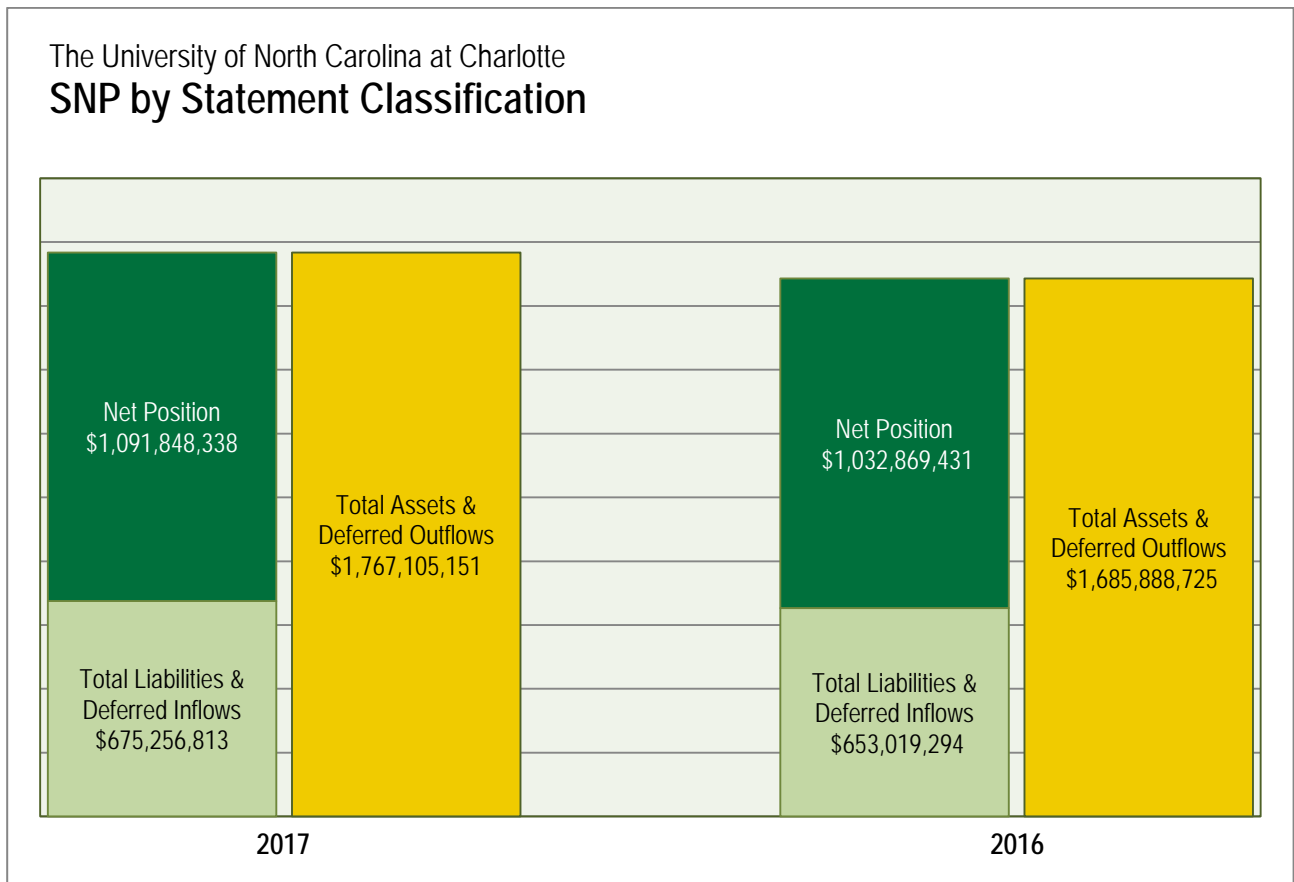


Comparative Condensed Financial Statement Information

Statement of Net Position

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

The following graph presents a comparison of net position and the categories that comprise net position at June 30, 2017, and June 30, 2016:



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

The following table summarizes and compares condensed balances as reported on the University's SNP as of June 30, 2017, and June 30, 2016.

Condensed Statement of Net Position	2017	2016	Change	
			Amount	Percent
Assets:				
Current Assets	\$ 289,731,008	\$ 279,733,220	\$ 9,997,788	3.6%
Noncurrent Assets:				
Endowment and Other Investments	88,779,903	83,941,717	4,838,186	5.8%
Capital Assets, Net	1,296,464,768	1,239,260,548	57,204,220	4.6%
Other Noncurrent Assets	46,142,334	68,905,672	(22,763,338)	-33.0%
Total Assets	1,721,118,013	1,671,841,157	49,276,856	2.9%
Deferred Outflows of Resources:				
Deferred Loss on Refunding	3,489,229	3,809,597	(320,368)	-8.4%
Deferred Outflows Related to Pensions	42,497,909	10,237,971	32,259,938	315.1%
Total Deferred Outflows of Resources	45,987,138	14,047,568	31,939,570	227.4%
Liabilities:				
Current Liabilities	49,108,627	45,556,170	3,552,457	7.8%
Noncurrent Liabilities:				
Funds Held in Trust	11,884,281	10,414,546	1,469,735	14.1%
Long-Term Liabilities, Net	605,799,308	575,653,426	30,145,882	5.2%
Other Noncurrent Liabilities	5,564,786	15,879,091	(10,314,305)	-65.0%
Total Liabilities	672,357,002	647,503,233	24,853,769	3.8%
Deferred Inflows of Resources:				
Deferred Gain on Refunding	28,466	30,071	(1,605)	-5.3%
Deferred Inflows Related To Pensions	2,871,345	5,485,990	(2,614,645)	-47.7%
Total Deferred Inflows of Resources	2,899,811	5,516,061	(2,616,250)	-47.4%
Net Position:				
Net Investment in Capital Assets	784,462,871	734,905,763	49,557,108	6.7%
Restricted:				
Nonexpendable	46,960,389	44,524,012	2,436,377	5.5%
Expendable	49,770,635	45,911,148	3,859,487	8.4%
Unrestricted	210,654,443	207,528,508	3,125,935	1.5%
Total Net Position	\$ 1,091,848,338	\$ 1,032,869,431	\$ 58,978,907	5.7%

Net position increased to \$1.1 billion as of June 30, 2017, reflecting continued growth of the University. Other highlights of the information presented on the SNP:

- Current assets are those that are available to pay for current liabilities or current year expenditures. Current assets increased by \$10.0 million in fiscal year 2017, or 3.6%, primarily due to an \$11.8 million increase in current cash and cash equivalents (unrestricted and restricted). Current unrestricted cash increased by \$2.8 million primarily due to an increase in auxiliary fund operating results. Current restricted cash increased by \$8.9 million primarily due to a \$2.1 million reclassification from investments based on the UNC Charlotte Investment Fund ("UNCCIF") financial statement classifications and an increase in cash on hand to cover current debt service and construction related liabilities. The increase in current cash was offset by a decrease in receivables of \$1.2 million related to net decreases in both student and grant-related receivables.

- Total noncurrent assets increased by \$39.3 million, or 2.8%, during the fiscal year, primarily due to an increase in net capital assets of \$57.2 million (discussed in detail in the Capital Assets and Debt Administration section). This was offset by a decrease in noncurrent restricted cash and cash equivalents of \$22.5 million due to both a decrease in noncurrent restricted construction and debt related cash on hand at the end of the year and a divestment by the University's foundation in the Short-Term Investment Fund. Total endowment and other investments increased by \$4.8 million, or 5.8%, mainly due to improved overall investment performance offset by a reclassification of funds to cash based on UNCCIF financial statement classifications.
- Total deferred outflows of resources increased by \$31.9 million during the fiscal year. This change is primarily due to an increase in deferred outflows related to pensions of \$32.3 million, mainly related to lower than projected earnings on state pension plan investments, along with changes in pension liability calculation assumptions and current year employer contributions that are made after the measurement date.
- Total liabilities increased by \$24.8 million, or 3.8%, to \$672.4 million at June 30, 2017.
 - Current liabilities, those that are due and payable in the next fiscal year, increased by \$3.5 million primarily due to increases in unearned revenue related to grants and contracts and accounts payable.
 - Noncurrent liabilities increased by \$21.3 million, or 3.5%, during the fiscal year. The University's portion of the net pension liability increased by \$36.0 million to \$60.8 million at year end, mainly due to lower than projected earnings on state pension plan investments. The increase in the pension liability is recognized as deferred outflows related to pensions on the SNP and will be amortized as an increase in pension expense over the next four fiscal years. New bond anticipation note drawdowns were \$11.8 million during the fiscal year; this increase was offset by an \$18.1 million decrease in other noncurrent long-term debt outstanding, reflecting debt principal payments and bond premium and discount amortization during the year. Funds held for others decreased by \$10.1 million due to the divestment by the University's foundation in the Short-Term Investment Fund. Other minor increases were seen in compensated absences and funds held in trust for pool participants.
- Total deferred inflows of resources decreased by \$2.6 million during the fiscal year, attributable primarily to a \$2.6 million decrease in deferred inflows related to pensions to \$2.9 million, which represents net differences between expected and actual experience with regard to economic and demographic factors in the measurement of the total pension liability.
- Net Position is divided into three major categories:
 - Net Investment in Capital Assets: Represents the University's net equity in material property, plant, and equipment owned by the University, which increased by \$49.6 million this fiscal year. Reference the Capital Assets and Debt Administration section for further details.
 - Restricted Net Position
 - Nonexpendable: The corpus of nonexpendable restricted resources (e.g., endowments) that is available for investment purposes. The University's

nonexpendable net position increased by \$2.4 million, mainly for new endowed professorship and scholarship funds.

