

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## UNIVERSITY OF NORTH CAROLINA WILMINGTON

WILMINGTON, NORTH CAROLINA  
FINANCIAL STATEMENT AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 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, University of North Carolina Wilmington

We have completed a financial statement audit of the University of North Carolina Wilmington 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**



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## **INDEPENDENT AUDITOR'S REPORT**

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the University of North Carolina Wilmington (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the UNCW Corporation, the UNCW Corporation II, and the UNCW Research Foundation, which collectively represent less than 1 percent of the assets, net position, and revenues of the University. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as they relate to the amounts included for blended component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the blended component units were not audited in accordance with *Government Auditing Standards*.

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

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

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

### Opinion

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

### 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

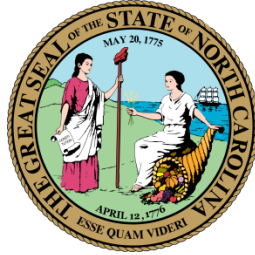
In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 10, 2017



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## Financial Analysis

The University of North Carolina Wilmington (University or UNCW) provides the following Management's Discussion and Analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2017. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the previous year is presented to provide a better understanding of the financial information.

## Using the Financial Statements

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

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

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

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

## Financial Highlights

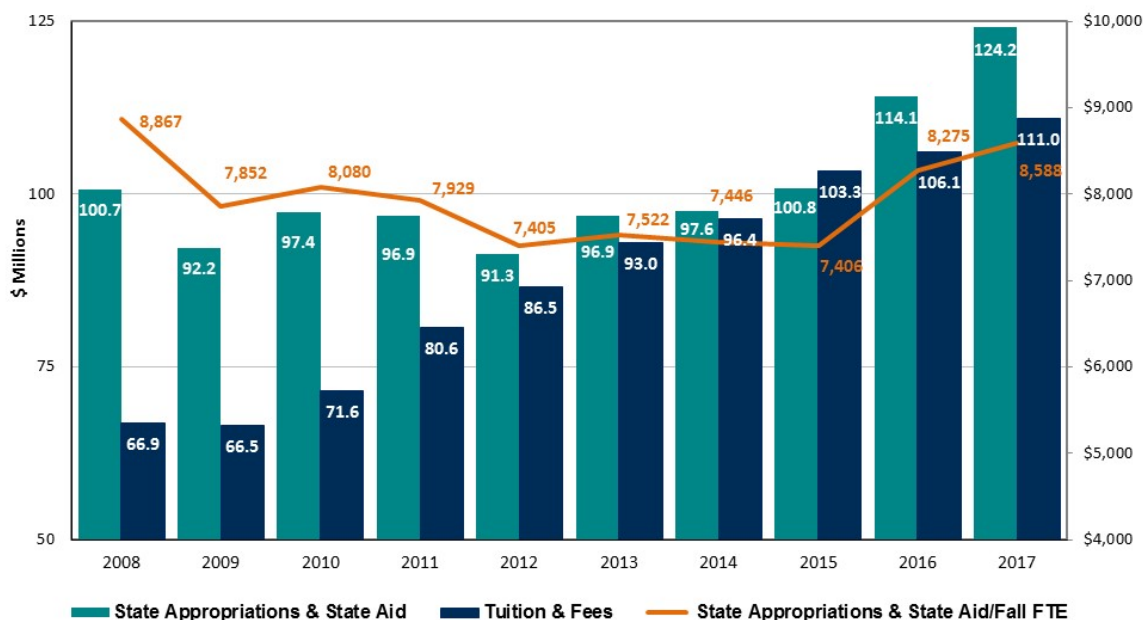
For the fiscal year ended June 30, 2017, the North Carolina General Assembly (General Assembly) approved permanent state appropriations for enrollment growth of \$8.3 million, a permanent budget reduction of \$2.1 million, and a one-time budget reduction of \$139 thousand.

The General Assembly approved a 1.5% permanent legislative salary increase, a 0.5% one-time bonus, and a one-time merit bonus per qualifying employee. The University received permanent funding of \$1.8 million to support the legislative salary increase and \$1.5 million in one-time funding to support the various bonuses.

In fiscal year 2017, UNCW received \$1.2 million for repairs and renovations for capital appropriations.



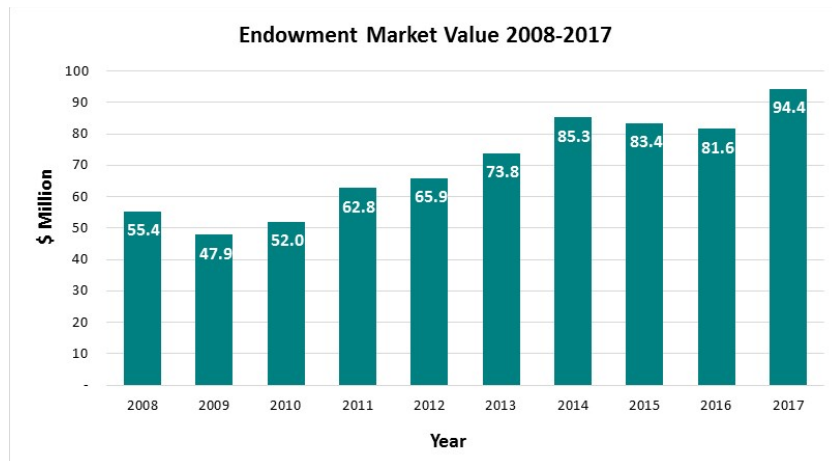
State Appropriations & State Aid, Tuition & Fees and  
State Appropriations & State Aid per Fall FTE 2008-2017



Tuition and fee revenue increased 4.7% in fiscal year 2017 from an increase in enrollment as well as increases in tuition and fee rates of 3.9% for resident undergraduates, 1.8% for non-resident undergraduates, 3.1% for resident graduates, and 1.8% for non-resident graduates. Additional state appropriations from enrollment growth funding increased state appropriations and state aid per fall student full-time equivalent to \$8,588, the highest amount per FTE since 2008.

Capital construction-in-progress increased \$9.2 million, largely due to outdoor enhancements of student recreational facilities and infrastructure upgrades to improve energy efficiency.

Endowment market value increased 15.7% to \$94.4 million at June 30, 2017. This increase was the result of \$2.8 million of new gifts, \$9.3 million in investment earnings, and \$4.6 million for annual income distributions, asset management fees, and administrative fees. In addition, \$5.3 million of unrestricted trust funds were transferred to the Endowment to establish a new quasi endowment. This Endowment will be used to construct the new Administrative Annex building.



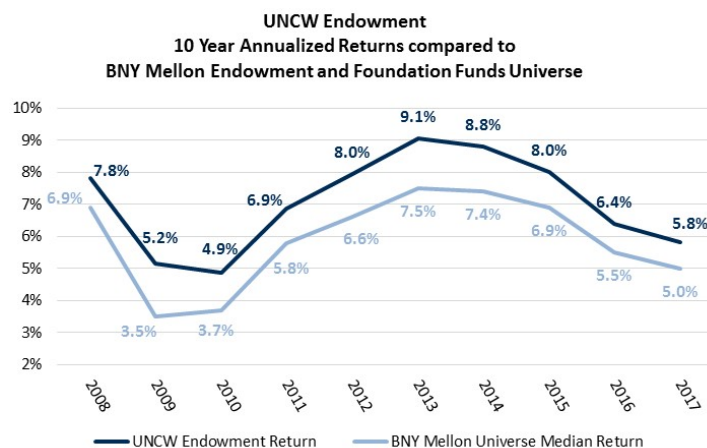
The growth of the University's endowment portfolio over the past ten years is due primarily to gifts, strong long-term investment returns, and a sustainable spending policy.

