

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE

ASHEVILLE, 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



**NCOSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of The University of North Carolina at Asheville 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.

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

Beth A. Wood, CPA  
State Auditor



Beth A. Wood, CPA  
State Auditor

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



# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## **INDEPENDENT AUDITOR'S REPORT**

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

### Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Asheville (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 Asheville Foundation, Inc., the University's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for The University of North Carolina at Asheville Foundation, Inc., are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of The University of North Carolina at Asheville Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Asheville, 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 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 15, 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 15, 2017



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**





## Introduction

This section of The University of North Carolina at Asheville's (University) financial report provides an overview of the financial position and activities for the year ended June 30, 2017. This discussion has been prepared by management along with the financial statements and related notes to the financial statements, which follow this section and, as such, should be read in conjunction with them. This discussion and analysis only reflects the activity of the University for the fiscal years ended June 30, 2017 and 2016 and not its component unit. It is designed to focus on current activities, resulting change, and currently known facts.

These statements have been prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB) and include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows, and Notes to the Financial Statements. Comparative information for the prior fiscal year is also presented in the condensed financial statements in this section.

## Financial Highlights

### Statement of Net Position

The *Statement of Net Position* presents assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (the difference between assets and deferred outflows of resources from liabilities and deferred inflows of resources) as of the date of the fiscal year end (June 30). This statement assists in the determination of the financial condition of the University. Comparative, condensed versions for fiscal year 2017 and fiscal year 2016 are as follows:



Condensed Statement of Net Position				
	Fiscal Year 2017	Fiscal Year 2016	\$ Change	% Change
Current Assets	\$ 23,517,062.28	\$ 22,139,892.33	\$ 1,377,169.95	6.22%
Capital Assets, Net	192,570,931.48	191,137,030.00	1,433,901.48	0.75%
Other Noncurrent Assets	61,379,533.56	15,136,685.67	46,242,847.89	305.50%
Total Assets	277,467,527.32	228,413,608.00	49,053,919.32	21.48%
Deferred Loss on Refunding	338,876.60	390,600.53	(51,723.93)	-13.24%
Deferred Outflows Related to Pensions	7,816,091.19	2,139,833.38	5,676,257.81	265.27%
Total Deferred Outflows of Resources	8,154,967.79	2,530,433.91	5,624,533.88	222.28%
Current Liabilities	7,786,269.02	6,627,066.64	1,159,202.38	17.49%
Long-Term Liabilities, Net	102,056,846.57	49,610,962.68	52,445,883.89	105.71%
Other Noncurrent Liabilities	1,361,597.82	1,377,326.15	(15,728.33)	-1.14%
Total Liabilities	111,204,713.41	57,615,355.47	53,589,357.94	93.01%
Deferred Gain on Refunding	124,884.42	137,477.81	(12,593.39)	-9.16%
Deferred Inflows Related to Pensions	516,740.00	966,701.00	(449,961.00)	-46.55%
Total Deferred Inflows of Resources	641,624.42	1,104,178.81	(462,554.39)	-41.89%
Net Investment in Capital Assets	145,288,644.68	146,372,273.48	(1,083,628.80)	-0.74%
Restricted - Nonexpendable	8,331,861.77	8,202,776.34	129,085.43	1.57%
Restricted - Expendable	10,300,824.39	7,495,210.00	2,805,614.39	37.43%
Unrestricted	9,854,826.44	10,154,247.81	(299,421.37)	-2.95%
Total Net Position	\$ 173,776,157.28	\$ 172,224,507.63	\$ 1,551,649.65	0.90%

### General Discussion of Changes in Statement of Net Position

The University's total assets increased this year by \$49.05 million or 21.48%. Current assets increased by approximately \$1.38 million, capital assets increased by \$1.43 million, and other noncurrent assets increased by \$46.24 million.

Current assets are comprised of current unrestricted and restricted cash and investments, accounts receivable, notes receivables, and inventories. The primary reason for the increase is due to more restricted cash and cash equivalents relating to grant funds of approximately \$0.96 million from a Mellon Foundation grant (\$0.70 million) and an NCAA grant (\$0.26 million). The University also started collecting funds for the debt service fee associated with the construction on the Highsmith Student Center which amounted to an additional \$0.47 million in restricted cash and cash equivalents.

The \$1.43 million net increase in capital assets is due to increases to capital assets totaling \$6.80 million offset by the recording of annual depreciation expense equal to \$5.34 million and net asset retirements of nearly \$0.03 million. The increases consisted mainly of the following:

- \$3.47 million additional accumulated construction costs toward the construction of a new, approximately 294 bed residence hall (discussed further below);
- \$1.49 million related to residence hall updates, campus building upgrades, and equipment purchases;
- \$0.63 million for additional construction costs associated with an expansion and renovations to the Highsmith Student Center (discussed further below); and

- \$0.26 million in pre-construction costs related to the Owen Hall and Carmichael Hall renovations being funded from the Connect NC Bonds.

Other noncurrent assets increased \$46.24 million over fiscal year 2016 and consists primarily of restricted cash, restricted due from university component unit, and endowment investments. The primary reason for the overall increase in noncurrent assets is due to approximately \$44.15 million in unspent bond funds at year-end that relate to a \$46.29 million bond offering (discussed further below) for the construction of a new residence hall and the expansion and renovation of the Highsmith Student Center. Also, the University Endowment investment portfolio experienced a net increase of approximately \$0.83 million due to returns of 11.79% offset by annual spending on related programs.

Additionally, a \$2.00 million restricted due from university component unit was recorded that is related to the future closing of a property purchase from the UNC Asheville Foundation Real Estate, LLC (Real Estate, LLC), a wholly owned subsidiary of The University of North Carolina at Asheville Foundation, Inc. (Foundation), a component unit of the University. The State of North Carolina appropriated \$2.00 million to the University for the land acquisition in House Budget Bill 1030, known as the "Current Operations and Capital Improvement Appropriations Act of 2016." The University accordingly entered into a purchase agreement as of November 21, 2016 with the Real Estate, LLC. In accordance with the terms of the appropriation, the funds were transferred to the Foundation for the purchase of the property and to pay off a loan secured by it. Under the terms of the agreement, the closing of the sale and transfer of the property will occur no later than September 30, 2018.

Total liabilities increased approximately \$53.59 million or 93.01% overall due to the increase in current liabilities of \$1.15 million and a net increase in long-term liabilities of \$52.44 million.

The primary driver of increases in both current and long-term liabilities was the March 22, 2017 issuance of \$46.29 million (par value) General Revenues Bonds (Series 2017 Bonds) for the purpose of financing the construction, equipment, and furnishings of a new, approximately 294 bed residence hall and a 6,600 square foot expansion and renovation of the Highsmith Student Center. The 30-year financing produced total proceeds of approximately \$48.95 million and yielded a total interest cost of 3.95% for the University. Additional information on the Series 2017 Bonds is provided below in the Debt Administration section. The terms include an interest-only period through May 31, 2019, with principal payments on a portion of the bonds beginning June 1, 2019. Therefore, at June 30, 2017, interest payable of \$0.17 million was recorded in current liabilities and all \$46.29 million in principal is classified as long-term.

The remaining increase in current liabilities was primarily due to an approximate \$0.80 million increase in unearned revenue from grant activities where funds will be eligible for spending in a future period.

In addition to the issuance of the Series 2017 Bonds, the University's portion of net pension liability increased from \$4.35 million to \$10.93 million, also contributing to the increase in long-term liabilities. Following is an update to the impact of the University's pension liability components.

#### *Pension Liability Components - Fiscal Year 2017 Update*

The net pension liability for the Teachers' and State Employees' Retirement System (TSERS) was measured as of June 30, 2016 and June 30, 2015 (Note: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement*

No. 27, requires the net pension liability to be measured as of a date no earlier than the end of the employer's prior fiscal year). The underlying financial information used to prepare the pension schedules is based on the TSERS financial statements. The North Carolina Office of the State Auditor (OSA) has completed a financial audit of the TSERS Schedule of Employer Allocations for the year ended June 30, 2016 and June 30, 2015 and the Schedule of Pension Amounts by Employer for the year ended June 30, 2016. The OSA's audit report, *Teachers and State Employees Retirement System - Financial Audit of Schedules*, can be found on their website at [www.ncauditor.net](http://www.ncauditor.net).