- **Expendable:** Restricted resources that must be spent for purposes as determined by donors and external entities that have placed time or purpose restrictions on the use of the assets. The University's increase in expendable restricted net position of \$3.9 million was mainly related to restricted professorships.
- **Unrestricted Net Position:** Represents net equity available for any lawful purpose of the University. The University's unrestricted net position increased by \$3.1 million, or 1.5%. The increase mainly relates to increases in auxiliary and trust fund unrestricted operating results.
- The University's liquidity remains strong with a current ratio of 5.9. This current ratio, defined as current assets divided by current liabilities, indicates that the University, if needed, could satisfy payment of its current liabilities approximately six times before current assets were exhausted. Total working capital (current assets less current liabilities) of \$240.6 million at June 30, 2017, increased by \$6.4 million, or 2.8%, from the prior year, due to the overall increase in current assets and relatively small increase in current liabilities discussed above.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

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

The following table summarizes and compares the University's results of operations for the fiscal years ended June 30, 2017, and June 30, 2016.

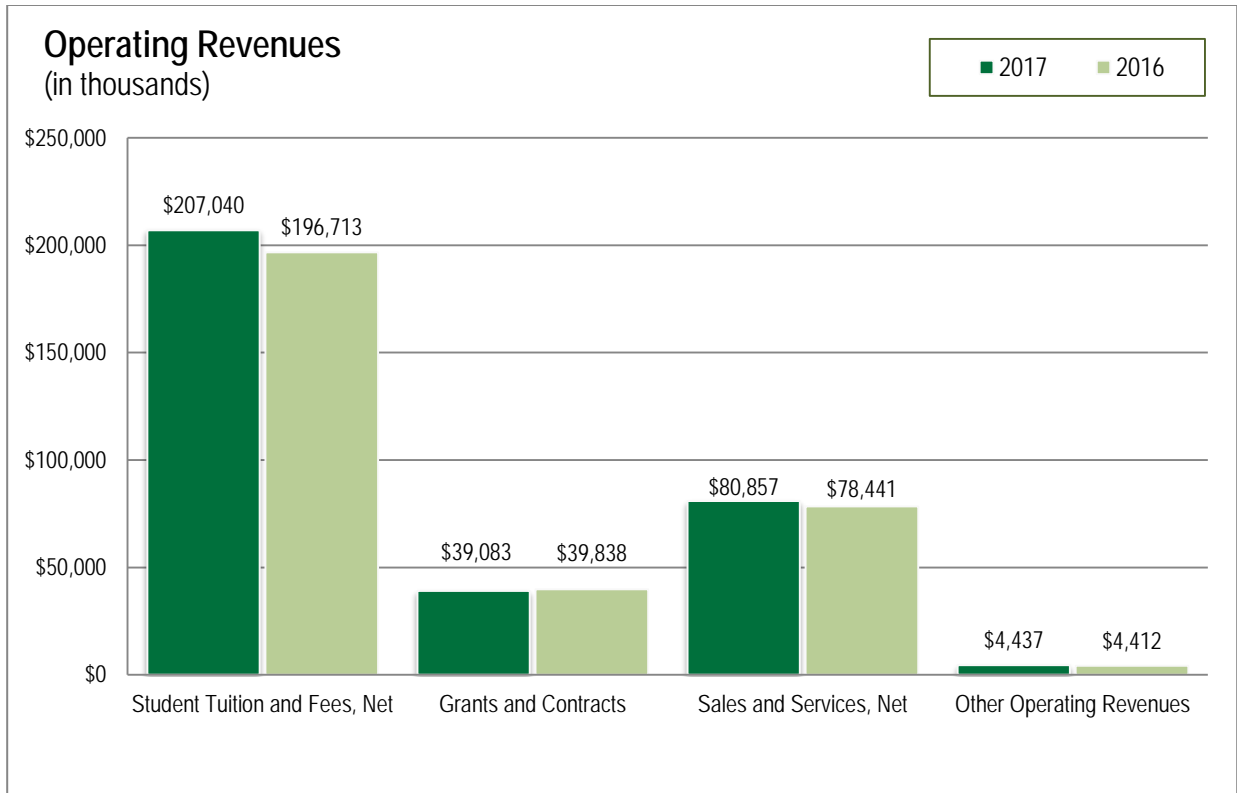
Condensed Statement of Revenues, Expenses, and Changes in Net Position	2017	2016	Change	
			Amount	Percent
Operating Revenues:				
Student Tuition and Fees, Net	\$ 207,040,145	\$ 196,713,375	\$ 10,326,770	5.2%
Grants and Contracts	39,083,268	39,837,583	(754,315)	-1.9%
Sales and Services, Net	80,856,639	78,440,531	2,416,108	3.1%
Other	4,437,354	4,412,149	25,205	0.6%
Total Operating Revenues	331,417,406	319,403,638	12,013,768	3.8%
Operating Expenses:				
Salaries and Benefits	368,735,712	332,636,338	36,099,374	10.9%
Supplies and Materials	39,582,411	42,394,277	(2,811,866)	-6.6%
Services	94,968,648	86,457,532	8,511,116	9.8%
Scholarships and Fellowships	39,927,810	41,879,088	(1,951,278)	-4.7%
Utilities	12,793,110	12,278,758	514,352	4.2%
Depreciation/Amortization	30,241,637	27,998,426	2,243,211	8.0%
Total Operating Expenses	586,249,328	543,644,419	42,604,909	7.8%
Operating Loss	(254,831,922)	(224,240,781)	(30,591,141)	13.6%
Nonoperating Revenues (Expenses):				
State Appropriations	231,745,912	220,923,807	10,822,105	4.9%
Noncapital Gifts and Grants	79,055,556	78,519,075	536,481	0.7%
Investment Income, Net	9,942,849	3,443,321	6,499,528	188.8%
Interest and Fees on Debt	(21,242,964)	(19,983,765)	(1,259,199)	6.3%
Federal Interest Subsidy on Debt	1,878,208	1,900,454	(22,246)	-1.2%
Other Nonoperating Expenses	(1,515,846)	(1,680,290)	164,444	-9.8%
Net Nonoperating Revenues	299,863,715	283,122,602	16,741,113	5.9%
Income Before Other Revenues	45,031,793	58,881,821	(13,850,028)	-23.5%
Capital Appropriations, Gifts, and Grants	11,587,942	5,626,927	5,961,015	105.9%
Additions to Endowments	2,359,172	2,711,282	(352,110)	-13.0%
Increase in Net Position	58,978,907	67,220,030	(8,241,123)	-12.3%
Net Position, Beginning of Year	1,032,869,431	965,649,401		
Net Position, End of Year	\$ 1,091,848,338	\$ 1,032,869,431	\$ 58,978,907	5.7%

Fiscal year 2016-17 total revenues were \$667,987,045 and total expenses were \$609,008,138

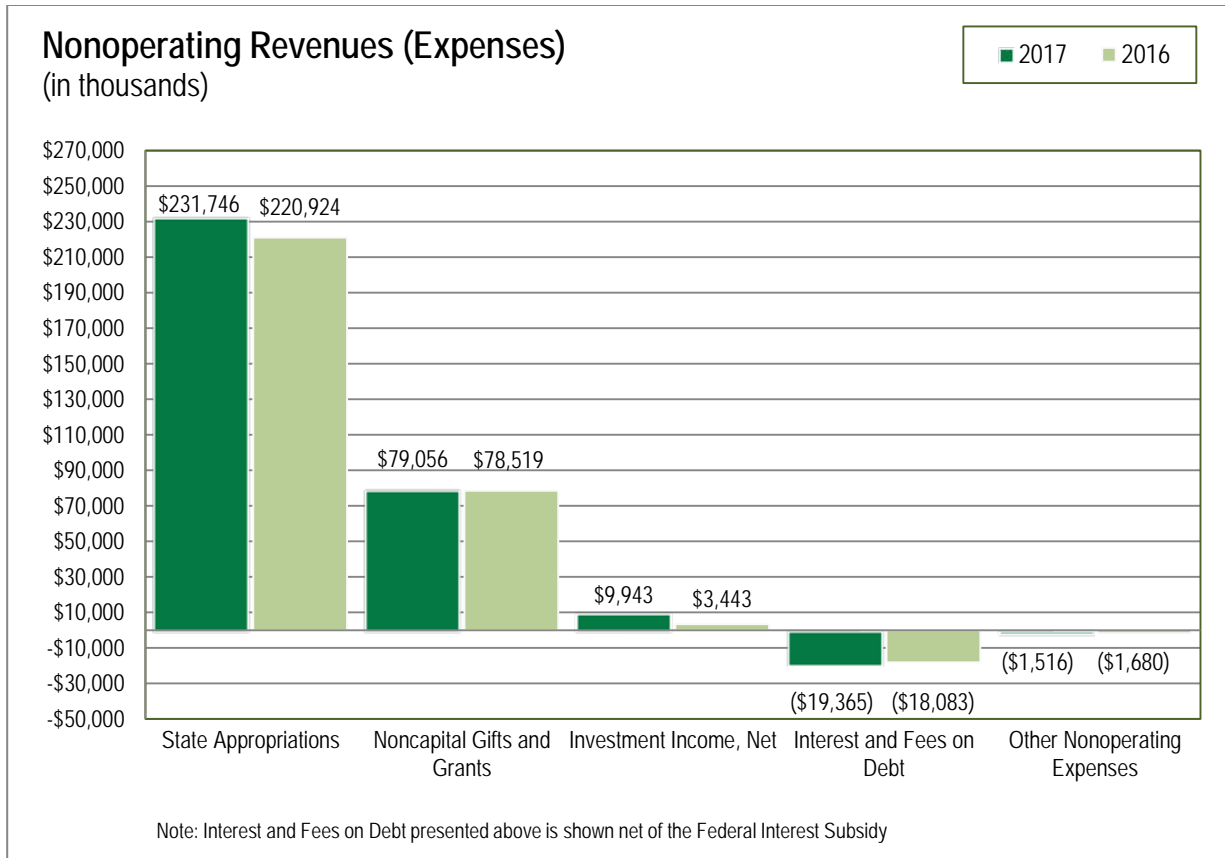
Fiscal year 2015-16 total revenues were \$632,528,504 and total expenses were \$565,308,474

As noted earlier, the change in net position is a key measure of the sum effect of the University's fiscal year activities on its financial health. The overall increase in net position of \$59.0 million is composed of the following highlighted changes:

- Operating revenues are generated by providing goods and services to the various customers and constituencies of the University. Total operating revenues increased by \$12.0 million, or 3.8%, as compared to the prior fiscal year. Several key financial measures factor into this increase. Student tuition and fees increased by \$10.3 million, or 5.2%, as a result of increases in tuition and fee rates and student enrollment. Sales and services revenue increased by \$2.4 million, or 3.1% primarily due to increases in housing revenues and dining services revenues related to student meal plans.