For fiscal year 2017, the Endowment returned 12%, trailing the Global 70/30 Portfolio's 12.7% return and ranking in the third quartile of the BNY Mellon Endowment and Foundation Funds Universe. The Endowment's return surpassed the University's primary objective of a real rate of return equal to the University's 4.5% spend rate plus inflation.

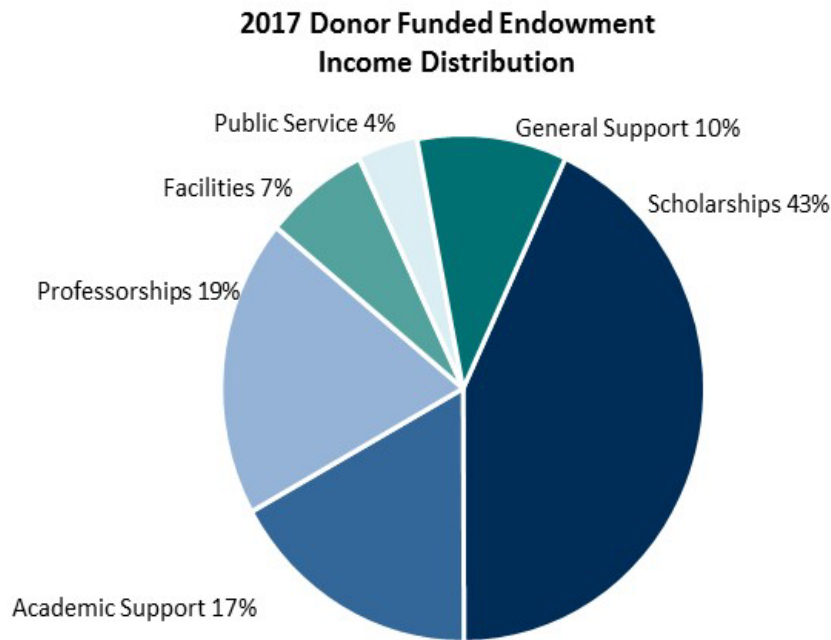
In a year which favored traditional equity exposure, allocations to alternative asset classes dampened performance. Six of the University's seven primary asset classes generated a positive return. The performance leaders were global equities, energy, and natural resources.

Over the longer time horizon, the endowment portfolio's three and five-year annualized net returns of 5.7% and 8.8% surpassed the University's primary objective of at least 4.5% plus inflation. The Endowment's ten-year annualized return of 5.8% falls slightly short of achieving this objective with CPI plus 4.5% returning 6.1% during the period as the global financial crisis of 2007-2008 had a significant negative impact on the ten-year performance of institutional portfolios. The Endowment portfolio's 5.8% net return for this period does rank in the top quartile relative to peers.

Over the ten-year period 2008-2017, the University's annualized returns averaged 5.8%. The Endowment's performance remains strong relative to the median return of its peers as reflected in the BNY Mellon Endowment and Foundation Funds Universe.



The Endowment primarily supported scholarships (43%), professorships (19%), and academic support (17%).



### Statement of Net Position

The Statement of Net Position presents assets (current and noncurrent), deferred outflows, liabilities (current and noncurrent), deferred inflows, and net position (total assets plus deferred outflows minus total liabilities and deferred inflows) of the University. This statement provides a fiscal snapshot of the University's financial position as of June 30, 2017. This statement includes information on assets available for continuing operations and amounts due to vendors, investors, and lending institutions.

Condensed Statement of Net Position  
June 30, as Indicated

	2017	2016	Change	% Change
<b>Assets</b>				
Current Assets	\$ 150,043,777	\$ 141,473,029	\$ 8,570,748	6.1%
Capital Assets, Net	509,106,538	500,281,537	8,825,001	1.8%
Other Noncurrent Assets	109,648,797	93,486,975	16,161,822	17.3%
<b>Total Assets</b>	<b>768,799,112</b>	<b>735,241,541</b>	<b>33,557,571</b>	<b>4.6%</b>
<b>Deferred Outflows of Resources</b>				
Deferred Loss on Refunding	8,186,633	3,132,155	5,054,478	161.4%
Deferred Outflows Related to Pensions	22,745,996	4,904,056	17,841,940	363.8%
<b>Total Deferred Outflows of Resources</b>	<b>30,932,629</b>	<b>8,036,211</b>	<b>22,896,418</b>	<b>284.9%</b>
<b>Liabilities</b>				
Current Liabilities	21,461,912	25,345,989	(3,878,017)	-15.3%
Long-Term Liabilities, Net	259,208,616	241,257,191	17,951,425	7.4%
Other Noncurrent Liabilities	12,667,812	6,625,003	6,042,809	91.2%
<b>Total Liabilities</b>	<b>293,344,400</b>	<b>273,228,183</b>	<b>20,116,217</b>	<b>7.4%</b>
<b>Deferred Inflows of Resources</b>				
Deferred Gain on Refunding	586,812		586,812	
Deferred Inflows Related to Pensions	1,861,618	3,396,453	(1,528,835)	-45.0%
<b>Total Deferred Inflows of Resources</b>	<b>2,454,430</b>	<b>3,396,453</b>	<b>(942,023)</b>	<b>-27.7%</b>
<b>Net Position</b>				
Net Investment in Capital Assets	298,892,701	282,012,245	16,880,456	6.0%
Restricted - Nonexpendable	57,882,793	55,102,359	2,780,434	5.0%
Restricted - Expendable	43,703,885	32,356,514	11,347,371	35.1%
Unrestricted	103,453,532	97,181,998	6,271,534	6.5%
<b>Total Net Position</b>	<b>\$ 503,932,911</b>	<b>\$ 466,653,116</b>	<b>\$ 37,279,795</b>	<b>8.0%</b>

On June 30, 2017, total University assets were \$768.8 million. The largest asset categories were the University's cash and cash equivalents of \$162.0 million, endowment investments of \$83.4 million, and capital assets, net, of \$509.1 million.

The increase in unrestricted pooled cash accounts for the majority of the \$8.6 million increase in current assets. These cash reserves included \$2.5 million for campus space and \$5.3 million in endowment cash designated for the new Administrative Annex.

The increase in capital assets of \$8.8 million included the completion of the HUB dining facility (\$5.4 million), student recreational field bathroom facility (\$568 thousand), softball outdoor hitting facility (\$407 thousand), Center for Marine Science wet lab (\$301 thousand), baseball outdoor hitting facility (\$241 thousand), and various building renovations on campus.

The \$16.2 million increase in other noncurrent assets was due in part to a \$4 million pledge receivable that will be paid over the next four years to support Chemical and Pharmaceutical Sciences, as well as increased capital improvement allotments of \$2.2 million and endowment cash of \$1.6 million. In addition, endowment investments increased \$5.9 million primarily as a result of the increase in market value of \$7.2 million due to stock market performance, offset by \$1.5 million in withdrawals to fund annual distributions.