An illustration of the impact of these items on the University's fiscal years 2017 and 2016 Statements of Net Position is as follows:

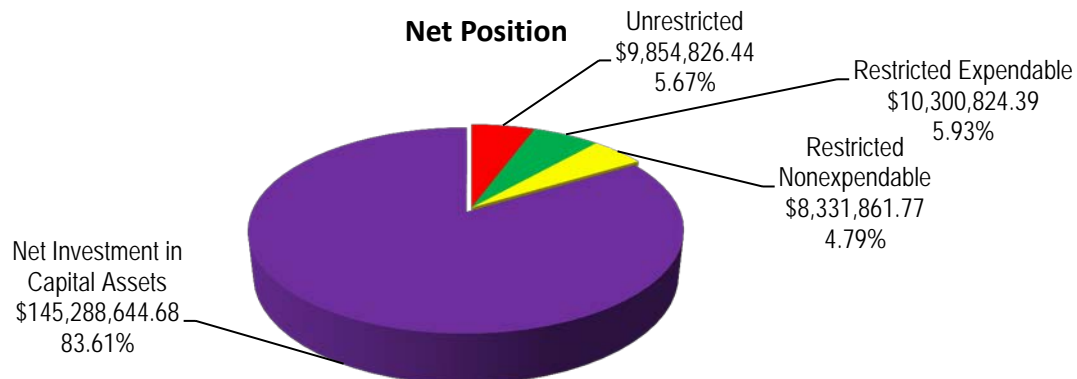
Statement of Net Position - Effect of Pension Related Items				
	Fiscal Year 2017	Fiscal Year 2016	\$ Change	% Change
Deferred Outflows Related to Pensions	\$ 7,816,091.19	\$ 2,139,833.38	\$ 5,676,257.81	265.27%
Less: Net Pension Liability	10,933,653.00	4,353,693.00	6,579,960.00	151.14%
Less: Deferred Inflows Related to Pensions	516,740.00	966,701.00	(449,961.00)	-46.55%
Net Position Effect from GASB Statement No. 68	\$ (3,634,301.81)	\$ (3,180,560.62)	\$ (453,741.19)	-14.27%

As seen above, total net position for fiscal years 2017 and 2016 declined by \$3.63 million and \$3.18 million, respectively, as a result of the recognition of pension related items. However, between fiscal years 2017 and 2016, the impact to the components of the pension related items as seen above net to a decrease in unrestricted net position of \$0.45 million. The changes in each component resulted from an update to actuarial assumptions performed at the state level and the net difference between projected and actual earnings on pension plan investments. Additional information on these items can be found in the Required Supplementary Information schedules.

One important measure of a pension plan's financial strength is its net position as a percentage of its total pension liability. For the TSERS plan, the net position as a percentage of the total pension liability was 87.32% and 94.64% for fiscal years 2016 and 2015, respectively.

#### General Discussion of University's Net Position

The components of net position are shown in the graph below.



Net position represents residual interest in the University's assets and deferred outflows of resources after all liabilities and deferred inflows of resources are deducted. For reporting purposes, they are divided into four major components:

"Net Investment in Capital Assets" represents the University's investment in capital assets such as land, construction in progress, buildings, machinery and equipment, and general infrastructure, net of accumulated depreciation and outstanding principal balances of liabilities attributable to the acquisition, construction, or improvement of those assets. At June 30, 2017, approximately \$145.29 million or 83.61% of the \$173.77 million in net position was attributable to the University's net investment in capital assets as compared to \$146.37 million and 84.99% for fiscal year 2016. This \$1.08 million decrease over the prior year is primarily due to the combination of large asset additions discussed above, depreciation of capital assets, and the principal payments of all capital-associated University debt.

"Restricted - Nonexpendable" net position primarily includes the University's permanent endowment funds received from donors for the purpose of creating present and future income. These funds, according to donor restrictions, must be held in perpetuity or for a specified period of time. These funds represent 4.79% of the University's net position and saw a slight increase of approximately \$0.13 million from fiscal year 2016.

"Restricted - Expendable" net position is income from endowed funds, grants from others, gifts with specific restrictions on spending, and funds restricted for capital projects. Restricted - expendable net position comprises 5.93% of the University's net position. This component saw an increase of nearly \$2.81 million due to an increase in funds for capital projects that are in progress for a new residence hall and other renovation projects, investment performance on endowment funds, and funds received for future grant-related activities.

"Unrestricted" net position is not subject to externally imposed restrictions, and substantially all of the University's unrestricted net position has been designated for various programs and initiatives. Unrestricted net position is impacted by the pension-related components resulting from the GASB Statement No. 68 implementation as previously discussed. In fiscal year 2017, the unrestricted net position represented 5.67% of total net position compared to 5.90% for fiscal year 2016. The nearly \$0.30 million decrease is primarily attributable to the negative net effect of pension recognition.

### **Statement of Revenues, Expenses, and Changes in Net Position**

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. Given a public university's dependency on revenues such as state appropriations, gifts, and investment income, which are prescribed by the GASB as nonoperating revenues, operating expenses will exceed operating revenues, resulting in an operating loss. Therefore, nonoperating revenues and expenses are integral components in determining the increase or decrease in net position and in analyzing the core performance of the University as a whole. Following is a condensed, comparative review of the Statement of Revenues, Expenses, and Changes in Net Position:

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2017 Fiscal Year	2016 Fiscal Year	\$ Change	% Change
Student Tuition and Fees, Net	\$ 24,457,326.09	\$ 23,728,559.85	\$ 728,766.24	3.07%
Sales and Services, Net	11,719,957.18	12,356,155.43	(636,198.25)	-5.15%
Grants and Contracts	3,347,154.32	3,631,124.81	(283,970.49)	-7.82%
Other Operating Revenues	1,899,866.04	1,708,920.00	190,946.04	11.17%
Total Operating Revenues	41,424,303.63	41,424,760.09	(456.46)	0.00%
Salaries and Benefits	61,910,895.00	57,345,833.13	4,565,061.87	7.96%
Supplies and Materials	4,963,139.71	5,279,263.66	(316,123.95)	-5.99%
Services	13,762,756.50	14,652,434.40	(889,677.90)	-6.07%
Scholarships and Fellowships	5,388,873.76	5,797,384.77	(408,511.01)	-7.05%
Utilities	2,486,201.39	2,596,968.07	(110,766.68)	-4.27%
Depreciation	5,341,277.43	5,208,173.30	133,104.13	2.56%
Total Operating Expenses	93,853,143.79	90,880,057.33	2,973,086.46	3.27%
Operating Loss	(52,428,840.16)	(49,455,297.24)	(2,973,542.92)	6.01%
State Appropriations	39,864,859.65	38,770,344.11	1,094,515.54	2.82%
Noncapital Grants	9,262,754.12	9,302,491.39	(39,737.27)	-0.43%
Noncapital Gifts	2,866,944.18	2,468,740.90	398,203.28	16.13%
Investment Income (Loss)	1,818,084.17	(166,637.97)	1,984,722.14	1,119.04%
Interest and Fees on Debt	(2,514,912.12)	(2,194,763.67)	(320,148.45)	14.59%
Federal Interest Subsidy on Debt	519,379.37	523,873.45	(4,494.08)	-0.86%
Other Nonoperating Revenues (Expenses)	(362,153.60)	114,447.75	(476,601.35)	-416.44%
Net Nonoperating Revenues	51,454,955.77	48,818,495.96	2,636,459.81	5.40%
Loss Before Other Revenues	(973,884.39)	(636,801.28)	(337,083.11)	52.93%
Capital Contributions	2,418,004.59	2,732,745.00	(314,740.41)	-11.52%
Additions to Endowments	107,529.45		107,529.45	100.00%
Increase in Net Position	1,551,649.65	2,095,943.72	(544,294.07)	-25.97%
Net Position, Beginning of Year	172,224,507.63	170,128,563.91	2,095,943.72	1.23%
Net Position, End of Year	\$ 173,776,157.28	\$ 172,224,507.63	\$ 1,551,649.65	0.90%
<b>Reconciliation of Change in Net Position</b>				
Total Revenues	\$ 98,281,859.16	\$ 95,337,402.69	\$ 2,944,456.47	3.09%
Less: Total Expenses	96,730,209.51	93,241,458.97	3,488,750.54	3.74%
Increase in Net Position	\$ 1,551,649.65	\$ 2,095,943.72	\$ (544,294.07)	-25.97%

### General Discussion of Changes in Statement of Revenues, Expenses, and Changes in Net Position

Operating revenues were essentially flat compared to fiscal year 2016. However, components within this category reported significant variances. A major factor contributing to such variances was a \$0.72 million increase in net tuition and fee revenue due primarily to a 5% Board of Governors approved rate increase for both in-state and out-of-state tuition. In addition, net sales and services declined nearly \$0.64 million primarily from \$0.86 million in prior year registration revenues for hosting the 30<sup>th</sup> Annual National Conference on Undergraduate Research (NCUR). This one-time amount was offset by slight increases in housing and dining revenues and other auxiliary revenues.

Operating expenses saw a \$2.97 million or 3.27% increase overall. This change was driven by an approximate \$4.57 million net increase in salaries and benefits.