- Nonoperating revenues are those received for which goods and services are not provided. Certain significant recurring sources of the University's revenues, including state appropriations, are classified as nonoperating because they are provided to the University without the provider directly receiving commensurate goods and services for those revenues. The University's net nonoperating revenues were \$299.9 million in fiscal year 2017, a \$16.7 million increase compared to the prior year. Appropriations from the State increased by \$10.8 million, primarily due to new permanent appropriations for enrollment growth and salary increases. Net investment income also increased by \$6.5 million, primarily the result of improved investment performance during fiscal year 2017.



- Operating expenses are those incurred to acquire or produce the goods and services provided to fulfill the mission of the University. Total operating expenses increased by \$42.6 million, or 7.8%, from the prior year, to \$586.2 million.
 - The increase in operating expenses is largely attributable to a \$36.1 million, or 10.9%, increase in salary and benefits expense. Salaries increased by \$21.0 million, or 7.8%, due to: a 1.5% legislative increase for all employees; a 0.5% state-legislated one-time bonus for all permanent employees; an additional state-legislated merit bonus for all employees subject to the State Human Resources Act (SHRA) of \$475 or \$700 per employee; an additional state-legislated merit bonus pool of 1% for all employees exempt from the State Human Resources Act (EHRA); a state-legislated provision that allowed the University to offer eligible employees the option to cash in up to 20 hours of bonus leave for a one-time payment; promotions, salary adjustments, and newly filled positions; strategic University-level salary adjustments for some permanent EHRA employees; and an increase in graduate assistantships. Benefits expenses increased by \$15.1 million, mainly due to increases in retirement and medical insurance contribution expenses.
 - Supplies and materials purchased decreased by \$2.8 million, mainly related to decreases in furniture, library learning resource, and software purchases. Services expenses increased by \$8.5 million due to increased spending in this category, notably related to repairs and maintenance and software subscriptions. The shift in software-related expenses from supplies and materials to services expense reflects the rising trend towards cloud-based technology. Scholarship and fellowship expenses decreased by \$2.0 million, or 4.7%, reflecting decreases in federal grants

awarded to and accepted by students and in scholarship expense recognized related to exchange-type research grants. Depreciation and amortization expense also increased by \$2.2 million due to the increase in depreciable and amortizable capital assets.

- For an explanation of the decrease in capital appropriations, gifts, and grants, see the Capital Assets and Debt Administration section below.

Capital Assets and Debt Administration

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

Total capital assets, by major classification and net of accumulated depreciation and amortization, are presented below for the fiscal years ended June 30, 2017, and June 30, 2016. Information regarding changes in capital assets is also disclosed in Note 6.

Capital Assets, Net of Accumulated Depreciation	2017	2016	Change	
			Amount	Percent
Land and Land Improvements	\$ 11,737,012	\$ 11,737,012	\$ 0	0.0%
Rare Book, Manuscript, Art, and Artifact Collections	34,479,476	33,062,257	1,417,219	4.3%
Construction in Progress	64,842,639	46,098,810	18,743,829	40.7%
Buildings	917,003,205	888,291,699	28,711,506	3.2%
Machinery and Equipment	55,711,286	52,447,473	3,263,813	6.2%
General Infrastructure	201,089,409	201,680,708	(591,299)	-0.3%
Computer Software	11,601,741	5,942,589	5,659,152	95.2%
Total Capital Assets, Net	\$ 1,296,464,768	\$ 1,239,260,548	\$ 57,204,220	4.6%

Total construction in progress (CIP) at the end of the year was \$64.8 million, an \$18.7 million increase from the prior year. CIP expenditures increased during the fiscal year related to various projects, including renovations to Elm, Maple, and Pine residence halls (\$15.2 million), Campus Infrastructure Development II projects (\$16.3 million), and South Village building renovations (\$10.1 million). This increase was partially offset by the completion of the Levine (Phase XIV) residence hall, representing a \$32.3 million decrease in CIP from prior year end.

The University also had \$100.3 million in outstanding commitments on construction contracts for capital expenditures at June 30, 2017. The bulk of these commitments relate to the following construction projects: new science building (\$48.9 million), Scott Hall renovation (\$17.4 million), Campus Infrastructure Development projects (\$12.0 million), Union Deck expansion (\$10.8 million), and Elm, Maple, and Pine residence hall renovations (\$3.5 million).

These commitments reflect some of the major projects underway per the University's overall capital plan. Notable buildings planned to be constructed within the next several years reflect academic and student life priorities, and include a new health and wellness center (funded primarily by a new bond issuance), a science building (funded primarily through the State's Connect NC bond package), and the Gage Undergraduate Admissions Center (funded by donations).

Capital gifts of software, equipment, sculptures, art, rare books, and manuscript collections of approximately \$9.1 million were made to the University during the fiscal year, the largest of these representing a \$6.2 million gift of software from Siemens to the Mechanical Engineering and Engineering Science department.

The Phase XIV residence hall project, also known as Levine Hall, was completed in 2016 at a total cost of \$42.6 million. The building, located in the South Village section of campus, accommodates more than 400 students and houses students of the Levine Scholars Program and the Honors College, as well as administrative offices for both programs. Other capital construction projects completed during fiscal year 2017 were mainly related to renovations and replacements and were comparatively minor in nature, totaling \$8.0 million altogether.

The University's long-term debt is primarily issued for specific capital needs. The only increase to capital related debt during fiscal year 2017 was an \$11.8 million drawdown in bond anticipation notes. Subsequently, in October 2017, the University issued \$76.4 million of fixed-rate, tax-exempt General Revenue Bonds, Series 2017. The bonds were issued to refund \$14.25 million in bond anticipation notes issued in 2016 for renovations to the University's Elm, Maple, and Pine residence halls, to finance the cost of a new 140,000-square-foot health and wellness center, and to finance renovations to Scott Hall. The University's available funds, which exclude tuition and state appropriations but include a general fee assessed to all students, were pledged to pay the bonds prior to the refunding.

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

The University continued to receive recognition for its efforts in sustainability and responsible energy use in fiscal year 2017. Highlights include recognition from the Arbor Day Foundation for commitment to effective urban forest management, a STARS Silver rating from the Association for the Advancement of Sustainability in Higher Education (AASHE) for accomplishments in sustainability, and recognition from The Princeton Review as one of the 361 most environmentally responsible colleges in the nation. These distinctions reflect the University's commitment to good stewardship of the environment and its willingness to serve as a role model for the community in sustainability. Additionally, the University's energy savings efforts free up money to be applied to academic and other programs on campus.

Economic Outlook

Management remains prudent, conservative, and strategic in managing institutional financial affairs to achieve the University's goals of providing educational services to the Charlotte region. Continued success will rely on enrollment demand and state support, as two of the most significant drivers of the University's revenue base, along with effective institutional planning. The overall outlook for the four-year U.S. Higher Education sector, per Moody's Investors Service, remains stable for 2017, reflecting expected growth in net tuition revenue, incremental increases in state funding, and steady research funding.

UNC Charlotte tuition rates will likely continue to increase annually but be affordable. North Carolina's 2016 Appropriations Act established a fixed tuition program at all University of North Carolina (UNC) System institutions that freezes tuition rates for freshman and transfer resident undergraduate students over a period of continuous enrollment. The Act also limits future increases to undergraduate student fees approved by either the Board of Governors or the Board of Trustees to 3% per academic year. In addition, continued focus on affordability and student outcomes at the state and national level, coupled with UNC Charlotte's emphasis on value for its students, will constrain tuition increases to those which are necessary to meet operational needs. UNC Charlotte is mindful of controlling expenses and has one of the lowest state spending rates per full-time equivalent student of the 17 UNC schools. Management has historically improved efficiencies at the academic and operational level, aligning these efforts with student and faculty success, and will continue to do so moving forward.

Enrollment growth at UNC Charlotte is expected to continue. North Carolina's population is expected to grow by more than 1.5 million people from 2015 to 2030, and Charlotte is projected to be one of the fastest growing regions in the U.S. in that same timeframe. A key UNC system goal is to increase the proportion of adults in North Carolina with a bachelor's degree or higher from approximately 28% as of 2015 to more than 36% by 2025. Mitigating enrollment growth factors include policies and social issues at the international, national, state, and local levels that may discourage attendance by qualified prospective student populations. However, the University continues to plan for a long-term target of 35,000 students, as UNC Charlotte will be expected to support the single largest number of additional students in the UNC system.

More than 21,000 of UNC Charlotte's students receive some form of financial aid, and 54% of those students are Pell Grant recipients. This, in addition to the fact that the majority of the University's research funding is from federal grants, causes the federal budget to remain a key consideration of the financial outlook. Access, affordability, and accountability remain concerns for the higher education industry. Any legislation related to funding for federal student aid programs and federal research organizations will affect our students and faculty; management is prepared to adapt to changes as they arise.

Overall, UNC Charlotte continues to realize strong enrollment and overall growth with tuition and fee rates that remain low compared to its public peers. The University also benefits from its membership in the UNC system through economies of scale, and has a diverse tuition base to draw from. UNC Charlotte continues to be the fastest growing school in the 17-campus UNC system, representing more than 50% of overall enrollment growth in the system from Fall 2009 to 2016 based on student headcount. UNC Charlotte's enrollment grew to more than 29,300 students for the Fall 2017 semester, the highest enrollment in the University's history and a 31% cumulative increase over the past ten years. UNC Charlotte is the largest university in the continuously growing Charlotte region and remains the only urban research university in the UNC system. UNC Charlotte enrolls more transfer students than any other university in North Carolina and offers more than 150 degree programs to a culturally diverse student population.