In fiscal year 2017, the University incurred a deferred loss on refunding of \$5.7 million for the Refunding Limited Obligation Bonds, Series 2016. Deferred outflows for pensions increased \$17.8 million due to underperformance of investment earnings relative to projections, as well as changes in actuarial assumptions performed every five years.

The sale of the University's Oleander property and the refinanced College Station note payable contributed to the \$3.9 million decrease in current liabilities. The \$1.9 million Oleander note was paid off in October 2016. The \$1.0 million College Station balloon payment, which was due in November 2016, was refinanced and is now due in November 2022.

Long-term liabilities increased \$18 million largely due to the impact of declining investment income on the state of North Carolina's Teachers' and State Employees' Retirement System (TSERS) plan. UNCW's proportionate share of the TSERS's net pension liability increased 151% or \$19.9 million.

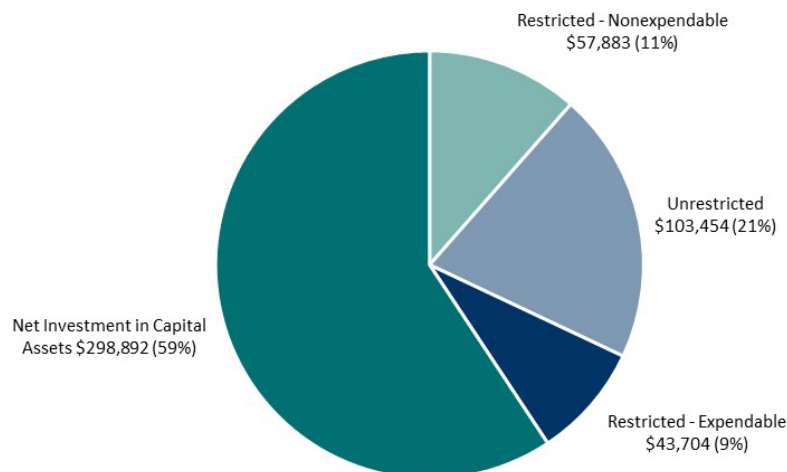
The increase in other noncurrent liabilities can be attributed to the ARAMARK contract portion of noncurrent unearned revenue of \$5.5 million resulting from the completion of the HUB dining facility.

The University's unrestricted net position at June 30, 2017 was \$103.5 million, an increase of \$6.3 million from the July 1, 2016 beginning net position of \$97.2 million. The primary drivers of the net position increase were enrollment growth funding, increased resident student enrollment, increased gifts and pledges, and market appreciation for investments. In accordance with the university's strategic plan, \$10.9 million of unrestricted net position was reserved for campus space needs to accommodate the growth of faculty and academic staff positions resulting from enrollment growth.

The 6.0% increase in Net Investment in Capital Assets was largely a result of unrestricted cash transfers to plant funds to record restricted fund balance. The University transferred \$6.3 million to reserve cash needed for the University's food service contract liability. An additional \$6.2 million cash transfer was recorded to restrict cash for current long-term debt payments.

The 35.1% increase in the University's restricted expendable net position was attributed to the \$4 million pledge receivable supporting Chemical and Pharmaceutical Sciences, the increase in the rate of return on the endowment investments, and a \$3.6 million increase in capital project funding.

**2017 Net Position \$503,933**  
(\$ Thousands)



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

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

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

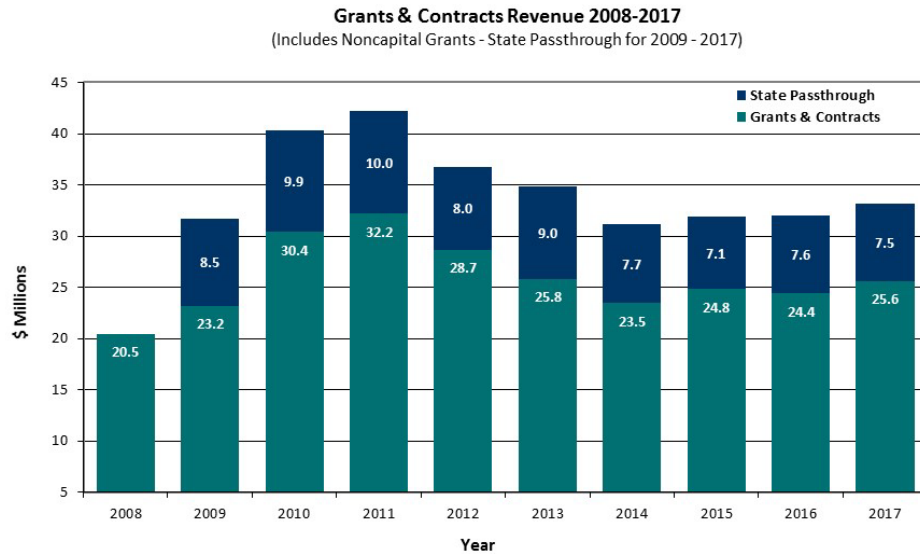
## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2017	2016	Change	% Change
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 111,043,411	\$ 106,092,410	\$ 4,951,001	4.7%
Sales and Service, Net	48,236,477	48,577,571	(341,094)	-0.7%
Grants and Contracts	8,536,256	8,448,920	87,336	1.0%
Other Operating Revenues	7,100,435	5,986,571	1,113,864	18.6%
<b>Total Operating Revenues</b>	<b>174,916,579</b>	<b>169,105,472</b>	<b>5,811,107</b>	<b>3.4%</b>
<b>Operating Expenses</b>				
Salaries and Benefits	183,154,450	168,749,290	14,405,160	8.5%
Supplies and Materials	21,990,924	23,337,460	(1,346,536)	-5.8%
Services	59,051,369	56,723,131	2,328,238	4.1%
Scholarships and Fellowships	17,603,566	18,811,150	(1,207,584)	-6.4%
Utilities	7,751,968	8,103,167	(351,199)	-4.3%
Depreciation	11,248,332	11,903,744	(655,412)	-5.5%
<b>Total Operating Expenses</b>	<b>300,800,609</b>	<b>287,627,942</b>	<b>13,172,667</b>	<b>4.6%</b>
<b>Operating Loss</b>	<b>(125,884,030)</b>	<b>(118,522,470)</b>	<b>(7,361,560)</b>	<b>6.2%</b>
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriation	124,217,703	114,065,933	10,151,770	8.9%
Noncapital Grants and Gifts	31,594,985	27,399,012	4,195,973	15.3%
Investment Income, Net	10,636,097	950,929	9,685,168	1018.5%
Interest and Fees on Debt	(8,768,588)	(10,262,909)	(1,494,321)	-14.6%
Federal Interest Subsidy on Debt	693,815	697,046	(3,231)	-0.5%
Other Nonoperating Expenses	(661,247)	(98,406)	562,841	572.0%
<b>Other Revenues</b>				
Capital Appropriations	1,185,683	2,119,200	(933,517)	-44.1%
Capital Grants and Gifts	1,450,742	2,343,523	(892,781)	-38.1%
Additions to Endowments	2,814,635	2,397,133	417,502	17.4%
<b>Total Net Nonoperating and Other Revenues</b>	<b>163,163,825</b>	<b>139,611,461</b>	<b>23,552,364</b>	<b>16.9%</b>
<b>Increase in Net Position</b>	<b>37,279,795</b>	<b>21,088,991</b>	<b>16,190,804</b>	<b>76.8%</b>
<b>Net Position - Beginning of Year</b>	<b>466,653,116</b>	<b>445,564,125</b>	<b>21,088,991</b>	<b>4.7%</b>
<b>Net Position - End of Year</b>	<b>\$ 503,932,911</b>	<b>\$ 466,653,116</b>	<b>\$ 37,279,795</b>	<b>8.0%</b>
<b>Reconciliation of Change in Net Position</b>				
Total Revenues	\$ 347,510,239	\$ 319,078,248	\$ 28,431,991	8.9%
Less: Total Expenses	310,230,444	297,989,257	12,241,187	4.1%
<b>Increase in Net Position</b>	<b>\$ 37,279,795</b>	<b>\$ 21,088,991</b>	<b>\$ 16,190,804</b>	<b>76.8%</b>