The bulk of the salaries and benefits increase was due to legislative increases, state appropriated faculty recruitment and retention funds, new hires, merit bonuses, and state mandated additional employer contributions to retirement plans totaling an additional \$2.87 million in fiscal year 2017. Also, an additional \$1.71 million in pension expense was recorded in the current year due to the University's portion of the TSERS pension expense as determined by GASB Statement No. 68.

Supplies and materials declined by nearly \$0.32 million primarily due to fewer large repair projects in fiscal year 2017 relative to fiscal year 2016. Services declined approximately \$0.89 million primarily due to one-time costs in the prior year associated with software purchases and the NCUR conference. Utilities declined \$0.11 million overall due to savings from the ESCO lighting upgrades and natural gas rate reductions. Scholarships and fellowships declined nearly \$0.41 million due to fewer state and federal need-based awards relative to the prior fiscal year.

Net nonoperating revenues increased approximately \$2.64 million or 5.40% overall. A significant portion of this increase is attributable to the net investment income of \$1.81 million compared to the loss of nearly \$0.17 million in the prior fiscal year. The University's endowment funds, largely invested with UNC Investment Fund, returned to positive results with returns of 11.79% in fiscal year 2017 versus negative returns of 2.28% in fiscal year 2016.

Other than the net investment income, nonoperating revenues increased \$0.65 million. The largest component of nonoperating revenues is state appropriations that were \$39.86 million and \$38.77 million in fiscal years 2017 and 2016, respectively. In fiscal year 2017, additional state appropriations of \$1.09 million provided for legislative increases in salaries, merit bonuses, and increased employer contributions to pension plans. Other increases related to University programming.

Noncapital grants and gifts are primarily student financial aid from both public and private sources including Federal Pell Grants (\$5.42 million), The North Carolina State Education Assistance Authority (\$2.71 million), and the Foundation (\$0.95 million). In addition, other noncapital grants include \$0.35 million from the Windgate Foundation to support a collaborative programming effort with the Asheville-based Center for Craft Creativity and Design. The related \$0.35 million expenses for the grant were reflected in the decline in other nonoperating revenues (expenses).

Interest and fees on debt increased by \$0.32 million due to the fees and issuance costs related to the Series 2017 Bonds.

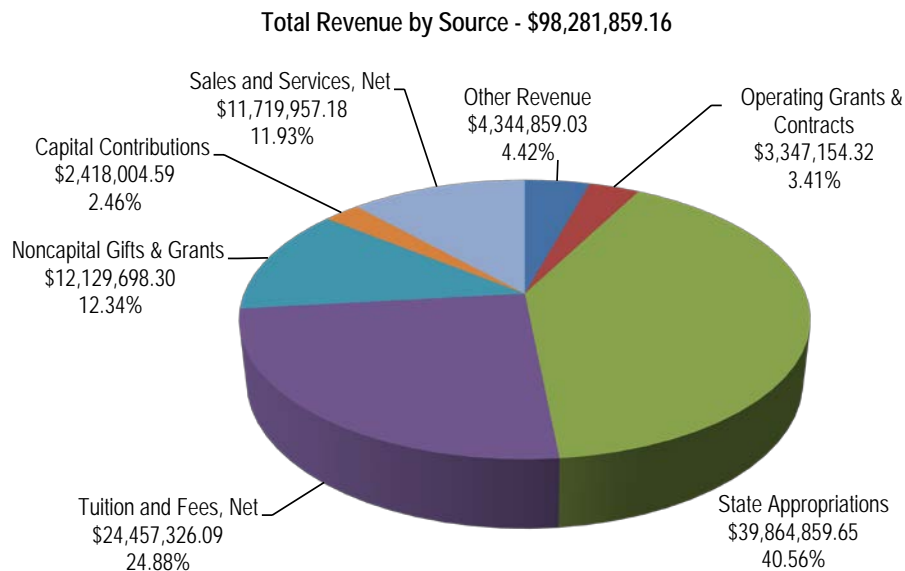
Capital appropriations, grants, and gifts are considered neither operating nor nonoperating revenues and are reported after "Loss Before Other Revenues."

In fiscal year 2017, as previously discussed, a \$2.00 million capital appropriation for the purchase of property from the Foundation was received. Additional capital appropriations and grants in the form of Certificates of Participation totaled approximately \$0.42 million for various state-approved capital projects and safety enhancements versus \$1.73 million in fiscal year 2016.

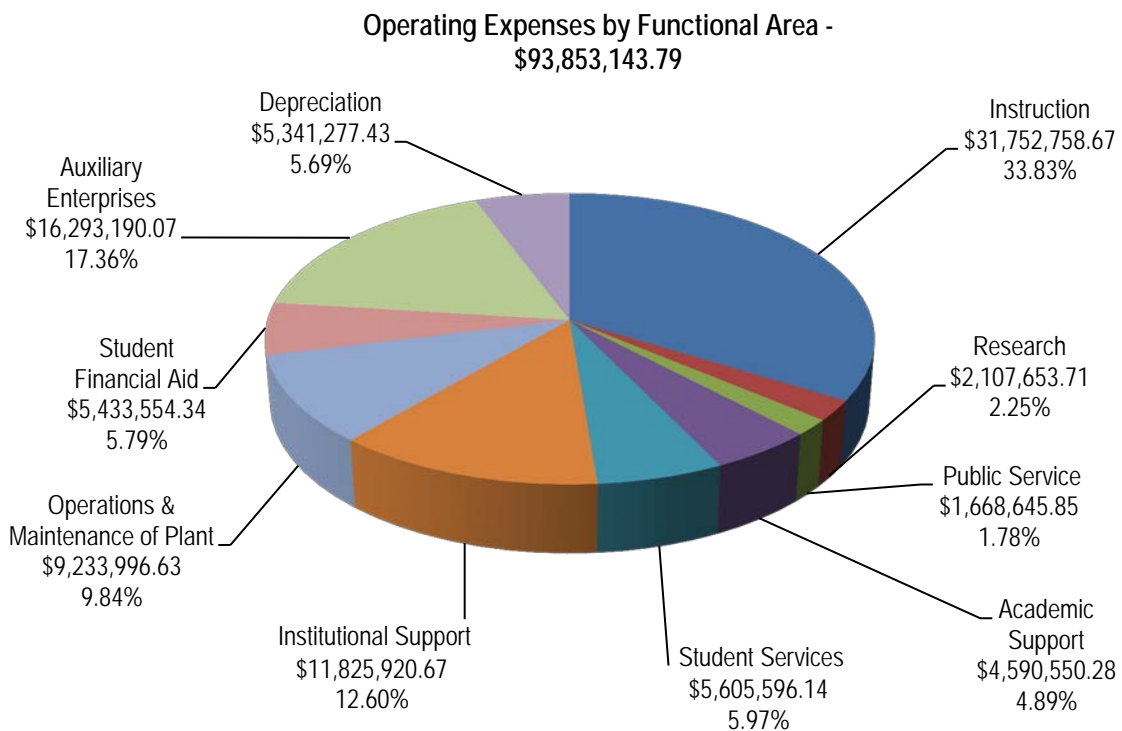


## Additional Summary Information

A summary of the University's fiscal year 2017 total of all revenues by source is as follows:

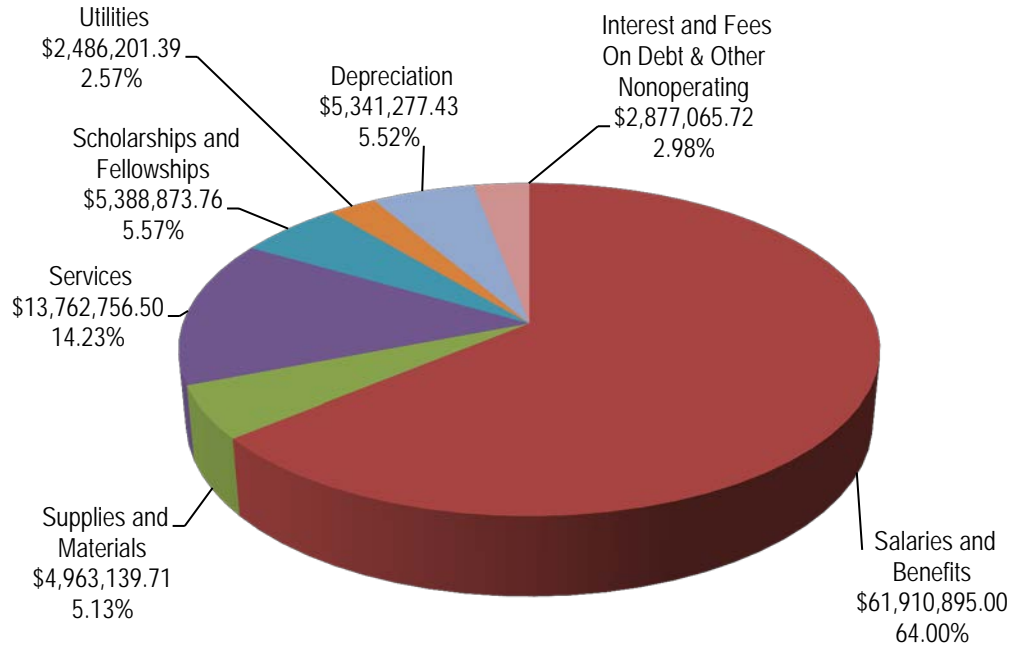


Operating expenses by functional area for fiscal year 2017 are shown in the graph below:



The total of all expenses by natural classification for fiscal year 2017 is shown below:

**Total Expenses By Natural Classification - \$96,730,209.51**



**Debt Administration, Major Capital Projects in Progress, and Debt Rating Update**

On March 22, 2017, the University issued 30-year General Revenue Bonds with a par value of \$46.29 million. Initial authorization for these bonds was received in fiscal year 2016 under Senate Bill 872 dated June 30, 2016. The Series 2017 Bonds carried average coupon rates ranging from 4.00% - 5.00%. A summary of the sources and uses of proceeds from the transaction is as follows:

UNC Asheville Series 2017 General Revenue Bonds Sources & Uses Funds (Final Pricing Numbers)	
<b>Sources:</b>	
Par Amount	\$ 46,290,000.00
Net Premium	2,657,553.75
<b>Total Sources</b>	<b>\$ 48,947,553.75</b>
<b>Uses:</b>	
Issuance Costs	\$ 320,069.45
Capitalized Interest Fund	2,402,484.30
New Residence Hall	33,795,000.00
Highsmith Hall Renovations	12,430,000.00
<b>Total Uses</b>	<b>\$ 48,947,553.75</b>

The funds are being used to construct a new residence hall and to expand and renovate the Highsmith Student Center at costs not to exceed \$33.80 million and \$12.43 million,

respectively. As of June 30, 2017, \$3.66 million and \$0.81 million had been capitalized for the new residence hall and the Highsmith Student Center projects, respectively. Both projects will be completed in fiscal year 2019. The interest due on the bonds through and including the June 1, 2018 payment will be paid from the capitalized interest fund.

In March 2016, North Carolina voters approved the \$2.00 billion Connect NC Bond general obligation bond issuance. As part of this bond issuance, the University will receive a \$21.10 million allocation for the repair and renovation of Owen Hall and Carmichael Hall. As of June 30, 2017, \$0.26 million in pre-construction costs has been capitalized related to these projects.

Other capital projects in process at year-end include costs associated with campus classroom and building repairs and renovations.

For additional debt information, see Note 8 of the Notes to the Financial Statements.

Prior to the issuance of the Series 2017 Bonds, Moody's Investors Service affirmed the University's A1 debt rating with a stable outlook on March 1, 2017. An excerpt from the release is as follows:

"The A1 rating favorably incorporates UNCA's general financial support from the State of North Carolina (Aaa stable), which provides for continued operating stability. The favorable location, low-cost pricing, and market niche as the UNC system's public liberal arts university contribute to maintenance of student demand."

The credit opinion further states "the stable outlook reflects the expectation that the university will maintain balanced operations while improving to near double digit cash flow margins to accommodate the incremental debt service from the 2017 bonds. It also reflects expectations of no material increase in financial leverage, continued state funding growth, and at a minimum, maintenance of liquidity at fiscal year 2016 levels."

### **Economic Outlook**

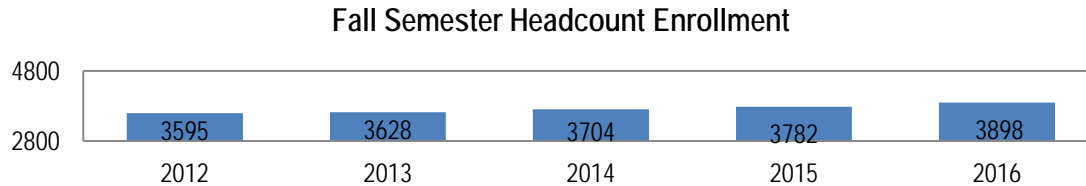
Management believes that the University is well positioned to continue its level of excellence of service to students, the community, and governmental agencies. As the only designated liberal arts university in the University of North Carolina System, the University stimulates learning by offering students an intellectually rigorous education that builds critical thinking and workforce skills to last a lifetime. Small class sizes, award-winning faculty, and a nationally acclaimed undergraduate research program foster innovation as well as recognition.

The University's ongoing efforts toward maximizing the State's resources with efficiency and effectiveness measures should enable it to provide the necessary resources to support this level of excellence.

### **Enrollment Trends**

The University maintains strong admission standards for incoming freshman as the institution continues to enhance its national profile. The overall enrollment stability reflects a strong demand for the University's nationally recognized public liberal arts program.

The following table compares fall semester total headcount of students for the previous five years.



### Current Year University Recognitions

The University is consistently recognized for academic quality, excellent teaching, quality of life, and great value. Highlights from recent rankings and distinctions include:

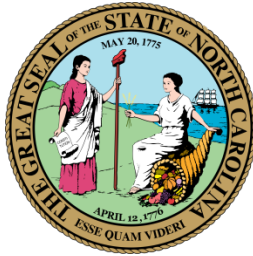
- Ranked seventh in the nation among public liberal arts colleges in U.S. News & World Report's "2018 Best Colleges".
- Among the top 100 of Kiplinger's 2016 "Public College Values," including sixth lowest total cost of attending for in-state students, and the 21<sup>st</sup> lowest average debt among graduates of public universities nationally.
- The Fiske Guide to Colleges, 2018 Edition, named the University a "Best Buy," along with UNC-Chapel Hill and N.C. State University - the only North Carolina public universities to earn a place on this international ranking list reflecting academic quality and affordability. For 14 consecutive years, the University's Environmental Studies Program has been included on the list of pre-professional programs with unusual strength in preparing students for careers.
- The Princeton Review features the University among The Best 382 Colleges in its 2018 Edition of the same name, earning a spot on two of the top 20 lists, coming in at No. 18 for "Town-Grown Relations are Great" and No. 20 for "College City Gets High Marks." The Princeton Review selected the 382 colleges and universities based on academic strength and surveys of students.

### Conclusion

Looking ahead, a crucial element to the University's future will continue to be the level of state funding as well as managing tuition and fees while staying competitive and providing an outstanding college education for its students.

The University will strategically seek alternative funding sources through contract and grant funding as well as private fundraising. The University will continue to employ its investment strategy to maximize total returns, at an appropriate level of risk in accordance with our strategic plan, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility. The University will also continue to control its spending to be in accordance with available revenue sources.

While it is not possible to predict the ultimate results, management believes that with continued prudent strategic efficiency measures, the support of the State of North Carolina, and faithful donors, the University's financial condition is strong enough to weather future economic uncertainties.



# FINANCIAL STATEMENTS

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

***Exhibit A-1***  
***Page 1 of 2***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 18,506,216.99
Restricted Cash and Cash Equivalents	3,037,353.38
Restricted Short-Term Investments	6,349.32
Receivables, Net (Note 5)	1,191,789.42
Inventories	231,439.57
Notes Receivable, Net (Note 5)	543,913.60
Total Current Assets	<u>23,517,062.28</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	45,018,110.74
Restricted Due from University Component Unit	2,000,000.00
Endowment Investments	13,924,425.02
Notes Receivable, Net (Note 5)	436,997.80
Capital Assets - Nondepreciable (Note 6)	15,117,228.98
Capital Assets - Depreciable, Net (Note 6)	177,453,702.50
Total Noncurrent Assets	<u>253,950,465.04</u>
Total Assets	<u>277,467,527.32</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Loss on Refunding	338,876.60
Deferred Outflows Related to Pensions	7,816,091.19
Total Deferred Outflows of Resources	<u>8,154,967.79</u>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	1,971,776.42
Due to Primary Government	14,671.15
Funds Held for Others	3,937.07
Unearned Revenue	2,071,328.25
Interest Payable	393,857.75
Long-Term Liabilities - Current Portion (Note 8)	3,330,698.38
Total Current Liabilities	<u>7,786,269.02</u>

Noncurrent Liabilities:

Deposits Payable	65,014.97
Funds Held for Others	109,599.49
U. S. Government Grants Refundable	1,186,983.36
Long-Term Liabilities, Net (Note 8)	102,056,846.57
Total Noncurrent Liabilities	<u>103,418,444.39</u>
Total Liabilities	<u>111,204,713.41</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred Gain on Refunding	124,884.42
Deferred Inflows Related to Pensions	516,740.00
Total Deferred Inflows of Resources	<u>641,624.42</u>