The University also continues efforts to foster partnerships and relationships with a wide variety of constituents, positioning itself as the region's preferred provider of talent, knowledge, and innovation. Notably, the University has partnered with the City of Charlotte and the Charlotte Area Transit System on the new extension of the city's light rail, which will connect UNC Charlotte with the neighborhoods and business districts along the Blue Line's 18.6-mile rail through Charlotte. Passenger service is expected to begin in early 2018. In

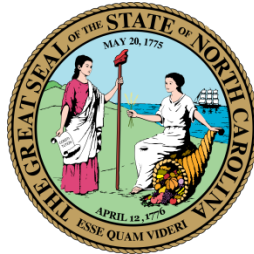
addition, the University celebrated its 70th anniversary in September 2016 with a Founders week celebration that officially launched the largest fundraising campaign in the history of the University. The campaign has raised \$141 million as of September 2017, inclusive of several notable alumni contributions, with a goal of \$200 million by the end of fiscal year 2020.

Finally, the University continues its efforts to make an impact through its research initiatives and received a record \$50.9 million in sponsored awards during fiscal year 2017. The University is consistently in the top five universities nationally for number of startups per million dollars of research funding. The University will continue to strategically target research-rich fields, including advanced manufacturing, biosciences, data science and business analytics, defense, education, energy production and infrastructure, health, and cybersecurity, which align with UNC Charlotte's professional schools and applied science programs. The University plans to reach a sustainable level of extramurally funded research programs of \$55 million annually by 2021.

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

Contacting the University's Financial Management

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



FINANCIAL STATEMENTS

The University of North Carolina at Charlotte
Statement of Net Position
June 30, 2017

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 236,244,439
Restricted Cash and Cash Equivalents	32,524,328
Receivables, Net (Note 5)	10,593,411
Inventories	281,232
Notes Receivable, Net (Note 5)	659,006
Prepaid Items	9,428,592
	<hr/>
Total Current Assets	289,731,008

Noncurrent Assets:

Restricted Cash and Cash Equivalents	41,091,674
Endowment Investments	77,624,510
Restricted Investments	11,115,984
Other Investments	39,409
Notes Receivable, Net (Note 5)	5,050,660
Capital Assets - Nondepreciable (Note 6)	111,059,127
Capital Assets - Depreciable, Net (Note 6)	1,185,405,641
	<hr/>
Total Noncurrent Assets	1,431,387,005
	<hr/>
Total Assets	1,721,118,013

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	3,489,229
Deferred Outflows Related to Pensions	42,497,909
	<hr/>
Total Deferred Outflows of Resources	45,987,138

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	13,878,802
Deposits Payable	1,567,581
Funds Held for Others	100
Unearned Revenue	8,831,467
Interest Payable	5,877,734
Long-Term Liabilities - Current Portion (Note 8)	18,952,943
	<hr/>
Total Current Liabilities	49,108,627

Noncurrent Liabilities:

Funds Held for Others	326,746
Unearned Revenue	139,461
U. S. Government Grants Refundable	5,098,579
Funds Held in Trust for Pool Participants	11,884,281
Long-Term Liabilities, Net (Note 8)	605,799,308
	<hr/>
Total Noncurrent Liabilities	623,248,375
	<hr/>
Total Liabilities	672,357,002

DEFERRED INFLOWS OF RESOURCES

Deferred Gain on Refunding	28,466
Deferred Inflows Related to Pensions	2,871,345
	<hr/>
Total Deferred Inflows of Resources	2,899,811

The University of North Carolina at Charlotte
Statement of Net Position
June 30, 2017

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	784,462,871
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	6,239,159
Endowed Professorships	34,595,895
Departmental Uses	4,011,223
Loans	1,898,114
Other	215,998
Expendable:	
Scholarships and Fellowships	5,592,545
Research	2,605,835
Endowed Professorships	14,915,121
Departmental Uses	4,861,988
Capital Projects	18,913,623
Debt Service	3,439
Other	2,878,084
Unrestricted	<u>210,654,443</u>
Total Net Position	<u><u>\$ 1,091,848,338</u></u>

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

The University of North Carolina at Charlotte
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2017

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 207,040,145
Federal Grants and Contracts	29,457,186
State and Local Grants and Contracts	2,531,411
Nongovernmental Grants and Contracts	7,094,671
Sales and Services, Net (Note 10)	80,856,639
Interest Earnings on Loans	79,362
Other Operating Revenues	<u>4,357,992</u>
Total Operating Revenues	<u>331,417,406</u>

EXPENSES

Operating Expenses:

Salaries and Benefits	368,735,712
Supplies and Materials	39,582,411
Services	94,968,648
Scholarships and Fellowships	39,927,810
Utilities	12,793,110
Depreciation/Amortization	<u>30,241,637</u>
Total Operating Expenses	<u>586,249,328</u>
Operating Loss	<u>(254,831,922)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	231,745,912
Noncapital Grants - Student Financial Aid	65,023,171
Noncapital Grants	483,881
Noncapital Gifts	13,548,504
Investment Income (Net of Investment Expense of \$427,219)	9,942,849
Interest and Fees on Debt	(21,242,964)
Federal Interest Subsidy on Debt	1,878,208
Other Nonoperating Expenses	<u>(1,515,846)</u>
Net Nonoperating Revenues	<u>299,863,715</u>
Income Before Other Revenues	45,031,793

Capital Appropriations	889,677
Capital Grants	1,595,947
Capital Gifts	9,102,318
Additions to Endowments	<u>2,359,172</u>
Increase in Net Position	58,978,907

NET POSITION

Net Position - July 1, 2016	<u>1,032,869,431</u>
Net Position - June 30, 2017	<u>\$ 1,091,848,338</u>

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

The University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 330,292,745
Payments to Employees and Fringe Benefits	(367,109,410)
Payments to Vendors and Suppliers	(148,308,820)
Payments for Scholarships and Fellowships	(39,927,810)
Loans Issued	(360,156)
Collection of Loans	823,624
Interest Earned on Loans	97,781
Student Deposits Received	969,550
Student Deposits Returned	(878,050)
Other Receipts	4,383,726
	<hr/>
Net Cash Used by Operating Activities	(220,016,820)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	231,745,912
Noncapital Grants - Student Financial Aid	65,023,171
Noncapital Grants	483,881
Noncapital Gifts	13,135,520
Additions to Endowments	2,359,172
William D. Ford Direct Lending Receipts	139,096,919
William D. Ford Direct Lending Disbursements	(139,134,473)
Related Activity Agency Receipts	45,904,303
Related Activity Agency Disbursements	(58,162,997)
External Participation in Investment Fund Receipts	868,477
External Participation in Investment Fund Disbursements	(522,754)
Other Receipts	1,433,346
	<hr/>
Net Cash Provided by Noncapital Financing Activities	302,230,477

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	11,750,000
Capital Appropriations	889,677
Capital Grants	1,595,947
Acquisition and Construction of Capital Assets	(77,861,487)
Principal Paid on Capital Debt and Leases	(16,095,671)
Interest and Fees Paid on Capital Debt and Leases	(22,330,252)
Federal Interest Subsidy on Debt Received	1,878,208
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(100,173,578)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	6,846,024
Investment Income	2,848,728
Purchase of Investments and Related Fees	(2,510,207)
	<hr/>
Net Cash Provided by Investing Activities	7,184,545
	<hr/>
Net Decrease in Cash and Cash Equivalents	(10,775,376)
Cash and Cash Equivalents - July 1, 2016	320,635,817
	<hr/>
Cash and Cash Equivalents - June 30, 2017	\$ 309,860,441

The University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (254,831,922)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	30,241,637
Allowances, Write-Offs, and Amortizations	1,720,947
Nonoperating Other Income	95,897
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(86,431)
Inventories	20,625
Notes Receivable, Net	422,578
Deferred Outflows for Pensions	(32,259,938)
Prepaid Items	(102,743)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(1,016,006)
Unearned Revenue	1,852,729
Net Pension Liability	36,047,525
Compensated Absences	446,371
Deposits Payable	46,556
Deferred Inflows for Pensions	(2,614,645)
Net Cash Used by Operating Activities	<u>\$ (220,016,820)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 236,244,439
Restricted Cash and Cash Equivalents	32,524,328
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	41,091,674
Total Cash and Cash Equivalents - June 30, 2017	<u>\$ 309,860,441</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 9,264,518
Change in Fair Value of Investments	8,611,396
Loss on Disposal of Capital Assets	(1,908,731)
Amortization of Bond Premiums/Discounts	(1,284,503)

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

**The Foundation of the University of North
Carolina at Charlotte, Inc.
Consolidated Statement of Financial Position
June 30, 2017**

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	18,511,957
Accounts Receivable		7,922
Prepaid Expenses		12,918
Pledges Receivable, Net		16,266,801
Beneficial Interests in Lead Trusts		753,870
Investments		122,397,758
Assets Held Under Split-Interest Agreements		842,407
Cash Surrender Value of Life Insurance		726,355
Property Held for Investment		2,392,545
		<hr/>
Total Assets		161,912,533
		<hr/>

LIABILITIES

Accounts Payable and Accrued Expenses		20,829
Liability Under Split-Interest Agreements		361,527
Funds Held for Others		50,705
		<hr/>
Total Liabilities		433,061
		<hr/>

NET ASSETS

Unrestricted		33,729,604
Temporarily Restricted		67,840,816
Permanently Restricted		59,909,052
		<hr/>
Total Net Assets		161,479,472
		<hr/>
Total Liabilities and Net Assets	\$	161,912,533
		<hr/> <hr/>

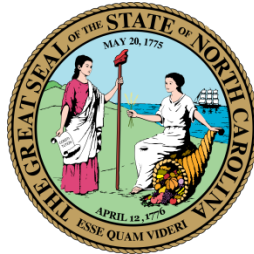
The accompanying notes to the financial statements are an integral part of this statement.