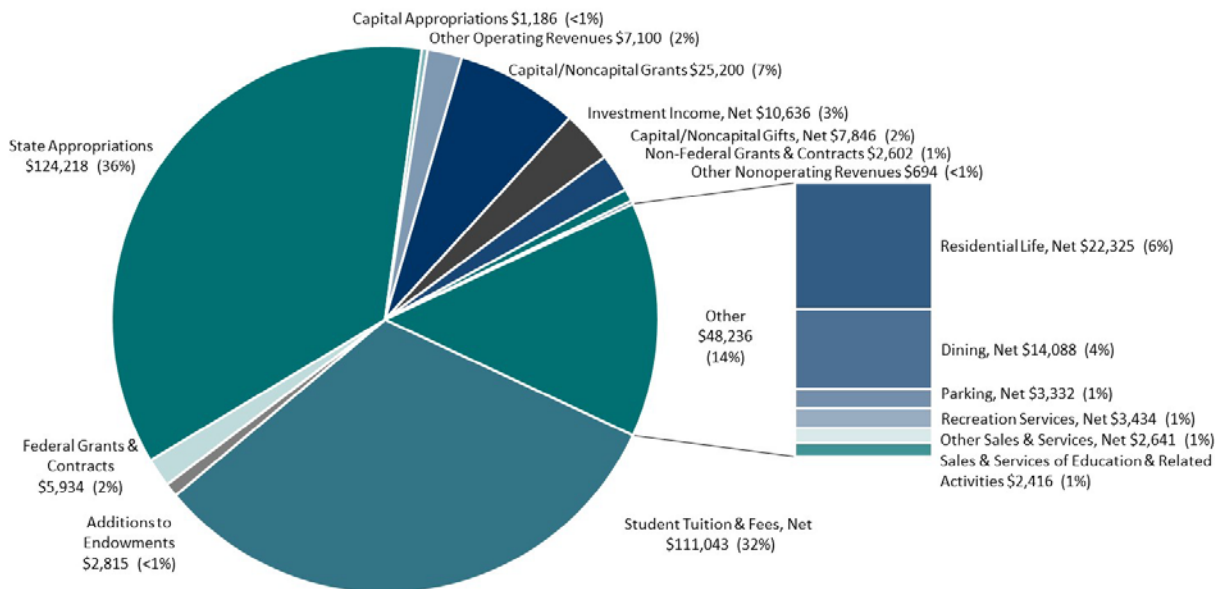
Student tuition and fees increased 4.7% largely due to an increase in enrollment and tuition rates for undergraduate and graduate students, which generated a \$3.2 million increase in tuition and a \$1.7 million increase in fees during fiscal year 2017.





Grants and contracts revenue, excluding state pass-through revenue, increased \$1.2 million in fiscal year 2017 with \$351 thousand awarded from a state grant for the Oyster Hatchery.

**2017 Revenue by Source \$347,510**  
(\$ Thousands)

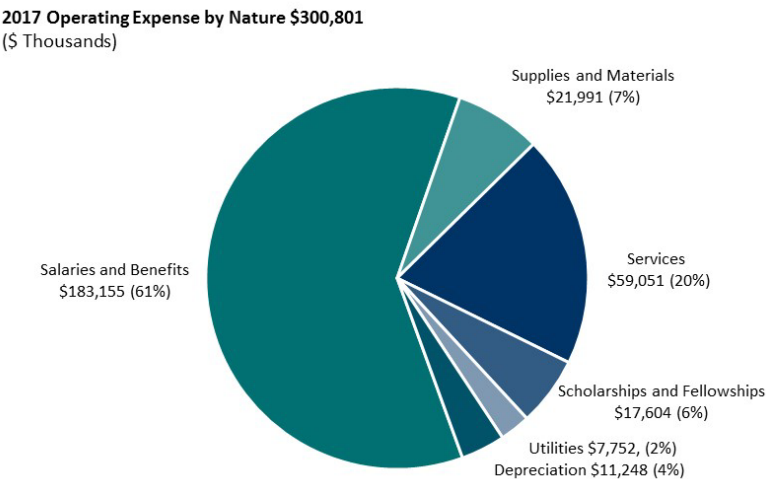


State appropriations increased 8.9% or \$10.2 million. After permanent and one-time budget reductions, the University received \$8.3 million in enrollment growth funding, \$1.8 million to support a 1.5% legislative permanent salary increase, and \$1.5 million in one-time funding to support various bonuses for qualified employees.

Investment income increased substantially in fiscal year 2017 due to a performance return of approximately 12% compared to a flat return in fiscal year 2016.

Capital appropriations funding for repairs and renovations decreased 44.1% in fiscal year 2017 as the University System as a whole was allocated only \$33.7 million from the General Assembly compared to \$50 million in the previous fiscal year.

In fiscal year 2017, capital grants and gifts revenue decreased \$893 thousand. In fiscal year 2016, the University received \$532 thousand more in private capital grant revenue for the construction of two nanosatellites, which neared completion at the end of fiscal year 2017. Capital gifts decreased 29.7% or \$339 thousand, as a result of fewer athletic program donations. This decrease was offset by \$200 thousand in capital gifts received for renovations for the Kenan and Wise houses.

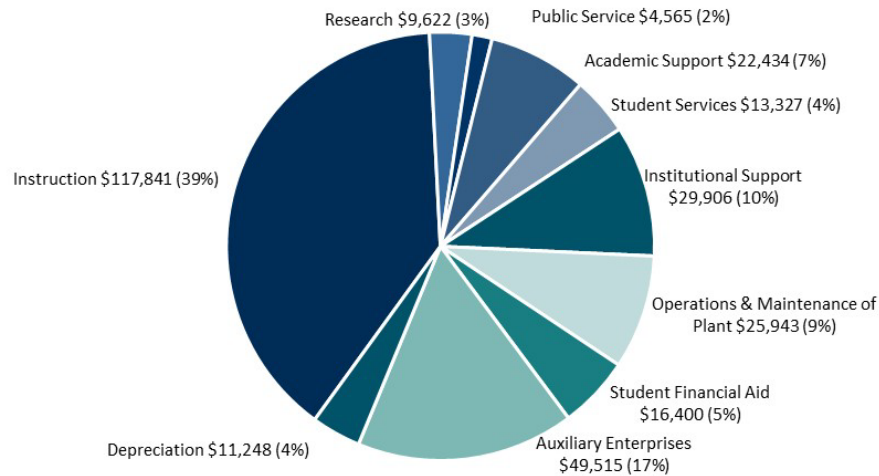


In fiscal year 2017, expenditures for salaries and benefits increased 8.5% mainly due to increases in qualified employees’ salaries of \$7.2 million, pension expense of \$5.1 million, and other benefit payments of \$2.0 million, arising from legislative increases and the addition of faculty positions from student enrollment growth.