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

***Exhibit A-1***  
***Page 2 of 2***

**NET POSITION**

Net Investment in Capital Assets	145,288,644.68
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	799,127.78
Endowed Professorships	7,336,500.00
Departmental Uses	10,061.93
Loans	186,172.06
Expendable:	
Scholarships and Fellowships	1,933,680.11
Research	672,243.03
Endowed Professorships	3,601,521.67
Departmental Uses	179,341.16
Capital Projects	2,918,590.16
Other	995,448.26
Unrestricted	9,854,826.44
Total Net Position	<u><u>\$ 173,776,157.28</u></u>

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

***The University of North Carolina at Asheville  
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)	\$ 24,457,326.09
Federal Grants and Contracts	1,544,081.10
State and Local Grants and Contracts	773,020.96
Nongovernmental Grants and Contracts	1,030,052.26
Sales and Services, Net (Note 10)	11,719,957.18
Interest Earnings on Loans	18,038.28
Other Operating Revenues	1,881,827.76

Total Operating Revenues	<u>41,424,303.63</u>
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	61,910,895.00
Supplies and Materials	4,963,139.71
Services	13,762,756.50
Scholarships and Fellowships	5,388,873.76
Utilities	2,486,201.39
Depreciation	5,341,277.43

Total Operating Expenses	<u>93,853,143.79</u>
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Operating Loss	<u>(52,428,840.16)</u>
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	39,864,859.65
Noncapital Grants - Student Financial Aid	8,422,088.83
Noncapital Grants	840,665.29
Noncapital Gifts	2,866,944.18
Investment Income (Net of Investment Expense of \$69,004.76)	1,818,084.17
Interest and Fees on Debt	(2,514,912.12)
Federal Interest Subsidy on Debt	519,379.37
Other Nonoperating Expenses	(362,153.60)

Net Nonoperating Revenues	<u>51,454,955.77</u>
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Loss Before Other Revenues	(973,884.39)
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Capital Appropriations	2,038,905.25
Capital Grants	379,099.34
Additions to Endowments	107,529.45

Increase in Net Position	1,551,649.65
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**NET POSITION**

Net Position - July 1, 2016	<u>172,224,507.63</u>
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Net Position - June 30, 2017	<u><u>\$ 173,776,157.28</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

***The University of North Carolina at Asheville***  
***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	\$ 41,837,982.53
Payments to Employees and Fringe Benefits	(61,394,192.35)
Payments to Vendors and Suppliers	(21,558,679.64)
Payments for Scholarships and Fellowships	(5,367,242.02)
Loans Issued	(131,018.00)
Collection of Loans	212,727.89
Interest Earned on Loans	18,038.28
Other Payments	(350,347.14)
Net Cash Used by Operating Activities	<u>(46,732,730.45)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	39,864,859.65
Noncapital Grants - Student Financial Aid	8,422,088.83
Noncapital Grants	845,213.85
Noncapital Gifts	2,866,944.18
Additions to Endowments	107,529.45
William D. Ford Direct Lending Receipts	14,254,543.00
William D. Ford Direct Lending Disbursements	(14,254,543.00)
Net Cash Provided by Noncapital Financing Activities	<u>52,106,635.96</u>

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES**

Proceeds from Capital Debt	48,947,553.75
Capital Appropriations	2,038,905.25
Capital Grants	380,021.31
Payment Toward Future Property Purchase Closing	(2,000,000.00)
Acquisition and Construction of Capital Assets	(6,163,482.24)
Principal Paid on Capital Debt	(2,661,946.47)
Interest and Fees Paid on Capital Debt	(2,852,948.25)
Federal Interest Subsidy on Debt Received	519,379.37
Net Cash Provided by Capital Financing and Related Financing Activities	<u>38,207,482.72</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	922,058.65
Investment Income	303,975.57
Purchase of Investments and Related Fees	(79,004.74)
Net Cash Provided by Investing Activities	<u>1,147,029.48</u>
Net Increase in Cash and Cash Equivalents	44,728,417.71
Cash and Cash Equivalents - July 1, 2016	<u>21,833,263.40</u>
Cash and Cash Equivalents - June 30, 2017	<u><u>\$ 66,561,681.11</u></u>

***The University of North Carolina at Asheville***  
***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	\$ (52,428,840.16)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,341,277.43
Allowances and Write-Offs	(41,794.26)
Nonoperating Other Expenses	(383,240.21)
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(303,186.84)
Inventories	42,725.77
Notes Receivable, Net	81,709.89
Deferred Outflows for Pensions	(5,676,257.81)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(290,749.13)
Due to Primary Government	851.77
Funds Held for Others	(62,569.54)
Unearned Revenue	797,185.15
Net Pension Liability	6,579,960.00
Compensated Absences	(41,821.00)
Deposits Payable	26,135.49
Deferred Inflows for Pensions	(374,117.00)
Net Cash Used by Operating Activities	<u><u>\$ (46,732,730.45)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 18,506,216.99
Restricted Cash and Cash Equivalents	3,037,353.38
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>45,018,110.74</u>
Total Cash and Cash Equivalents - June 30, 2017	<u><u>\$ 66,561,681.11</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through the Assumption of a Liability	\$ 462,486.34
Change in Fair Value of Investments	1,288,358.75
Loss on Disposal of Capital Assets	(31,854.60)
Bond Issuance Cost Withheld	115,069.45
Amortization of Bond Premiums/Discounts	68,145.48

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

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

**Exhibit B-1**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$	4,213,290.70
Sales Tax Receivable		15,933.47
Other Receivables		32,724.00
Promises to Give, Net		257,179.51
Prepaid Expenses		33,784.97
Total Current Assets		<u>4,552,912.65</u>

**PROPERTY AND EQUIPMENT, NET**

4,240,184.29

**OTHER ASSETS**

Investments		31,224,191.76
Promises to Give, Net		283,517.92
Real Estate Held for Resale		185,000.00
Beneficial Interest in Perpetual Trust		139,092.21
Beneficial Interest in Charitable Remainder Trusts		80,609.22
Prepaid Expenses		5,787.50
Total Other Assets		<u>31,918,198.61</u>
Total Assets	\$	<u><u>40,711,295.55</u></u>

**CURRENT LIABILITIES**

Current Portion of Long-Term Debt	\$	17,576.28
Accounts Payable		320,126.53
Annuities Payable		73,969.72
Tenant Security Deposits		30,000.00
Total Current Liabilities		<u>441,672.53</u>

**NONCURRENT LIABILITIES**

Annuities Payable		490,786.56
Due to University		2,000,000.00
Notes Payable		2,082,423.72
Total Noncurrent Liabilities		<u>4,573,210.28</u>
Total Liabilities		<u>5,014,882.81</u>

**NET ASSETS**

Unrestricted		2,545,266.06
Temporarily Restricted		12,386,440.64
Permanently Restricted		20,764,706.04
Total Net Assets		<u>35,696,412.74</u>
Total Net Assets and Liabilities	\$	<u><u>40,711,295.55</u></u>

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

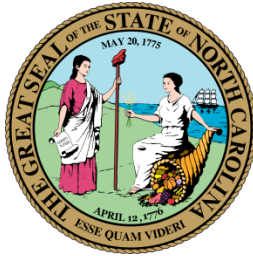
**The University of North Carolina at Asheville Foundation, Inc.**  
**Consolidated Statement of Activities**  
**For the Fiscal Year Ended June 30, 2017**

**Exhibit B-2**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES AND PUBLIC SUPPORT</b>				
Contributions	\$ 235,822.20	\$ 759,560.14	\$ 1,677,996.08	\$ 2,673,378.42
Contributions-Gifts in Kind	203,024.31	30,298.01		233,322.32
Grant Revenues		14,000.00		14,000.00
Investment Income	337,138.20	3,144,595.29		3,481,733.49
Gain on Perpetual Trust			4,898.63	4,898.63
Family Business Forum		98,404.36		98,404.36
Special Events		226,069.05		226,069.05
Rental and Lease Income	120,000.00	54,415.86		174,415.86
Other Income	86.65	41,053.38		41,140.03
Net Assets Released from Restriction	3,683,838.20	(3,683,838.20)		
Total Operating Revenues, Gains, and Other Support	4,579,909.56	684,557.89	1,682,894.71	6,947,362.16
<b>OPERATING EXPENSES</b>				
Program Services	3,190,031.41			3,190,031.41
Supporting Services				
Management and General	411,660.53			411,660.53
Fundraising	441,766.34			441,766.34
Total Operating Expenses	4,043,458.28			4,043,458.28
Change in Net Assets from Operations	536,451.28	684,557.89	1,682,894.71	2,903,903.88
<b>OTHER CHANGES</b>				
Loss on Sale of Greensboro House	(68,178.58)			(68,178.58)
Change in Net Assets	468,272.70	684,557.89	1,682,894.71	2,835,725.30
Net Assets at Beginning of Year	2,076,993.36	11,701,882.75	19,081,811.33	32,860,687.44
Net Assets at End of Year	\$ 2,545,266.06	\$ 12,386,440.64	\$ 20,764,706.04	\$ 35,696,412.74

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 Asheville (University) is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

**Discretely Presented Component Unit** - The University of North Carolina at Asheville Foundation, 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 25 to 36 elected 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 consolidated financial statements because of the difference in its reporting model, as described below.