The Foundation of the University of North Carolina at Charlotte, Inc.
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2017

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE, GAINS, AND OTHER SUPPORT:				
Public Contributions	\$ 683,127	\$ 16,778,725	\$ 4,561,327	\$ 22,023,179
Support from Affiliate	2,791,763	365,387		3,157,150
Investment Income	3,347,680	7,896,929		11,244,609
Gain on Sale of Investment Property	6,098,903			6,098,903
Other Revenue and Support	188,056	90,396		278,452
	<u>13,109,529</u>	<u>25,131,437</u>	<u>4,561,327</u>	<u>42,802,293</u>
Net Assets Released from Restrictions	<u>24,588,897</u>	<u>(24,588,897)</u>		
Total Revenue, Gains, and Other Support	<u>37,698,426</u>	<u>542,540</u>	<u>4,561,327</u>	<u>42,802,293</u>
EXPENSES:				
Program Services:				
Contributions to UNC Charlotte	18,729,417			18,729,417
Grants and Research	394,546			394,546
Other Program Services	382,036			382,036
Total Program Services	<u>19,505,999</u>			<u>19,505,999</u>
Support Services:				
Fundraising Support	980,994			980,994
Professional Fees	267,864			267,864
Investment Expenses	676,058			676,058
Other General and Administrative	2,079,709			2,079,709
Total Support Services	<u>4,004,625</u>			<u>4,004,625</u>
Total Expenses	<u>23,510,624</u>			<u>23,510,624</u>
Change in Net Assets Before Transfers	14,187,802	542,540	4,561,327	19,291,669
Transfers Between Net Asset Classes	<u>(337,609)</u>	<u>(348,633)</u>	<u>686,242</u>	
Change in Net Assets	13,850,193	193,907	5,247,569	19,291,669
NET ASSETS:				
Beginning of Year	<u>19,879,411</u>	<u>67,646,909</u>	<u>54,661,483</u>	<u>142,187,803</u>
Ending of Year	<u>\$ 33,729,604</u>	<u>\$ 67,840,816</u>	<u>\$ 59,909,052</u>	<u>\$ 161,479,472</u>

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are either blended or discretely presented in the University's financial statements. See below for further discussion of the University's component units. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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

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

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

Investment Fund are administrators of the University and the elected directors are appointed by the member investors' Boards of Trustees, and because the Investment Fund's primary purpose is to benefit the University, the Investment Fund has been blended with the University's financial statements, with the exception of the portion belonging to the Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented (as described below).

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

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

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

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 40 officers and directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2017, the Foundation distributed \$18,729,417 to the University for both restricted and unrestricted purposes. The University provided professional services to the Foundation of \$3,157,150 for the year ended June 30, 2017. Complete financial statements for the Foundation can be obtained from the Treasury Services Office at treasuryservices@uncc.edu, or by calling (704) 687-5432.

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

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

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

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

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

- E. Investments** – To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

Real estate not held by a governmental external investment pool and other asset holdings are reported at fair value as determined by appraisal as of June 30, 2017. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized 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. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.

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

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

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

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

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

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal

understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

- J. **Funds Held in Trust for Pool Participants** - Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.
- K. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, special indebtedness, bond anticipation notes, net pension liability, notes payable, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable and special indebtedness 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 that approximates the effective interest method. Deferred gains and losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are aggregated as deferred outflows of resources or deferred inflows of resources on the Statement of Net Position. Issuance costs are expensed in the reporting period in which they are incurred.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2016 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

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

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

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

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

- M. Deferred Outflows/Inflows of Resources** – In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The University has the following items that qualify for reporting in this category: deferred loss on refunding and deferred outflows related to pensions.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The University has the following items that qualify for reporting in this category: deferred gain on refunding and deferred inflows related to pensions.

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

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

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

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

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

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

- O. **Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the 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.

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

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

- Q. **Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, copy centers, motor pool, postal services, and

telecommunications. In addition, the University has other miscellaneous sales and service units that operate either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Cash on hand at June 30, 2017 was \$40,115. The carrying amount of the University's deposits not with the State Treasurer was \$3,150,068, and the bank balance was \$2,811,993. 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, 2017, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	<u>\$ 1,992,374</u>
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Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. At June 30, 2017, \$69,619 of the total bank balance was denominated in Euros, and was therefore exposed to foreign currency risk. The University does not have a formal policy for foreign currency risk.

B. Investments

University - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds and funds received for services rendered by

health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

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

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

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

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

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

Investments are subject to the following risks as defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3*.

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, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$306,670,258, 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 1.6 years as of June 30, 2017. 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 North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

External Investment Pool - The External Investment Pool sponsored by the University was established in November 2004. The Pool is utilized to manage the investments for endowments that are organized and operated primarily to support the University. University endowment funds and the Foundation, which is a discretely presented component unit included in the University's reporting entity, represent the Pool's internal participants. The Athletic Foundation of the University of North Carolina at Charlotte, Inc., an affiliated organization not included in the University's reporting entity, represents the Pool's external participant. Fund ownership of the Pool is measured using the pro rata share method. Under this method, each participating fund's investment balance is determined based on its pro rata share of the fair market value of the investment pool at the beginning of each quarterly period. The external portion of the Pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The External Investment Pool is not registered with the Securities and Exchange Commission (SEC) and is not subject to any formal oversight other than that provided by UNCCIF's Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Board has chosen not to make individual security selection decisions. The Board's primary role is to oversee the allocation of the Pool's portfolio among the asset classes, investment vehicles, and investment managers.

UNCCIF is the custodian for the Pool and provides the University with quarterly statements defining income and valuation, which is then allocated among the fund's participants. There are no involuntary participants in the Pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Pool's investments.

The following table presents University investments by type and investments subject to interest rate risk at June 30, 2017, for the External Investment Pool.

External Investment Pool

	<u>Amount</u>
Investment Type	
Other Securities	
UNC Investment Fund	\$ 37,597,123
Global Endowment Fund II, LP	<u>40,832,639</u>
Total External Investment Pool	<u><u>\$ 78,429,762</u></u>

UNCCIF invests with two external investment firms, a limited partnership interest, Global Endowment Fund II, LP, and the UNC Investment Fund, LLC (UNC Investment Fund), an external investment pool. Neither firm is registered with the SEC, has a credit rating, or is subject to any regulatory oversight. Investment risks associated with Global Endowment Fund II, LP are included in the audited financial statements of the Global Endowment Fund II, LP, which may be obtained from Global Endowment Management, LP, 550 South Tryon Street, Suite 3500, Charlotte, NC 28202. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC, which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2017, for the University's non-pooled investments.

Non-Pooled Investments

	<u>Amount</u>	<u>Investment Maturities (in Years) Less Than 1</u>
Investment Type		
Debt Securities		
Money Market Mutual Funds	\$ 23,585	\$ 23,585
Other Securities		
Investments in Real Estate	10,287,200	
Cash Surrender Value of Life Insurance	<u>39,356</u>	
Total Non-Pooled Investments	<u><u>\$ 10,350,141</u></u>	

At June 30, 2017, the money market mutual funds, with an amortized cost of \$23,585, were rated AAAM and Aaa-mf by Standard and Poor's and Moody's, respectively.

Total Investments - The following table presents the total University investments at June 30, 2017:

Investment Type	Amount
Debt Securities	
Money Market Mutual Funds	\$ 23,585
Other Securities	
UNC Investment Fund	37,597,123
Global Endowment Fund II, LP	40,832,639
Investments in Real Estate	10,287,200
Cash Surrender Value Life Insurance	39,356
Total Investments	\$ 88,779,903

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

Investment Type	Carrying Value
Short-Term Investments	\$ 168,500
Bonds	4,287,754
Fixed Income Mutual Funds	343,723
Equity Securities and Other Investments	896,266
UNCCIF External Investment Pool	117,543,922
Total Investments	\$ 123,240,165

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2017, is as follows:

Cash on Hand	\$ 40,115
Amount of Deposits with Private Financial Institutions	3,150,068
Deposits in the Short-Term Investment Fund	306,670,258
External Investment Pool	78,429,762
Non-Pooled Investments	10,350,141
Total Deposits and Investments	\$ 398,640,344
Deposits	
Current:	
Cash and Cash Equivalents	\$ 236,244,439
Restricted Cash and Cash Equivalents	32,524,328
Noncurrent:	
Restricted Cash and Cash Equivalents	41,091,674
Total Deposits	309,860,441
Investments	
Noncurrent:	
Endowment Investments	77,624,510
Restricted Investments	11,115,984
Other Investments	39,409
Total Investments	88,779,903
Total Deposits and Investments	\$ 398,640,344

NOTE 3 - FAIR VALUE MEASUREMENTS

University - To the extent available, the University's investments are recorded at fair value as of June 30, 2017. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

The following table summarizes the University's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2017:

	<u>Fair Value Measurements Using</u>			
	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Investments by Fair Value Level				
Short-Term Investment Fund	\$ 306,670,258	\$ 0	\$ 306,670,258	\$ 0
UNC Investment Fund	37,597,123			37,597,123
Investments in Real Estate	10,287,200		10,287,200	
Total Investments by Fair Value Level	<u>354,554,581</u>	<u>\$ 0</u>	<u>\$ 316,957,458</u>	<u>\$ 37,597,123</u>
Investments Measured at the Net Asset Value (NAV)				
Global Endowment Fund II, LP	40,832,639			
Total Investments Measured at Fair Value	<u>\$ 395,387,220</u>			

Short-Term Investment Fund – University funds totaling \$306,670,258 are on deposit with the STIF. 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 - The fair value of the University's balance in the UNC Investment Fund is \$37,597,123. An additional \$48,533,400 is held by the Foundation for a total of \$86,130,523 invested by the UNC Charlotte Investment Fund (UNCCIF). The fair value is measured using Level 3 of the fair value hierarchy. Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund's operating procedures.

Investments In Real Estate - The fair value of the University's investments in real estate is \$10,287,200. These investments are classified as Level 2 of the fair value hierarchy and are valued using market multiples that consider current appraisals.

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

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Global Endowment Fund II, LP	\$ 40,832,639	N/A	Annually	Written notice received prior to September 1 preceding the redemption date.