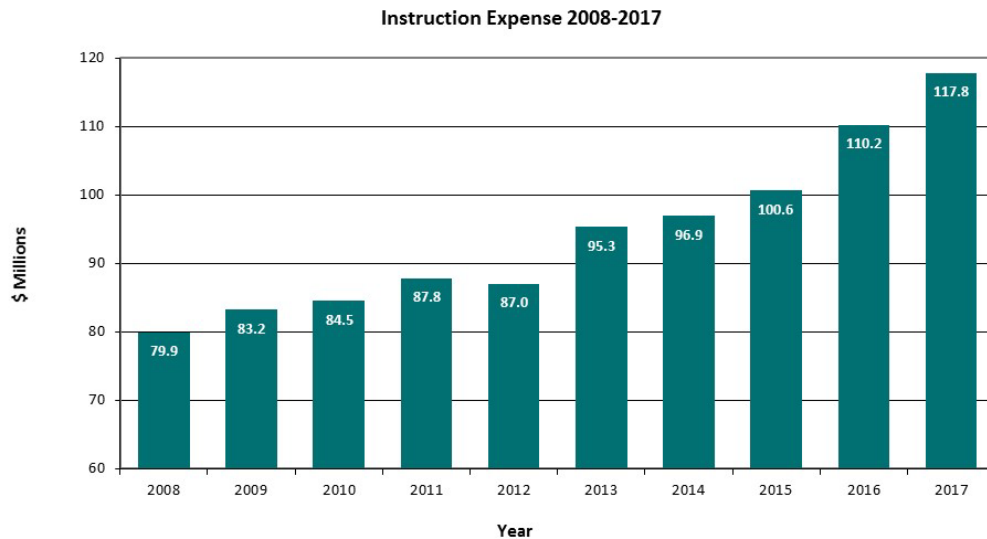
Interest and fees on debt decreased \$1.5 million as a result of the refunding of the outstanding Certificates of Participation, Series 2008 and the University of North Carolina Pool System Revenue Bonds, Series 2006A in fiscal year 2017.

Other nonoperating expenses increased \$563 thousand from bond issuance costs of \$481 thousand for the refunding of debt and \$260 thousand from the sale of the University’s Oleander property.

**2017 Operating Expense by Function \$300,801**  
(\$ Thousands)



Instruction expense of \$117.8 million remains the largest expense by function as it increased \$7.7 million or 7.0%. The largest component of instruction expense was salaries and benefits, which increased as a result of higher salary rates, additional faculty to support enrollment growth, a 1.5% permanent salary increase, and a one-time merit bonus for all eligible employees. As reflected in the following graph, instruction expense continues to increase as a result of the University's continuing growth in enrollment over the last ten years.



## Statement of Cash Flows

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

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

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

	2017	2016	Change	% Change
Cash Provided (Used) by:				
Operating Activities	\$ (112,328,666)	\$ (110,219,201)	\$ (2,109,465)	1.9%
Noncapital Financing Activities	154,633,885	142,858,492	11,775,393	8.2%
Capital Financing Activities	(31,185,006)	(22,244,164)	(8,940,842)	40.2%
Investing Activities	4,773,958	2,849,603	1,924,355	67.5%
Net Change In Cash	15,894,171	13,244,730	2,649,441	20.0%
Cash Beginning of Year	146,049,265	132,804,535	13,244,730	10.0%
Cash Ending of Year	\$ 161,943,436	\$ 146,049,265	\$ 15,894,171	10.9%

### Operating Activities

Major cash sources of \$175.6 million were generated from student tuition and fees, sales and services, and contracts and grants. Major cash uses were compensation to employees of \$182.4 million, payments to vendors and suppliers for goods and services of \$87.6 million, and disbursements to students for scholarships and fellowships of \$17.6 million.

### Noncapital Financial Activities

The largest cash inflow was state appropriations of \$124.2 million. While GASB standards require that this revenue be classified as nonoperating, these funds were essentially used to maintain operations. Other noncapital inflows included gifts and grants of \$27.6 million.

### Capital Financing Activities

Cash provided included proceeds from capital debt of \$68.5 million from the issuance of the Revenue Refunding Bond, Series 2016 and the Refunding Limited Obligation Bonds, Series 2016. Additional cash provided was a result of \$1.2 million in capital appropriations. Cash used was primarily for the acquisition of capital assets of \$16.7 million and the repayment of principal and interest on capital debt of \$88.0 million, which included the current and advance refunding of University of North Carolina Pool System Revenue Bonds, Series 2006A and Certificates of Participation, Series 2008, respectively.

### Investing Activities

Cash provided included sales and maturities of investments of \$3.3 million and investment income of \$1.9 million. Cash used reflected the purchase of investments and related fees of \$0.5 million.

## Capital Assets and Debt Administration

### Capital Assets

The University had \$509 million invested in capital assets at June 30, 2017, as reported in the table below, an increase of \$8.8 million from 2016.

Capital Assets Net of Depreciation  
June 30, as Indicated

	2017	2016	Change
Land and Permanent Easements	\$ 9,808,502	\$ 11,567,590	\$ (1,759,088)
Art, Literature, and Artifacts	1,820,606	1,811,267	9,339
Construction In Progress	15,208,160	5,963,280	9,244,880
Buildings, Net	440,545,212	439,707,228	837,984
Machinery and Equipment, Net	21,332,997	21,510,989	(177,992)
General Infrastructure, Net	20,391,061	19,721,183	669,878
<b>Total Capital Assets</b>	<b>\$ 509,106,538</b>	<b>\$ 500,281,537</b>	<b>\$ 8,825,001</b>

Land decreased due to the sale of the University's Oleander property. Construction in progress increased \$9.2 million pending the completion of large projects such as the energy conservation project of \$4.6 million and the student recreational artificial and natural turf fields of \$4.2 million. Annual depreciation offset the completion of various building renovations and the addition of three new buildings in fiscal year 2017 - the \$301 thousand Center for Marine Science wet lab, the \$568 thousand student recreational field's restroom facility, and the \$5.4 million HUB dining facility. The HUB was acquired through a service contract and was not constructed by the University. General infrastructure increased with the addition of the \$454 thousand outdoor hitting facility at Boseman field and \$241 thousand outdoor hitting facility at Brooks field.