In September 2013, the Foundation formed a wholly owned subsidiary, UNC Asheville Baseball Stadium, LLC. Its purpose is to further and support the charitable and other exempt purpose of the Foundation by planning, designing, constructing, and completing the expansion and renovation of the existing baseball stadium and associated construction areas on the campus of the University, and such activities as are necessary, incidental, or appropriate in connection therewith.

In December 2013, the Foundation formed a wholly owned subsidiary, UNC Asheville Real Estate, LLC. Its purpose is to further and support the charitable, educational, and other exempt purposes of the Foundation by acquiring, owning, developing, leasing, managing, operating, and selling real property for the benefit of the University, and such activities as are necessary, incidental, or appropriate in connection therewith.

In February 2016, the Foundation formed a wholly owned subsidiary, UNC Asheville Foundation Makerspace, LLC. Its purpose is to further and support the charitable, educational, and other exempt purposes of the Foundation by acquiring, owning, developing, leasing, managing, operating, and selling real estate for the benefit of the University, and such activities as are necessary, incidental, or appropriate in connection therewith.

In March 2017, the Foundation formed a wholly owned subsidiary, UNC Asheville Foundation Riverside Property, LLC. Its purpose is to further and support the charitable, educational, and other exempt purposes of the Foundation by acquiring, owning, developing, leasing and managing, operating, and selling real estate for the benefit of the University, and such activities as are necessary, incidental, or appropriate in connection therewith.

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 \$2,331,308.27 to the University for both restricted and unrestricted purposes. Additionally, the University transferred \$2,000,000 of state capital appropriations to the Foundation toward a future property transfer. Complete financial statements for the Foundation can be obtained from the Associate Vice Chancellor of Advancement, 213 W.T. Weaver Building, CPO 3800, One University Heights, Asheville, North Carolina 28804 or by calling 828-251-6016.

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

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

accordingly, is reported within a single column in the basic financial statements.

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

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

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, 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.

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

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

- F. Receivables** - Receivables consist of tuition and fees charged to students, charges for auxiliary enterprises' sales and services, and interest. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the 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 more than one year.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-100 years
Machinery and Equipment	2-30 years
Art, Literature, and Artifacts	10-25 years
General Infrastructure	10-75 years

The University does not capitalize the collections considered to be inexhaustible or the general collections available for use in the Ramsey Library or in other campus locations. These collections adhere to the University's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

Certain other 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. Depreciation is computed using the straight-line method over the estimated use lives of the collections, which is generally 10-25 years.

- 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, unspent debt proceeds, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, net pension liability, a note payable, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method 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 reported as deferred outflows of resources and 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.

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

- L. 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 a future period(s) 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 a future period(s) 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.

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

**Net Investment in Capital Assets** - This represents the University's total investment in capital assets, net of outstanding liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. Additionally, deferred outflows of resources 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.

**N. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and

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

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

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

- P. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, printing services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

## **NOTE 2 - DEPOSITS AND INVESTMENTS**

- A. Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State

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

Cash on hand at June 30, 2017 was \$8,125.00. The carrying amount of the University's deposits not with the State Treasurer, including unspent bond proceeds of \$44,145,436.21 held by a fiscal agent and invested with the State Treasurer, was \$44,180,946.21, and the bank balance was \$44,179,771.63. 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 not exposed to custodial credit risk.

## B. Investments

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

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

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

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

condition placed by the donor upon that part of the Endowment Fund to be invested.

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

Investments are subject to the following risks 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 \$22,372,609.90, 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.

**Long-Term Investment Pool** - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit method. Under this method, each participating fund's investment balance is determined on the basis of the number of units purchased less sales multiplied by the current market value. The investment strategy, including the selection of investment managers, is based on the directives of the University's Board of Trustees and Endowment Board. At year-end, the pooled investments were all with the UNC Investment Fund, LLC.

**UNC Investment Fund, LLC** - At June 30, 2017, the University's investments include \$13,914,172.55, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not

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

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

### Non-Pooled Investments

Investment Type	Amount	Investment Maturities
		Less Than 1 Year
Debt Securities		
Money Market Mutual Funds	\$ 6,349.32	\$ 6,349.32
Other Securities		
Equity Mutual Funds	10,252.47	
<b>Total Non-Pooled Investments</b>	<b>\$ 16,601.79</b>	

At June 30, 2017, the University's non-pooled investments included \$6,349.32 in money market mutual funds with credit exposure for which Moody's Investors Service credit quality distribution rating was Aaa.

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

Investment Type	Amount
Debt Securities	
Money Market Mutual Funds	\$ 6,349.32
Other Securities	
UNC Investment Fund	13,914,172.55
Equity Mutual Funds	10,252.47
<b>Total Investments</b>	<b>\$ 13,930,774.34</b>

**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 Foundation owns membership interest in the UNC Investment Fund, LLC (a North Carolina limited liability company). The Fund is managed by the UNC Management Company, Inc. (A North Carolina non-profit corporation). The Foundation also has investments in marketable securities with fair values based upon active markets.

The Foundation's investments stated at fair value at June 30, 2017 are summarized by type as follows:

Investment Type	2017		Cumulative Unrealized Gains
	Cost	Fair Value	
Membership Interest in UNC Investment Fund, LLC	\$ 15,118,245.17	\$ 30,260,017.23	\$ 15,141,772.06
Fixed Income Funds	246,210.03	251,087.81	4,877.78
Equities	469,589.96	534,707.15	65,117.19
Alternative Investments	105,687.55	105,944.02	256.47
Real Estate Funds	68,253.61	72,435.55	4,181.94
Total Investments	<u>\$ 16,007,986.32</u>	<u>\$ 31,224,191.76</u>	<u>\$ 15,216,205.44</u>

The following schedule summarizes investment return and its classification in the Consolidated Statement of Activities for the year ended June 30, 2017:

	Total
Interest and Dividends	\$ 58,435.30
Realized Gains	304,678.82
Unrealized Gains	<u>3,118,619.37</u>
	<u>\$ 3,481,733.49</u>

**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	\$ 8,125.00
Amount of Deposits with Private Financial Institutions	44,180,946.21
Deposits in the Short-Term Investment Fund	22,372,609.90
Investments in the UNC Investment Fund	13,914,172.55
Non-Pooled Investments	<u>16,601.79</u>
<b>Total Deposits and Investments</b>	<u>\$ 80,492,455.45</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 18,506,216.99
Restricted Cash and Cash Equivalents	3,037,353.38
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>45,018,110.74</u>
<b>Total Deposits</b>	<u>66,561,681.11</u>
Investments	
Current:	
Restricted Short-Term Investments	6,349.32
Noncurrent:	
Endowment Investments	<u>13,924,425.02</u>
<b>Total Investments</b>	<u>13,930,774.34</u>
<b>Total Deposits and Investments</b>	<u>\$ 80,492,455.45</u>

### 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:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Short-Term Investment Fund	\$ 22,372,609.90	\$ 0.00	\$ 22,372,609.90	\$ 0.00
UNC Investment Fund	13,914,172.55			13,914,172.55
Equity Mutual Funds	10,252.47	10,252.47		
Total Investments Measured at Fair Value	<u>\$ 36,297,034.92</u>	<u>\$ 10,252.47</u>	<u>\$ 22,372,609.90</u>	<u>\$ 13,914,172.55</u>

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



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

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

**Component Unit** - Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Foundation has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Foundation's own data.)

The Foundation's Consolidated Statement of Financial Position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in mutual funds and equities are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.
- Short-Term Investment Fund (STIF) is considered a Level 2 asset as the ownership interest of the STIF is determined on a fair market valuation basis as of the fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.
- UNC Investment Fund is considered a Level 3 asset as the 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.



- Beneficial interest in the perpetual trust is considered a Level 3 asset and is reported at fair value based on management's assumptions about the estimated future cash receipts from the Foundation's share of the fair market value of the trust's assets.
- Beneficial interest in the charitable remainder trusts is considered a Level 3 asset and is reported at fair value based on management's assumptions about the estimated future cash receipts from the Foundation's share of the fair market value of the trust's assets.