Global Endowment Fund II, LP - The net asset value (NAV) of the University's balance in the private equity limited partnership, Global Endowment Fund II, LP, is \$40,832,639. An additional \$52,710,066 is held by the Foundation for a total of \$93,542,705 invested by the Investment Fund. This private investment partnership offers an endowment-style investment program to institutional investors, family offices, qualified individuals, and other sophisticated investors. The Partnership invests with a long-term horizon, seeking varied and non-traditional investment opportunities in an effort to provide a diversified, single-portfolio investment strategy for its investors. The Management Company's Valuation Committee is responsible for valuing the Fund's assets. The Committee will ensure that positions are valued in accordance with the requirements of the governing documents of the managed funds and applicable accounting standards. The funds are valued based on the investments' NAV or its equivalent in accordance with FASB Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*. This ASU amends FASB ASC 820 *Fair Value Measurements*, to offer investors a practical expedient for measuring the fair value of investments that do not have a readily determinable fair value and that calculate a NAV to be valued based on the NAV per share or its equivalent of the underlying investment when it is probable that the investment will not be sold in the short term.

Component Unit - The Foundation's investments are reported using FASB ASC 820, *Fair Value Measurement*, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that

prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

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

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

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

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

Financial assets measured at fair value on a recurring basis are classified in the statement of financial position as of June 30, 2017 as follows:

Investments	\$ 122,397,758
Assets Held Under Split-Interest Agreements	<u>842,407</u>
	<u>\$ 123,240,165</u>

The following table summarizes financial assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2017:

	Assets At Fair Value As Of June 30, 2017	
	Level 1	Total
Short-Term Investments	\$ 168,500	\$ 168,500
Bonds	4,287,754	4,287,754
Fixed Income Mutual Funds	343,723	343,723
Equity Securities and Other	896,266	896,266
	<u>\$ 5,696,243</u>	<u>5,696,243</u>
Pooled Investments ^(a)		117,543,922
		<u>\$ 123,240,165</u>

^(a) In accordance with FASB ASU 2015-07, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

The following table presents the Foundation's investments, which are reported at NAV or its equivalent, and unfunded commitments at June 30, 2017:

Investment	Net Asset Value	Redemption Frequency	Redemption Notice	Unfunded Commitments
UNCCIF (a)	\$ 108,470,673	Annual	90 Days	None
Limited Duration (b)	2,506,872	Weekly	5 Days	None
Intermediate Term (c)	3,512,505	Weekly	5 Days	None
Contingent Asset Portfolio (d)	1,004,628	Weekly	5 Days	None
Core Equity (e)	514,651	Weekly	5 Days	None
Strategic Solutions Equity (f)	517,044	Weekly	5 Days	None
High Quality Bond (g)	1,017,549	Weekly	5 Days	None
Total	<u>\$ 117,543,922</u>			

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

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

The UNCCIF invests in another external investment pool that is subject to an operating agreement. Ownership in the external investment pool is based on the per unit market value method, whereby the total market value of the underlying assets are divided by the number of units to determine the market value per unit. The number of units times the rate

per unit determines the ownership. The operating agreement permits monthly contributions and withdrawals. Monthly withdrawals are limited to the greater of 10% of the market value of the ownership interest or \$2,000,000. Entire withdrawals are permitted and are paid over 12 calendar months.

- b. The Limited Duration fund will primarily invest in fixed income markets with a goal of seeking to produce returns in excess of the returns achieved by typical money market funds.
- c. The Intermediate Term fund objective is to offer a program to be used for core cash balances or operating funds that are not expected to be needed for expenditure for a period of at least a year. The Fund seeks to produce a total return in excess of its benchmark, the Merrill Lynch 1–3 Year Treasury Index, but attaches greater emphasis to its goal of generating a higher current yield than short-term money market instruments in a manner that mitigates the chances of a negative total return over any 12-month period.
- d. The Contingent Asset Portfolio fund generally expects to invest in investment-grade fixed income securities (i.e., securities rated at least Baa3 or BBB- by a nationally recognized rating agency such as Moody’s Investors Service, Inc., Standard & Poor’s, or Fitch Ratings, or that are of comparable quality as determined by the Sub-Adviser, although the fund has no ratings-based restrictions, and at times it may hold a substantial portion of securities rated below investment grade). The benchmark for the fund is the BofA Merrill Lynch 1-3 Year U.S. Treasury Index.
- e. The Core Equity fund objective is to offer access to large capitalization and, to a lesser extent, mid-capitalization companies. The fund seeks to outperform its benchmark, the S&P 500 Index, over a full market cycle.
- f. The Strategic Solutions Equity fund objective is to outperform the S&P 500 Index over a full market cycle.
- g. The High Quality Bond fund objective is to offer a program devoted to investing in high quality, investment-grade-only, fixed income securities. The fund seeks to outperform its benchmark, the Barclays Aggregate Bond Index, over a full market cycle.

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University’s endowment funds are real property held for investment of \$10,287,200 and pooled investments invested with The University of North Carolina at Charlotte Investment Fund, Inc. of \$84,028,427 (includes \$11,884,281 of Athletic Foundation restricted investments). Non-real property investments of the University’s endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the “Uniform Prudent Management of

Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances, making the related nonexpendable balances ineligible 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 based on an adopted spending policy, which limits spending to 80% of the prior year's spending adjusted for inflation, plus 20% of 4.5% of the average of the prior three years' market values as of December 31 each year. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2017, accumulated income and net appreciation of \$27,244,070 was available to be spent, of which \$18,675,812 was classified in net position as restricted expendable for scholarships, fellowships, and endowed professorships, as it was restricted for these specific purposes. The remaining \$8,568,258 is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 6,555,353	\$ 1,943,780	\$ 4,611,573
Accounts	1,686,583		1,686,583
Intergovernmental	3,569,820		3,569,820
Investment Earnings	123		123
Interest on Loans	84,418		84,418
Federal Interest Subsidy on Debt	478,812		478,812
Other	162,082		162,082
Total Current Receivables	<u>\$ 12,537,191</u>	<u>\$ 1,943,780</u>	<u>\$ 10,593,411</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 648,356	\$ 32,418	\$ 615,938
Institutional Student Loan Programs	54,717	11,649	43,068
Total Notes Receivable - Current	<u>\$ 703,073</u>	<u>\$ 44,067</u>	<u>\$ 659,006</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 4,715,416	\$ 235,771	\$ 4,479,645
Institutional Student Loan Programs	602,160	31,145	571,015
Total Notes Receivable - Noncurrent	<u>\$ 5,317,576</u>	<u>\$ 266,916</u>	<u>\$ 5,050,660</u>

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land and Land Improvements	\$ 11,737,012	\$ 0	\$ 0	\$ 11,737,012
Art, Literature, and Artifacts	33,062,257	1,417,219		34,479,476
Construction in Progress	46,098,810	70,699,875	51,956,046	64,842,639
Total Capital Assets, Nondepreciable	90,898,079	72,117,094	51,956,046	111,059,127
Capital Assets, Depreciable:				
Buildings	1,052,736,637	47,188,079	88,392	1,099,836,324
Machinery and Equipment	109,655,282	11,296,884	5,461,251	115,490,915
General Infrastructure	239,644,411	4,553,687	175,789	244,022,309
Computer Software	7,489,059	6,154,890		13,643,949
Total Capital Assets, Depreciable	1,409,525,389	69,193,540	5,725,432	1,472,993,497
Less Accumulated Depreciation/Amortization for:				
Buildings	164,444,938	18,443,581	55,400	182,833,119
Machinery and Equipment	57,207,809	6,317,886	3,746,066	59,779,629
General Infrastructure	37,963,703	4,984,432	15,235	42,932,900
Computer Software	1,546,470	495,738		2,042,208
Total Accumulated Depreciation/Amortization	261,162,920	30,241,637	3,816,701	287,587,856
Total Capital Assets, Depreciable, Net	1,148,362,469	38,951,903	1,908,731	1,185,405,641
Capital Assets, Net	\$ 1,239,260,548	\$ 111,068,997	\$ 53,864,777	\$ 1,296,464,768

During the year ended June 30, 2017, the University incurred \$22,703,966 in interest costs related to the acquisition and construction of capital assets. Of this total, \$21,242,964 was charged in interest expense, and \$1,461,002 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014 to pay the related debt service. The carrying value of the energy savings improvement assets associated with the agreement is \$2,063,848 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, 2017, were as follows:

	Amount
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 2,197,447
Accounts Payable - Construction	7,334,905
Accrued Payroll	1,103,476
Contract Retainage	3,222,477
Other	20,497
	13,878,802
Total Accounts Payable and Accrued Liabilities	\$ 13,878,802

NOTE 8 - LONG-TERM LIABILITIES

University

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Revenue Bonds Payable	\$ 507,917,775	\$ 0	\$ 15,226,912	\$ 492,690,863	\$ 15,966,799
Special Indebtedness	13,175,000		525,000	12,650,000	530,000
Plus: Unamortized Premium	27,764,491		1,304,912	26,459,579	
Less: Unamortized Discount	(484,887)		(20,409)	(464,478)	
Total Revenue Bonds Payable and Special Indebtedness, Net	548,372,379		17,036,415	531,335,964	16,496,799
Net Pension Liability	24,707,041	36,047,525		60,754,566	
Notes Payable	2,601,087		343,759	2,257,328	356,073
Compensated Absences	15,708,023	12,789,077	12,342,707	16,154,393	2,100,071
Bond Anticipation Notes	2,500,000	11,750,000		14,250,000	
Total Long-Term Liabilities, Net	\$ 593,888,530	\$ 60,586,602	\$ 29,722,881	\$ 624,752,251	\$ 18,952,943