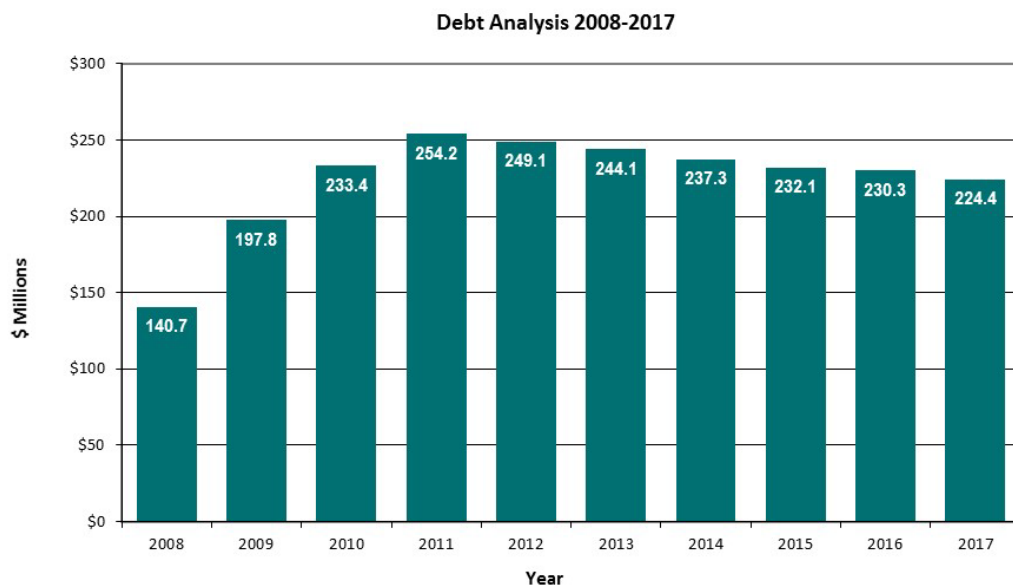
### Debt

As of June 30, 2017, the University's \$224.4 million in long-term debt included outstanding revenue bonds payable and special indebtedness of \$213.0 million and notes payable of \$11.4 million.

In July 2016, UNCW executed and delivered \$57.2 million in Refunding Limited Obligation Bonds, Series 2016 to advance refund Certificates of Participation, Series 2008. This transaction reduced total debt service payments by \$8.2 million over twenty-two years and resulted in a net present value savings of \$7.7 million.

In October 2016, Corporation II sold the Oleander property and satisfied the related promissory note of \$1.9 million.

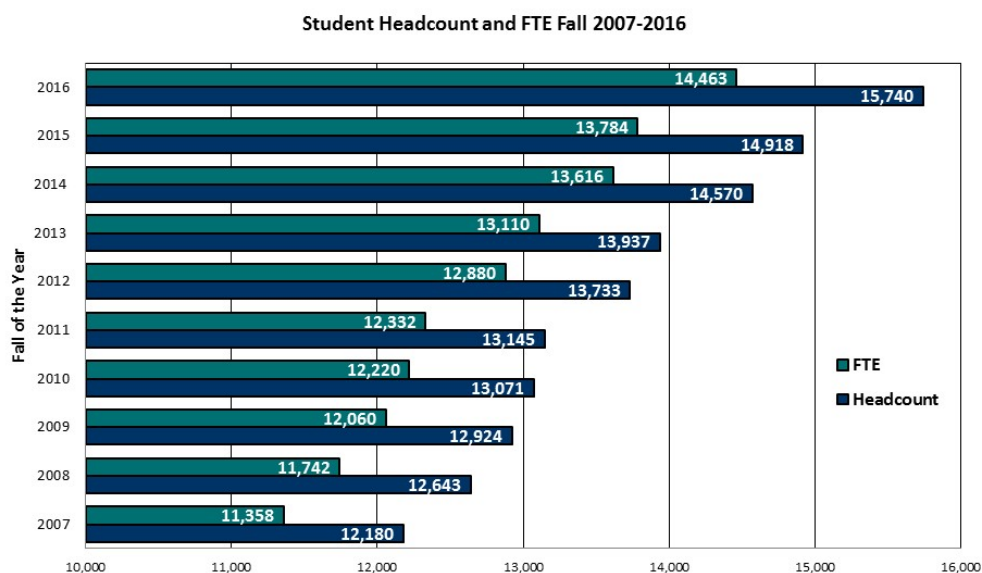
In November 2016 the University issued an \$11.5 million General Revenue Refunding Bond, Series 2016 to refund the University of North Carolina Pool System Revenue Bonds (2006A Pool General Trust Indenture), Series 2006A. The refunding reduced total debt service payments by \$3.3 million over eighteen years and resulted in a net present value savings of \$2.2 million.



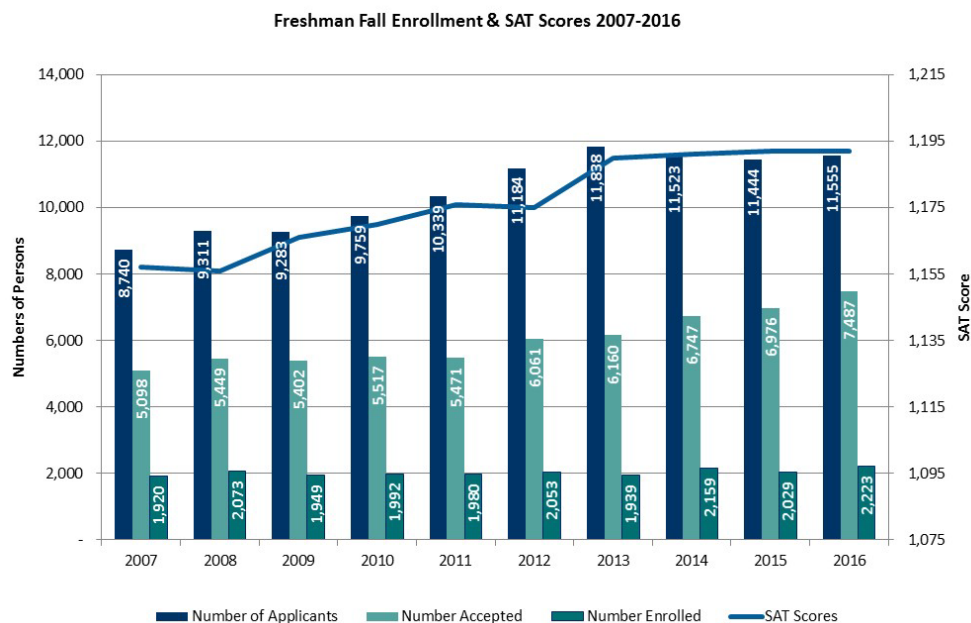
For additional information on capital assets and debt administration, see Notes 6 and 8 to the financial statements.

## Economic Forecast

Preliminary data shows fall 2017 enrollment growing 4.7%, with 4.2% from undergraduate and 8.7% from graduate students.



This follows a strong fall 2016 enrollment of 15,740, with a continuing focus on quality as demonstrated by the average incoming student SAT score trend.



The General Assembly approved \$46.6 million for enrollment growth for the UNC System for fiscal year 2018 with no budget cut. As of fiscal year 2018, each campus in the UNC System will receive enrollment growth funding based on actual census data. UNCW has requested appropriations for enrollment growth of \$8.2 million for fiscal year 2018.

The General Assembly approved \$1,000 for across the board salary increases for eligible employees subject to the State Human Resources Act resulting in an appropriations increase of \$895 thousand. In addition, \$1.5 million in appropriations will be provided for merit increases for eligible employees exempt from the State Human Resources Act.

The UNC Board of Governors approved tuition and fee increases for fiscal year 2018 consisting of 2% for resident undergraduates, 3.3% for resident graduates, 1.1% for non-resident undergraduates, and 6.3% for non-resident graduates. The UNC System is operating with a fixed tuition program for undergraduate resident students, which began with the fall 2016 freshman class. Tuition for resident students remains fixed for four years. Each year, the incoming freshman resident cohort will have a fixed tuition rate.