The following table represents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis:

Fair Value Measurements on a Recurring Basis as of June 30, 2017			
	Level 1	Level 2	Level 3
Assets:			
UNC Investment Fund, LLC	\$ 0.00	\$ 0.00	\$ 30,260,017.23
Fixed Income Funds	251,087.81		
Equities	534,707.15		
Alternative Investments	105,944.02		
Real Estate Funds	72,435.55		
Short-Term Investment Fund		3,459,350.80	
Beneficial Interest in Charitable Remainder Trusts			80,609.22
Beneficial Interest in Perpetual Trust			139,092.21
<b>Total Investments Measured at Fair Value</b>	<b>\$ 964,174.53</b>	<b>\$ 3,459,350.80</b>	<b>\$ 30,479,718.66</b>

Fair Value Measurements at June 30, 2017 Using Significant Unobservable Inputs (Level 3)			
	Level 3		
	UNC Investment Fund	Trusts	Total
Beginning Balance, June 30, 2016	\$ 27,399,884.03	\$ 135,522.94	\$ 27,535,406.97
Purchases		79,279.86	79,279.86
Total Gains (Realized/Unrealized)			
Included in Earnings as Unrealized Gains	3,121,291.73	4,898.63	3,126,190.36
Included in Earnings as Realized Gains	231,849.22		231,849.22
Withdrawals	(350,000.00)		(350,000.00)
Investment Fees Paid	(143,007.75)		(143,007.75)
<b>Ending Balance, June 30, 2017</b>	<b>\$ 30,260,017.23</b>	<b>\$ 219,701.43</b>	<b>\$ 30,479,718.66</b>

#### NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically

prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which generally limits spending to 5% of the average of endowment principal's three-year trailing market value. Under this policy, the spending policy is agreed upon prior to the beginning of the University's fiscal year and is maintained at that level unless altered by Board action. To the extent that the total return for the current year exceeds the payout, the excess is added to the appreciation of the principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2017, net appreciation of \$5,063,927.59 was available to be spent, of which \$4,768,710.68 was classified in net position as restricted to specific purposes (e.g. scholarships, fellowships, and professorships). The remaining portion of net appreciation available to be spent 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	\$ 729,321.11	\$ 135,722.74	\$ 593,598.37
Student Sponsors	16,975.40		16,975.40
Accounts	289,016.40		289,016.40
Intergovernmental	69,512.71		69,512.71
Interest on Loans	122,793.47		122,793.47
Federal Interest Subsidy on Debt	42,993.79		42,993.79
Other	56,899.28		56,899.28
Total Current Receivables	<u>\$ 1,327,512.16</u>	<u>\$ 135,722.74</u>	<u>\$ 1,191,789.42</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 719,685.92</u>	<u>\$ 175,772.32</u>	<u>\$ 543,913.60</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 578,217.94</u>	<u>\$ 141,220.14</u>	<u>\$ 436,997.80</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	\$ 9,035,773.18	\$ 0.00	\$ 0.00	\$ 9,035,773.18
Art, Literature, and Artifacts	207,300.00			207,300.00
Construction in Progress	817,289.70	6,206,495.60	1,149,629.50	5,874,155.80
<b>Total Capital Assets, Nondepreciable</b>	<b>10,060,362.88</b>	<b>6,206,495.60</b>	<b>1,149,629.50</b>	<b>15,117,228.98</b>
Capital Assets, Depreciable:				
Buildings	239,758,212.69	889,278.72		240,647,491.41
Machinery and Equipment	8,121,752.66	600,537.91	269,859.11	8,452,431.46
Art, Literature, and Artifacts	201,500.00			201,500.00
General Infrastructure	17,645,080.33	260,350.78		17,905,431.11
<b>Total Capital Assets, Depreciable</b>	<b>265,726,545.68</b>	<b>1,750,167.41</b>	<b>269,859.11</b>	<b>267,206,853.98</b>
Less Accumulated Depreciation for:				
Buildings	68,737,591.88	4,475,977.95		73,213,569.83
Machinery and Equipment	4,335,880.28	493,197.99	238,004.51	4,591,073.76
Art, Literature, and Artifacts	174,768.16	4,599.00		179,367.16
General Infrastructure	11,401,638.24	367,502.49		11,769,140.73
<b>Total Accumulated Depreciation</b>	<b>84,649,878.56</b>	<b>5,341,277.43</b>	<b>238,004.51</b>	<b>89,753,151.48</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>181,076,667.12</b>	<b>(3,591,110.02)</b>	<b>31,854.60</b>	<b>177,453,702.50</b>
<b>Capital Assets, Net</b>	<b>\$ 191,137,030.00</b>	<b>\$ 2,615,385.58</b>	<b>\$ 1,181,484.10</b>	<b>\$ 192,570,931.48</b>

During the year ended June 30, 2017, the University incurred \$2,674,221.64 in interest costs related to the acquisition and construction of capital assets. Of this total, \$2,215,742.43 was charged in interest expense, and \$458,479.21 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (Agreement) dated September 1, 2014. The current value of the energy savings improvement asset capitalized as buildings associated with the Agreement is \$3,109,356.17 and is subject to security provisions in the Agreement to ensure timely debt service payments. Additional information regarding the Agreement 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
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,396,096.21
Accrued Payroll	485,842.98
Contract Retainage	72,284.28
Other	17,552.95
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 1,971,776.42</b>

**NOTE 8 - LONG-TERM LIABILITIES****A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Revenue Bonds Payable	\$ 41,553,900.00	\$ 46,290,000.00	\$ 2,255,500.00	\$ 85,588,400.00	\$ 2,380,300.00
Plus: Unamortized Premium	382,002.35	2,657,553.75	69,213.27	2,970,342.83	
Less: Unamortized Discount	8,809.31		1,067.79	7,741.52	
Total Revenue Bonds Payable, Net	41,927,093.04	48,947,553.75	2,323,645.48	88,551,001.31	2,380,300.00
Net Pension Liability	4,353,693.00	6,579,960.00		10,933,653.00	
Note Payable	3,075,418.11		406,446.47	2,668,971.64	421,005.38
Compensated Absences	3,275,740.00	2,266,778.00	2,308,599.00	3,233,919.00	529,393.00
Total Long-Term Liabilities, Net	\$ 52,631,944.15	\$ 57,794,291.75	\$ 5,038,690.95	\$ 105,387,544.95	\$ 3,330,698.38

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

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

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017
<b>Revenue Bonds Payable</b>						
<b>The University of North Carolina System Pool Revenue Bonds</b>						
Refunding Campus Housing and Dining, Series 1997 C & D	(A)	5.25% *	04/01/2020	\$ 7,575,000.00	\$ 6,695,000.00	\$ 880,000.00
Refunding of Campus Housing and Dining, Series 2002A	(B)	5.00% *	10/01/2024	5,815,000.00	2,565,000.00	3,250,000.00
Total The University of North Carolina System Pool Revenue Bonds				13,390,000.00	9,260,000.00	4,130,000.00
<b>UNCA General Revenue Bonds</b>						
UNCA Revenue Bonds (Build America Bonds)**- Housing & Renovation	2010	4.16% *	06/01/2040	26,160,000.00	1,345,000.00	24,815,000.00
UNCA Revenue Refunding Bond - Housing, Series 2002A	2012	2.32%	06/01/2027	6,345,400.00	2,835,000.00	3,510,400.00
UNCA Revenue Bond - Student Health, Counseling, Development Center	2013A	2.14%	04/01/2030	4,987,000.00	1,031,000.00	3,956,000.00
UNCA Revenue Refunding Bond - Housing, Series 2005A	2013B	2.19%	04/01/2023	2,522,000.00	514,000.00	2,008,000.00
UNCA Revenue Bond - Athletics, Student Recreation Center	2014	2.89%	06/01/2029	1,039,500.00	160,500.00	879,000.00
UNCA Revenue Bond - Housing, Student Center Renovation	2017	3.95% *	06/01/2046	46,290,000.00		46,290,000.00
Total General Revenue Bonds Payable				87,343,900.00	5,885,500.00	81,458,400.00
Total Revenue Bonds Payable (principal only)				\$ 100,733,900.00	\$ 15,145,500.00	85,588,400.00
Plus: Unamortized Premium						2,970,342.83
Less: Unamortized Discount						7,741.52
Total Revenue Bonds Payable, Net						\$ 88,551,001.31

(A) The University of North Carolina System Pool Revenue Bonds, Series 2005A

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

\* For variable rate debt, interest rates in effect at June 30, 2017 are included.