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

B. Revenue Bonds Payable and Special Indebtedness - The University was indebted for revenue bonds payable and special indebtedness (limited obligation bonds) for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017
Revenue Bonds Payable						
General Revenue Bonds Payable						
Student Union Taxable	2007-A	5.68%	2023	\$ 18,140,000	\$ 10,080,000	\$ 8,060,000
Parking Deck H BABs	2009-B	4.43%-6.25%	2039	* 16,280,000		16,280,000
Housing Phase 9 BABs	2009-B	4.43%-6.25%	2039	* 33,490,000		33,490,000
Football Stadium BABs	2010	4.48%-6.52%	2040	* 40,895,000	5,805,000	35,090,000
Portal Building	2012-A	3.00%-5.00%	2041	2,615,000	225,000	2,390,000
South Village Dining	2012-A	3.00%-5.00%	2041	3,470,000	285,000	3,185,000
Regional Utility Plant	2012-A	3.00%-5.00%	2041	4,140,000	150,000	3,990,000
Refi-Sprinkler Loan	2012-A	4.00%	2022	3,645,000	1,630,000	2,015,000
Parking Deck I	2012-A	3.00%-5.00%	2041	5,345,000		5,345,000
Parking Deck J	2012-A	3.00%-5.00%	2041	14,685,000	640,000	14,045,000
Residence Hall Phase 10	2012-A	3.00%-5.00%	2041	30,290,000	2,560,000	27,730,000
Residence Hall Phase 11	2012-A	3.00%-5.00%	2041	28,890,000	2,450,000	26,440,000
2012 Sprinkler Project	2012-A	3.00%-5.00%	2041	3,260,000	275,000	2,985,000
Final Refi of Phase 8 2002-A bonds	2012-A	5.00%	2027	3,320,000	760,000	2,560,000
Portal Building-Taxable	2012-B	1.97%-4.55%	2041	25,575,000	2,445,000	23,130,000
South Village Dining-Taxable	2012-B	1.97%-4.45%	2041	8,655,000	830,000	7,825,000
Regional Utility Plant-Taxable	2012-B	1.97%-4.25%	2032	2,710,000	465,000	2,245,000
Residence Hall Phase 12	2013-A	3.00%-5.00%	2043	39,560,000	2,395,000	37,165,000
Refinancing of 2003-A Pooled Bonds	2013-A	4.30%-5.25%	2028	8,640,000	5,880,000	2,760,000
Campus Infrastructure	2013-B	1.29%-4.12%	2043	35,240,000	3,320,000	31,920,000
Refinancing 2004-A Parking Bonds	2013-B	3.75%-4.00%	2021	2,545,000	1,240,000	1,305,000
Energy Savings Bonds	2013	4.41%	2029	** 8,443,099	1,492,236	6,950,863
Residence Hall Phase 13	2014	3.00%-5.00%	2044	34,220,000	1,210,000	33,010,000
Oak Hall Renovations	2014	3.00%-5.00%	2044	8,765,000	310,000	8,455,000
Holshouser Hall Renovations	2014	3.00%-5.00%	2044	15,760,000	560,000	15,200,000
Residence Hall Phase 14	2015	3.00%-5.00%	2045	39,045,000		39,045,000
Campus Infrastructure Phase 2	2015	3.00%-5.00%	2045	32,075,000	1,085,000	30,990,000
Refi-2006 Parking Bonds	2015	3.00%-5.00%	2036	7,970,000	10,000	7,960,000
Refi-2007-B Student Union Bonds	2015	3.00%-5.00%	2037	37,060,000	110,000	36,950,000
Total General Revenue Bonds				514,728,099	46,212,236	468,515,863
The University of North Carolina System Pool Revenue Bonds						
Refinance Balance of SAC 1995 Bonds	2005 A	5.00%-5.25%	2021	11,855,000	5,140,000	6,715,000
2nd Partial Refund of Housing Phase 7	2009-B	4.00%-4.25%	2021	6,185,000	2,800,000	3,385,000
Final Refinance of Housing Phase 7	2010-B1	5.25%	2024	2,665,000		2,665,000
Partial Refund of Housing Phase 8	2010-B1	3.00%-5.25%	2025	13,770,000	4,525,000	9,245,000
Refund of Parking Series 2002 Bonds	2010-B1	3.00%-5.25%	2027	6,300,000	4,135,000	2,165,000
Total The University of North Carolina System Pool Revenue Bonds				40,775,000	16,600,000	24,175,000
Special Indebtedness						
Refi Greek Village COPs via LOBs	2015	1.85%-4.37%	2035	13,730,000	1,080,000	12,650,000
Total Revenue Bonds Payable and Special Indebtedness (principal only)				\$ 569,233,099	\$ 63,892,236	505,340,863
Less: Unamortized Discount						(464,478)
Plus: Unamortized Premium						26,459,579
Total Revenue Bonds Payable and Special Indebtedness, Net						\$ 531,335,964

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

** For the qualified energy conservation bonds, the University receives a cash subsidy from the U.S. Treasury equal to 66.5% of the interest payable on these bonds.

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2017, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Special Indebtedness		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 15,966,799	\$ 22,848,384	\$ 530,000	\$ 478,151	\$ 356,073	\$ 39,144
2019	16,566,801	22,184,030	540,000	468,362	370,945	32,483
2020	17,206,918	21,503,758	550,000	455,812	386,258	25,545
2021	17,907,151	20,737,244	565,000	441,930	402,022	18,322
2022	16,330,566	19,931,607	580,000	426,099	418,251	10,805
2023-2027	86,796,770	87,804,592	3,205,000	1,826,285	323,779	2,987
2028-2032	93,080,858	67,801,469	3,905,000	1,125,374		
2033-2037	112,170,000	44,305,002	2,775,000	246,200		
2038-2042	93,415,000	17,589,910				
2043-2045	23,250,000	1,873,906				
Total Requirements	\$ 492,690,863	\$ 326,579,902	\$ 12,650,000	\$ 5,468,213	\$ 2,257,328	\$ 129,286

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp	1.84%	02/14/2023	\$ 2,685,726	\$ 428,398	\$ 2,257,328

E. Bond Anticipation Notes - On June 14, 2016, The University issued \$19,477,500 in tax-exempt General Revenue Bond Anticipation Notes, Series 2016. The notes are structured as a drawdown direct placement with an initial term of three years and a maturity date of June 3, 2019. The notes are interest only with principal due on the maturity date. The terms of the loan provide for a floating interest rate, payable monthly based on 70% of the one-month LIBOR plus a 50 basis point spread. Such spread would be adjusted to 65 basis points in the event the University's credit rating by Moody's is decreased to A2 or to A by Standard and Poor's. If the credit rating further decreased to A3 (Moody's) or A- (S&P), the spread would increase to 80 basis points. The calculated interest rate was 1.235% as of June 30, 2017. The University pays a quarterly facility fee of 0.075% on the undrawn portion of the notes. The notes were issued to provide flexible, interim financing for renovations to the University's Elm, Maple, and Pine residence halls. As of June 30, 2017, \$14,250,000 in bond anticipation notes were outstanding. The University's available funds were pledged to pay the notes prior to being refunded with proceeds from a long-term fixed rate bond issue as disclosed at Note 19 - Subsequent Event.

Component Unit

On September 5, 2013, the Foundation entered into a line of credit agreement allowing it to borrow up to \$5,000,000. As of June 30, 2017, there were no outstanding draws on this line of credit. The line of credit carries a variable rate of interest equal to the one-month LIBOR plus 1.10%. The loan agreement contains a liquidity covenant and also requires that the Foundation maintain a minimum average deposit account balance of \$200,000 with the lender. The line of credit expires September 5, 2019.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for classroom and warehouse space, vehicles, parking spaces, heavy equipment, copiers, and fiber optic cable. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2017:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 321,873
2019	261,498
2020	120,568
2021	8,550
Total Minimum Lease Payments	\$ 712,489

Rental expense for all operating leases during the year was \$465,031.

NOTE 10 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees, Net	\$ 256,888,452	\$ 115,140	\$ 48,271,735	\$ 1,461,432	\$ 207,040,145
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 43,013,739	\$ 485,875	\$ 8,540,184	\$ 166,065	\$ 33,821,615
Dining	24,057,912	79,458	4,281,302	102,335	19,594,817
Student Union Services	5,180,013	1,134,792			4,045,221
Health Services	2,669,549	41,901		10,895	2,616,753
Parking	10,790,225	430,595			10,359,630
Athletic	6,086,586	32,118			6,054,468
Facilities	22,111,660	21,197,128			914,532
Telecommunications	3,043,890	2,993,124			50,766
Other	3,226,431	1,166,334			2,060,097
Sales and Services of Education and Related Activities	<u>2,841,994</u>	<u>1,503,254</u>			<u>1,338,740</u>
Total Sales and Services, Net	\$ 123,021,999	\$ 29,064,579	\$ 12,821,486	\$ 279,295	\$ 80,856,639

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 204,162,520	\$ 7,183,543	\$ 14,613,138	\$ 0	\$ 12,232	\$ 0	\$ 225,971,433
Research	14,996,720	1,343,644	4,865,046				21,205,410
Public Service	2,367,630	319,915	339,444				3,026,989
Academic Support	31,683,532	7,113,350	12,112,632		111,555		51,021,069
Student Services	17,268,278	1,575,493	4,084,646		29		22,928,446
Institutional Support	28,722,516	2,264,604	8,122,208		81,234		39,190,562
Operations and Maintenance of Plant	25,686,340	7,798,813	11,600,010		8,479,644		53,564,807
Student Financial Aid				39,927,810			39,927,810
Auxiliary Enterprises	43,848,176	11,983,049	39,231,524		4,108,416		99,171,165
Depreciation/Amortization						30,241,637	30,241,637
Total Operating Expenses	\$ 368,735,712	\$ 39,582,411	\$ 94,968,648	\$ 39,927,810	\$ 12,793,110	\$ 30,241,637	\$ 586,249,328

NOTE 12 - PENSION PLANS

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. 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 North Carolina 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, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were \$6,565,919, and the University's contributions were \$10,921,312 for the year ended June 30, 2017.

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 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> 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 Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. 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 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the University reported a liability of \$60,754,566 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was

determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. 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, 2016, the University's proportion was 0.66102%, which was a decrease of 0.00942 from its proportion measured as of June 30, 2015.