Excellence, integrity, diversity and innovation shape the student-centered learning experience at UNCW. These values, along with our ever-present dedication to community engagement, are among the distinctive qualities that make UNCW one of the best institutions of higher education in the nation. The University is aligning its strategic priorities with updated housing and campus master plans in fiscal year 2018.

### Contacting the University's Financial Management

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





# **FINANCIAL STATEMENTS**

**University of North Carolina Wilmington**  
**Statement of Net Position**  
**June 30, 2017**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 125,390,256
Restricted Cash and Cash Equivalents	17,158,936
Receivables, Net (Note 5)	6,731,116
Inventories	371,985
Prepaid Items	319
Notes Receivable, Net (Note 5)	391,165

Total Current Assets	<u>150,043,777</u>
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	19,394,244
Receivables, Net (Note 5)	3,331,252
Prepaid Items	239
Endowment Investments	83,394,451
Notes Receivable, Net (Note 5)	3,528,611
Capital Assets - Nondepreciable (Note 6)	26,837,268
Capital Assets - Depreciable, Net (Note 6)	482,269,270

Total Noncurrent Assets	<u>618,755,335</u>
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Total Assets	<u>768,799,112</u>
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Loss on Refunding	8,186,633
Deferred Outflows Related to Pensions	22,745,996

Total Deferred Outflows of Resources	<u>30,932,629</u>
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	4,527,875
Deposits Payable	23,967
Unearned Revenue	7,872,224
Interest Payable	1,702,479
Long-Term Liabilities - Current Portion (Note 8)	7,341,427

Total Current Liabilities	<u>21,467,972</u>
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Noncurrent Liabilities:

Funds Held for Others	2,874,546
Unearned Revenue	6,356,795
U. S. Government Grants Refundable	3,436,471
Long-Term Liabilities, Net (Note 8)	259,208,616

Total Noncurrent Liabilities	<u>271,876,428</u>
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Total Liabilities	<u>293,344,400</u>
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**DEFERRED INFLOWS OF RESOURCES**

Deferred Gain on Refunding	586,812
Deferred Inflows Related to Pensions	1,867,618

Total Deferred Inflows of Resources	<u>2,454,430</u>
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**University of North Carolina Wilmington**  
**Statement of Net Position**  
**June 30, 2017**

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

**NET POSITION**

Net Investment in Capital Assets	298,892,701
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	24,233,537
Research	1,881,221
Endowed Professorships	12,117,869
Departmental Uses	18,709,356
Loans	940,810
Expendable:	
Scholarships and Fellowships	13,841,217
Research	1,130,724
Endowed Professorships	8,694,899
Departmental Uses	12,486,488
Loans	706,119
Capital Projects	6,844,438
Unrestricted	103,453,532
Total Net Position	<u>\$ 503,932,911</u>

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

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

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 111,043,411
Federal Grants and Contracts	5,934,265
State and Local Grants and Contracts	1,053,739
Nongovernmental Grants and Contracts	1,548,252
Sales and Services, Net (Note 10)	48,236,477
Interest Earnings on Loans	26,950
Other Operating Revenues	7,073,485
	<hr/>
Total Operating Revenues	174,916,579

**EXPENSES**

Operating Expenses:

Salaries and Benefits	183,154,450
Supplies and Materials	21,990,924
Services	59,051,369
Scholarships and Fellowships	17,603,566
Utilities	7,751,968
Depreciation	11,248,332
	<hr/>
Total Operating Expenses	300,800,609

Operating Loss	(125,884,030)
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	124,217,703
Noncapital Grants - Student Financial Aid	24,551,829
Noncapital Gifts, Net (Note 10)	7,043,156
Investment Income (Net of Investment Expense of \$299,996)	10,636,097
Interest and Fees on Debt	(8,768,588)
Federal Interest Subsidy on Debt	693,815
Other Nonoperating Expenses	(661,247)
	<hr/>
Net Nonoperating Revenues	157,712,765

Income Before Other Revenues	31,828,735
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Capital Appropriations	1,185,683
Capital Grants	647,870
Capital Gifts	802,872
Additions to Endowments	2,814,635
	<hr/>
Increase in Net Position	37,279,795

**NET POSITION**

Net Position - July 1, 2016	466,653,116
	<hr/>
Net Position - June 30, 2017	\$ 503,932,911

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

**University of North Carolina Wilmington**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2017**

**Exhibit A-3**  
**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 175,581,445
Payments to Employees and Fringe Benefits	(182,407,768)
Payments to Vendors and Suppliers	(87,627,478)
Payments for Scholarships and Fellowships	(17,602,082)
Loans Issued	(562,609)
Collection of Loans	621,211
Interest Earned on Loans	8,886
Other Payments	(340,271)
Net Cash Used by Operating Activities	(112,328,666)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	124,217,703
Noncapital Grants - Student Financial Aid	24,596,671
Noncapital Gifts	3,004,876
Additions to Endowments	2,814,635
William D. Ford Direct Lending Receipts	78,305,880
William D. Ford Direct Lending Disbursements	(78,306,870)
Related Activity Agency Receipts	990
Net Cash Provided by Noncapital Financing Activities	154,633,885

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

Proceeds from Capital Debt	68,504,051
Capital Appropriations	1,185,683
Capital Grants	647,870
Capital Gifts	349,048
Proceeds from Sale of Capital Assets	2,351,741
Acquisition and Construction of Capital Assets	(16,688,392)
Principal Paid on Capital Debt	(78,672,303)
Interest and Fees Paid on Capital Debt	(9,320,959)
Federal Interest Subsidy on Debt Received	693,815
Other Payments	(235,560)
Net Cash Used by Capital Financing and Related Financing Activities	(31,185,006)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	3,343,459
Investment Income	1,892,190
Purchase of Investments and Related Fees	(461,691)
Net Cash Provided by Investing Activities	4,773,958
Net Increase in Cash and Cash Equivalents	15,894,171
Cash and Cash Equivalents - July 1, 2016	146,049,265
Cash and Cash Equivalents - June 30, 2017	\$ 161,943,436

**University of North Carolina Wilmington**  
**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	\$	(125,884,030)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		11,248,332
Allowances and Write-Offs		34,473
Nonoperating Other Income		361,817
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(362,852)
Inventories		(68,430)
Notes Receivable, Net		58,602
Prepays		991,177
Deferred Outflows for Pensions		(17,841,940)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(4,947,492)
Unearned Revenue		5,888,504
Net Pension Liability		19,902,866
Funds Held for Others		(361,245)
Government Grants Refundable		47,259
Compensated Absences		137,658
Deposits Payable		(4,530)
Deferred Inflows for Pensions		(1,528,835)
Net Cash Used by Operating Activities	\$	<u>(112,328,666)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:		
Cash and Cash Equivalents	\$	125,390,256
Restricted Cash and Cash Equivalents		17,158,936
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>19,394,244</u>
Total Cash and Cash Equivalents - June 30, 2017	\$	<u>161,943,436</u>

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

Assets Acquired through a Gift	\$	815,641
Assets Acquired through a Service Contract		5,382,199
Change in Fair Value of Investments		7,371,524
Loss on Disposal of Capital Assets		(386,321)
Amortization of Bond Premiums/Discounts		689,899
Increase in Receivables Related to Nonoperating Income		3,676,463

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

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

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

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

The Corporation was organized to enhance the University of North Carolina Wilmington's educational mission, including overseeing and assisting in the acquisition and financing of capital assets for the University. The Corporation is a public not-for-profit organization that reports its financial results under Governmental Accounting Standards

Board (GASB) Statements. The Corporation is governed by a six-member board of which three are delegates of the University. The remaining three positions are filled by persons external to the University's operations and business functions and are appointed by the UNCW Chancellor to serve on the board. As the Corporation's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

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

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

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

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

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

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

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

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

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

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

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies are valued at cost using first-in, first-out method.
- H. Prepaid Items** - Prepaid items are comprised of prepayments of royalties to be written off in future periods.
- I. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

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

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

The Randall Library Special collection is capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

- J. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- K. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, special

indebtedness, net pension liability, notes payable, and compensated absences that will not be paid within the next fiscal year.