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

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

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Note Payable	
	Principal	Interest	Principal	Interest
2018	\$ 2,380,300.00	\$ 4,010,081.58	\$ 421,005.38	\$ 46,282.12
2019	2,031,000.00	3,938,027.86	438,590.46	38,406.53
2020	2,143,500.00	3,860,845.72	456,695.53	30,203.43
2021	2,267,700.00	3,777,639.34	475,334.89	21,663.20
2022	2,387,500.00	3,698,660.56	494,522.43	12,775.84
2023-2027	15,479,400.00	16,857,860.77	382,822.95	3,531.20
2028-2032	14,484,000.00	13,403,671.10		
2033-2037	16,370,000.00	9,563,037.50		
2038-2042	16,645,000.00	4,769,524.50		
2043-2046	11,400,000.00	1,162,200.00		
Total Requirements	\$ 85,588,400.00	\$ 65,041,548.93	\$ 2,668,971.64	\$ 152,862.32

For debt with scheduled rate adjustments, interest is predetermined in each of the bond covenants.

**D. Note Payable** - The University was indebted for a note payable for the purpose 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	\$ 3,175,492.00	\$ 506,520.36	\$ 2,668,971.64

**NOTE 9 - OPERATING LEASE OBLIGATIONS**

The University entered into operating leases for digital equipment, wireless equipment and software, computers, servers, telephone equipment, classroom space, and a vehicle. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	\$ 1,448,062.39
2019	1,131,101.07
2020	967,586.29
2021	557,932.06
2022	86,366.76
2023-2026	199,996.00
Total Minimum Lease Payments	\$ 4,391,044.57

Rental expense for all operating leases during the year was \$1,577,002.39.

**NOTE 10 - REVENUES**

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
Student Tuition and Fees, Net	<u>\$ 31,627,695.67</u>	<u>\$ 0.00</u>	<u>\$ 7,061,362.46</u>	<u>\$ 109,007.12</u>	<u>\$ 24,457,326.09</u>
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 7,000,317.88	\$ 1,830.00	\$ 1,626,716.93	\$ 0.00	\$ 5,371,770.95
Dining	5,137,627.68		1,189,480.85		3,948,146.83
Health, Physical Education, and Recreation Services	95,651.58				95,651.58
Bookstore	140,886.85				140,886.85
Parking	801,671.40	146,553.74	59,623.10		595,494.56
Athletic	1,046,515.20				1,046,515.20
Other	348,304.65	320,216.56			28,088.09
Sales and Services of Education and Related Activities	<u>533,376.37</u>	<u>39,973.25</u>			<u>493,403.12</u>
<b>Total Sales and Services, Net</b>	<u>\$ 15,104,351.61</u>	<u>\$ 508,573.55</u>	<u>\$ 2,875,820.88</u>	<u>\$ 0.00</u>	<u>\$ 11,719,957.18</u>

**NOTE 11 - OPERATING EXPENSES BY FUNCTION**

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 28,805,322.80	\$ 1,088,559.76	\$ 1,858,876.11	\$ 0.00	\$ 0.00	\$ 0.00	\$ 31,752,758.67
Research	1,449,194.77	112,569.35	545,889.59				2,107,653.71
Public Service	1,255,824.09	69,958.09	342,863.67				1,668,645.85
Academic Support	3,227,693.70	899,477.19	463,379.39				4,590,550.28
Student Services	4,158,742.10	136,576.56	1,308,497.44		1,780.04		5,605,596.14
Institutional Support	9,750,637.66	156,867.06	1,918,334.40		81.55		11,825,920.67
Operations and Maintenance of Plant	6,136,097.97	689,512.23	689,944.59		1,718,441.84		9,233,996.63
Student Financial Aid	42,138.86	2,083.20	458.52	5,388,873.76			5,433,554.34
Auxiliary Enterprises	7,085,243.05	1,807,536.27	6,634,512.79		765,897.96		16,293,190.07
Depreciation						5,341,277.43	5,341,277.43
<b>Total Operating Expenses</b>	<u>\$ 61,910,895.00</u>	<u>\$ 4,963,139.71</u>	<u>\$ 13,762,756.50</u>	<u>\$ 5,388,873.76</u>	<u>\$ 2,486,201.39</u>	<u>\$ 5,341,277.43</u>	<u>\$ 93,853,143.79</u>

**NOTE 12 - PENSION PLANS****A. Defined Benefit Plan**

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

Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools 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 \$1,075,978.67, and the University's contributions were \$1,789,711.19 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 \$10,933,653.00 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 0.11896%, which was an increase of 0.00082 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%)
\$ 20,564,088.21	\$ 10,933,653.00	\$ 2,835,776.81

*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 \$2,319,296.00. 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0.00	\$ 516,740.00
Changes of Assumptions	1,612,448.00	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	3,899,291.00	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	514,641.00	
Contributions Subsequent to the Measurement Date	1,789,711.19	
<b>Total</b>	<b>\$ 7,816,091.19</b>	<b>\$ 516,740.00</b>

The amount of \$1,789,711.19 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:

<u>Year Ended June 30:</u>	<u>Amount</u>
2018	\$ 1,055,632.00
2019	1,044,438.00
2020	2,193,907.00
2021	<u>1,215,663.00</u>
Total	<u>\$ 5,509,640.00</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 \$47,133,429.98, of which \$23,025,409.59 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,574,938.02 and \$1,381,524.58, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. At the end of the reporting period, the University had a liability of \$11,463.95. The amount of forfeitures reflected in pension expense recognized during the reporting period was \$65,717.92.

**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 \$2,379,682.31, \$2,190,478.04, and \$2,041,929.23, 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 \$155,641.87, \$160,374.29, and \$152,493.80, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

**NOTE 14 - RISK MANAGEMENT**

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

**A. Employee Benefit Plans**

**1. State Health Plan**

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan 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. However, some agencies have chosen a higher deductible for a reduction in premium. Auxiliary buildings along with the building at 118 W.T. Weaver Blvd. have broad form coverage for buildings and contents in addition to the fire coverage with the same \$5,000 deductible. The Janice W. Brumit Pisgah House, Lookout Observatory, and Wilma M. Sherrill Center have all risk special form coverage with a \$5,000 deductible. The leased River Arts Makers Place (RAMP) South Building also has all risk coverage on contents, while the National Environmental Modeling and Analysis Center (NEMAC) leased space at the Collider has fire and theft on contents with a \$5,000 deductible. Coverage values for all buildings and contents are based on replacement values. The University has also purchased through the Fund extended coverage for boiler and machinery components with a \$5,000 deductible and fine arts coverage for artwork that has a \$2,500 deductible.

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

**2. Public Officers' and Employees' Liability Insurance**

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

**3. Employee Dishonesty and Computer Fraud**

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

#### 4. Statewide Workers' Compensation Program

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

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

#### 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 \$40,065,554.46 and on other purchases were \$2,156,284.63 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 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*

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

GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the



primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

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.





# **REQUIRED SUPPLEMENTARY INFORMATION**

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

**Exhibit C-1**

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Proportionate Share Percentage of Collective Net Pension Liability	0.11896%	0.11814%	0.11854%	0.11120%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 10,933,653.00	\$ 4,353,693.00	\$ 1,389,788.00	\$ 6,750,973.00
Covered Payroll	\$ 17,682,484.99	\$ 17,151,853.98	\$ 16,663,714.36	\$ 17,355,567.16
Net Pension Liability as a Percentage of Covered Payroll	61.83%	25.38%	8.34%	38.90%
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 Asheville**  
**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	\$ 1,789,711.19	\$ 1,617,947.38	\$ 1,569,394.64	\$ 1,448,076.78	\$ 1,445,718.74
Contributions in Relation to the Contractually Determined Contribution	<u>1,789,711.19</u>	<u>1,617,947.38</u>	<u>1,569,394.64</u>	<u>1,448,076.78</u>	<u>1,445,718.74</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 17,932,977.86	\$ 17,682,484.99	\$ 17,151,853.98	\$ 16,663,714.36	\$ 17,355,567.16
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	\$ 1,291,698.83	\$ 969,176.50	\$ 691,531.92	\$ 671,077.96	\$ 562,936.52
Contributions in Relation to the Contractually Determined Contribution	<u>1,291,698.83</u>	<u>969,176.50</u>	<u>691,531.92</u>	<u>671,077.96</u>	<u>562,936.52</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 17,361,543.37	\$ 19,658,752.68	\$ 19,370,641.94	\$ 19,972,558.35	\$ 18,447,098.98
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 Asheville**  
**Notes to Required Supplementary Information**  
**Schedule of University Contributions**  
**Teachers' and State Employees' Retirement System**  
**Last Ten Fiscal Years**

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

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Board of Trustees  
The University of North Carolina at Asheville  
Asheville, 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 Asheville (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 15, 2017. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Asheville Foundation, Inc., as described in our report on the University's financial statements. The financial statements of The University of North Carolina at Asheville Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with The University of North Carolina at Asheville Foundation, Inc.

**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 15, 2017

# ORDERING INFORMATION

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For additional information contact:  
Brad Young  
Director of External Affairs  
**919-807-7513**



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This audit required 560.5 hours at an approximate cost of \$57,732.