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	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
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, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. 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 at June 30, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 114,267,599	\$ 60,754,566	\$ 15,757,441

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the University recognized pension expense of \$12,066,405. At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Actual and Expected Experience	\$ 0	\$ 2,871,345
Changes of Assumptions	8,959,822	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	21,667,026	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	949,749	
Contributions Subsequent to the Measurement Date	<u>10,921,312</u>	
Total	<u>\$ 42,497,909</u>	<u>\$ 2,871,345</u>

The amount of \$10,921,312 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, 2018. 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:	<u>Amount</u>
2018	\$ 5,044,654
2019	5,079,192
2020	11,906,858
2021	<u>6,674,548</u>
Total	<u>\$ 28,705,252</u>

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

Participants in the ORP are immediately vested in the value of employee contributions. The value of employer contributions is vested after five

years of participation in the ORP. 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, 2017, 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 \$291,198,235, of which \$134,366,352 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$9,190,658 and \$8,061,981, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. Of the total expense recognized during the fiscal year, \$331,449 was covered with forfeitures.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the period July 1, 2016 through December 31, 2016, the University contributed 5.60% of the covered payroll under TSERS and ORP to the Fund, and for the period January 1, 2017 through June 30, 2017, the

University contributed 6.02% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were \$14,168,417, \$12,660,636, and \$11,738,557, 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 on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> 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, 2017, the University made a statutory contribution of .38% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were \$926,434, \$926,939, and \$876,650, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 14 - RISK MANAGEMENT

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

A. Employee Benefit Plans**1. State Health Plan**

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

2. Death Benefit Plan of North Carolina

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

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

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

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University mitigated additional risks with the following insurance programs as of June 30, 2017:

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

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

NOTE 15 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$100,330,769 at June 30, 2017.

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

NOTE 16 - RELATED PARTIES

Foundations - There are two separately incorporated nonprofit foundations associated with the University. These foundations are the Athletic Foundation of the University of North Carolina at Charlotte (Athletic Foundation) and Ventureprise, Inc.

The Athletic Foundation serves as the primary fundraising arm of the University's Athletic Department through which individuals, corporations, and other organizations support University athletic programs by providing scholarships, salary supplements, and unrestricted funds. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the Athletic Foundation, except for assets invested in the External Investment Pool held in a fiduciary capacity and support from the organization to the University. This support approximated \$3,892,812 for the year ended June 30, 2017.

The University contributed services valued at \$714,115 for Athletic Foundation financial and administrative support for the year ended June 30, 2017.

Ventureprise, Inc. serves as an economic development and business catalyst for emerging businesses in the Charlotte-Mecklenburg area. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of Ventureprise, Inc., except for support from the organization to the University. This support approximated \$107,844 for the year ended June 30, 2017.

The University contributed services valued at \$289,334 for Ventureprise financial and administrative support for the year ended June 30, 2017.

Effective July 1, 2017, substantially all operations of Ventureprise, Inc. were transferred to an organizational unit of the University. The Ventureprise, Inc. entity will continue to exist as a separate 501(c)(3) nonprofit organization, and the residual of assets over liabilities as of June 30, 2017, will remain with Ventureprise, Inc. to support any entrepreneurship and innovation initiatives directed by the University.

NOTE 17 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2017, is presented as follows:

*Condensed Statement of Net Position
June 30, 2017*

	University	FDC	UNCCIF*	Eliminations	Total
ASSETS					
Current Assets	\$ 287,140,393	\$ 618,153	\$ 12,854,237	\$ (10,881,775)	\$ 289,731,008
Capital Assets, Net	1,280,688,319	15,776,449			1,296,464,768
Other Noncurrent Assets	125,008,667		179,673,228	(169,759,658)	134,922,237
Total Assets	<u>1,692,837,379</u>	<u>16,394,602</u>	<u>192,527,465</u>	<u>(180,641,433)</u>	<u>1,721,118,013</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>45,987,138</u>				<u>45,987,138</u>
LIABILITIES					
Current Liabilities	48,415,592	691,284	28,366	(26,615)	49,108,627
Noncurrent Liabilities:					
Funds Held in Trust			192,499,099	(180,614,818)	11,884,281
Long-Term Liabilities, Net	593,679,308	12,120,000			605,799,308
Other Noncurrent Liabilities	5,564,786				5,564,786
Total Liabilities	<u>647,659,686</u>	<u>12,811,284</u>	<u>192,527,465</u>	<u>(180,641,433)</u>	<u>672,357,002</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,871,345</u>	<u>28,466</u>			<u>2,899,811</u>
NET POSITION					
Net Investment in Capital Assets	781,364,834	3,098,037			784,462,871
Restricted - Nonexpendable	46,960,389				46,960,389
Restricted - Expendable	49,770,635				49,770,635
Unrestricted	210,197,628	456,815			210,654,443
Total Net Position	<u>\$ 1,088,293,486</u>	<u>\$ 3,554,852</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,091,848,338</u>

* UNCCIF amounts include the portion that is attributable to the Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented in Exhibit B-1 of the financial statements. This discretely presented portion is also removed from financial statement totals via eliminations.

*Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2017*

	University	FDC	UNCCIF*	Eliminations	Total
OPERATING REVENUES					
Student Tuition and Fees, Net	\$ 207,040,145	\$ 0	\$ 0	\$ 0	\$ 207,040,145
Grants and Contracts	39,083,268				39,083,268
Sales and Services, Net	79,853,484	1,003,155			80,856,639
Other Operating Revenues	4,437,354				4,437,354
Total Operating Revenues	<u>330,414,251</u>	<u>1,003,155</u>			<u>331,417,406</u>
OPERATING EXPENSES					
Operating Expenses	555,903,194	104,497			556,007,691
Depreciation/Amortization	30,000,775	240,862			30,241,637
Total Operating Expenses	<u>585,903,969</u>	<u>345,359</u>			<u>586,249,328</u>
Operating Income (Loss)	<u>(255,489,718)</u>	<u>657,796</u>			<u>(254,831,922)</u>
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	231,745,912				231,745,912
Grants and Gifts	79,055,556				79,055,556
Investment Income (Net of Investment Expense)	9,938,161	4,688	21,334,425	(21,334,425)	9,942,849
Interest and Fees on Debt	(20,761,619)	(481,345)			(21,242,964)
Allocation to Owners			(21,334,425)	21,334,425	
Other	362,362				362,362
Net Nonoperating Revenues (Expenses)	<u>300,340,372</u>	<u>(476,657)</u>			<u>299,863,715</u>
Capital Contributions	11,587,942				11,587,942
Additions to Endowments	2,359,172				2,359,172
Increase in Net Position	58,797,768	181,139			58,978,907
NET POSITION					
Net Position, July 1, 2016	<u>1,029,495,718</u>	<u>3,373,713</u>			<u>1,032,869,431</u>
Net Position, June 30, 2017	<u>\$ 1,088,293,486</u>	<u>\$ 3,554,852</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,091,848,338</u>

* UNCCIF amounts include the portion that is attributable to the Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented in Exhibit B-2 of the financial statements. This discretely presented portion is also removed from financial statement totals via eliminations.

*Condensed Statement of Cash Flows
June 30, 2017*

	University	FDC	Total
Net Cash Provided (Used) by Operating Activities	\$ (220,917,086)	\$ 900,266	\$ (220,016,820)
Net Cash Provided by Noncapital Financing Activities	302,230,477		302,230,477
Net Cash Used by Capital and Related Financing Activities	(99,163,229)	(1,010,349)	(100,173,578)
Net Cash Provided by Investing Activities	<u>7,179,805</u>	<u>4,740</u>	<u>7,184,545</u>
Net Decrease in Cash and Cash Equivalents	(10,670,033)	(105,343)	(10,775,376)
Cash and Cash Equivalents, July 1, 2016	<u>319,973,972</u>	<u>661,845</u>	<u>320,635,817</u>
Cash and Cash Equivalents, June 30, 2017	<u>\$ 309,303,939</u>	<u>\$ 556,502</u>	<u>\$ 309,860,441</u>

NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

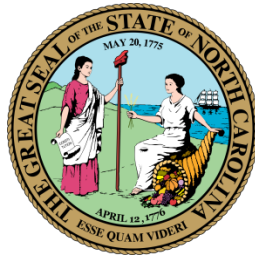
For the fiscal year ended June 30, 2017, the University implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 82, Pension Issues - An amendment of GASB Statement No. 67, No. 68, and No. 73

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE 19 - SUBSEQUENT EVENT

The University issued \$76.4 million in fixed-rate, tax-exempt General Revenue Bonds, Series 2017 on October 12, 2017. The bonds will provide funds to renovate Scott Hall, to construct and equip a health and wellness center, and to refund the outstanding \$14.25 million of Bond Anticipation Notes, Series 2016, that were issued to finance the renovation of Elm, Maple, and Pine residence halls. The University's available funds, which exclude tuition and state appropriations but include a general fee assessed to all students, are pledged to pay the bonds.



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.66102%	0.67044%	0.67809%	0.66110%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 60,754,566	\$ 24,707,041	\$ 7,950,070	\$ 40,135,507
Covered Payroll	\$ 101,985,427	\$ 98,002,228	\$ 96,704,555	\$ 95,240,521
Net Pension Liability as a Percentage of Covered Payroll	59.57%	25.21%	8.22%	42.14%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

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

Exhibit C-2

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 10,921,312	\$ 9,331,667	\$ 8,967,204	\$ 8,403,626	\$ 7,933,535
Contributions in Relation to the Contractually Determined Contribution	<u>10,921,312</u>	<u>9,331,667</u>	<u>8,967,204</u>	<u>8,403,626</u>	<u>7,933,535</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 109,431,980	\$ 101,985,427	\$ 98,002,228	\$ 96,704,555	\$ 95,240,521
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contribution	\$ 6,735,742	\$ 4,461,891	\$ 3,138,757	\$ 2,853,451	\$ 2,299,238
Contributions in Relation to the Contractually Determined Contribution	<u>6,735,742</u>	<u>4,461,891</u>	<u>3,138,757</u>	<u>2,853,451</u>	<u>2,299,238</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 90,534,160	\$ 90,504,892	\$ 87,920,362	\$ 84,924,137	\$ 75,384,848
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

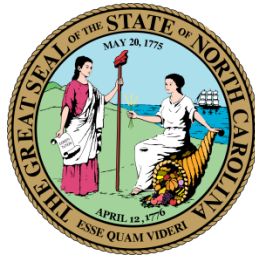
**The University of North Carolina at Charlotte
Notes to Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years**

Changes of Benefit Terms:

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

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2016 *Comprehensive Annual Financial Report*.



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
The University of North Carolina at Charlotte
Charlotte, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Charlotte (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 20, 2017. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the discretely presented component unit, as described in our report on the University's financial statements. The financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 20, 2017

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This audit required 660.5 hours at an approximate cost of \$68,032.