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

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

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

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

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

- M. **Deferred Outflows/Inflows of Resources** - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position

that applies to 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.

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

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

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

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

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

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



- O. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- P. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

**NOTE 2 - DEPOSITS AND INVESTMENTS**

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

Cash on hand at June 30, 2017 was \$35,075. The carrying amount of the University's deposits not with the State Treasurer was \$661,104, and the bank balance was \$643,794. 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 exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$282,939.

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

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

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

G.S. 116-36(e) provides that the trustees of the Endowment Fund shall be responsible for the prudent investment of the Fund in the exercise of



their sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

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

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

Investments are subject to the following risks 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 \$161,247,257, 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 value method. Under this method, the pool uses a unit basis to determine each participating fund's market value and to distribute the fund's earnings. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

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

### Long-Term Investment Pool

	Amount
Investment Type	
UNC Investment Fund	\$ 68,232,305
Equity Mutual Funds	13,649,132
Total Long-Term Investment Pool	<u>\$ 81,881,437</u>

**UNC Investment Fund, LLC** - At June 30, 2017, the University's investments include \$68,232,305 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 (in Years)	
		1 to 5	6 to 10
Debt Securities			
Debt Mutual Funds	\$ 397,798	<u>\$ 46,327</u>	<u>\$ 351,471</u>
Other Securities			
Equity Mutual Funds	<u>1,115,216</u>		
Total Non-Pooled Investments	<u>\$ 1,513,014</u>		

At June 30, 2017, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	\$ 397,798	\$ 207,825	\$ 26,022	\$ 38,656	\$ 78,563	\$ 42,552	\$ 4,180

Rating Agency: Standard & Poor's

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

	Amount
Investment Type	
Debt Securities	
Debt Mutual Funds	\$ 397,798
Other Securities	
UNC Investment Fund	68,232,305
Equity Mutual Funds	14,764,348
<b>Total Investments</b>	<b>\$ 83,394,451</b>

**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	\$ 35,075
Amount of Deposits with Private Financial Institutions	661,104
Deposits in the Short-Term Investment Fund	161,247,257
Long-Term Investment Pool	81,881,437
Non-Pooled Investments	1,513,014
<b>Total Deposits and Investments</b>	<b>\$ 245,337,887</b>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 125,390,256
Restricted Cash and Cash Equivalents	17,158,936
Noncurrent:	
Restricted Cash and Cash Equivalents	19,394,244
<b>Total Deposits</b>	<b>161,943,436</b>
Investments	
Noncurrent:	
Endowment Investments	83,394,451
<b>Total Investments</b>	<b>83,394,451</b>
<b>Total Deposits and Investments</b>	<b>\$ 245,337,887</b>

### NOTE 3 - FAIR VALUE MEASUREMENTS

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				
Debt Securities				
Debt Mutual Funds	\$ 397,798	\$ 397,798	\$ 0	\$ 0
Other Securities				
Short-Term Investment Fund	161,247,257		161,247,257	
UNC Investment Fund	68,232,305			68,232,305
Equity Mutual Funds	14,764,348	14,764,348		
Total Investments by Fair Value Level	<u>\$ 244,641,708</u>	<u>\$ 15,162,146</u>	<u>\$ 161,247,257</u>	<u>\$ 68,232,305</u>

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

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

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

**NOTE 4 - ENDOWMENT INVESTMENTS**

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 4.5% of the average market value of the endowment over three previous years. To the extent that the total return for the current year exceeds the payout, the excess is reinvested with principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2017, net appreciation of \$37,223,934 was available to be spent, of which \$26,295,120 was classified in net position restricted for specific purposes, including scholarships and fellowships, research, endowed professorships, departmental and other uses. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

# NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 2,070,239	\$ 206,036	\$ 1,864,203
Accounts	2,044,186	3,101	2,041,085
Intergovernmental	1,277,782		1,277,782
Pledges	1,467,278	73,364	1,393,914
Interest on Loans	153,757		153,757
Other	375		375
<b>Total Current Receivables</b>	<b>\$ 7,013,617</b>	<b>\$ 282,501</b>	<b>\$ 6,731,116</b>
<b>Noncurrent Receivables:</b>			
Pledges	\$ 3,484,372	\$ 174,219	\$ 3,310,153
Other Receivables	21,099		21,099
<b>Total Noncurrent Receivables</b>	<b>\$ 3,505,471</b>	<b>\$ 174,219</b>	<b>\$ 3,331,252</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 395,707	\$ 35,285	\$ 360,422
Institutional Student Loan Programs	30,743		30,743
<b>Total Notes Receivable - Current</b>	<b>\$ 426,450</b>	<b>\$ 35,285</b>	<b>\$ 391,165</b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 3,578,748	\$ 357,875	\$ 3,220,873
Institutional Student Loan Programs	307,738		307,738
<b>Total Notes Receivable - Noncurrent</b>	<b>\$ 3,886,486</b>	<b>\$ 357,875</b>	<b>\$ 3,528,611</b>

**NOTE 6 - CAPITAL ASSETS**

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

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 11,567,590	\$ 0	\$ 1,759,088	\$ 9,808,502
Art, Literature, and Artifacts	1,811,267	9,339		1,820,606
Construction in Progress	5,963,280	12,070,671	2,825,791	15,208,160
<b>Total Capital Assets, Nondepreciable</b>	<b>19,342,137</b>	<b>12,080,010</b>	<b>4,584,879</b>	<b>26,837,268</b>
Capital Assets, Depreciable:				
Buildings	599,479,898	8,979,743	829,101	607,630,540
Machinery and Equipment	47,552,947	3,198,797	1,959,329	48,792,415
General Infrastructure	32,657,759	1,378,636		34,036,395
<b>Total Capital Assets, Depreciable</b>	<b>679,690,604</b>	<b>13,557,176</b>	<b>2,788,430</b>	<b>690,459,350</b>
Less Accumulated Depreciation for:				
Buildings	159,772,670	7,656,570	343,912	167,085,328
Machinery and Equipment	26,041,958	2,883,004	1,465,544	27,459,418
General Infrastructure	12,936,576	708,758		13,645,334
<b>Total Accumulated Depreciation</b>	<b>198,751,204</b>	<b>11,248,332</b>	<b>1,809,456</b>	<b>208,190,080</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>480,939,400</b>	<b>2,308,844</b>	<b>978,974</b>	<b>482,269,270</b>
<b>Capital Assets, Net</b>	<b>\$ 500,281,537</b>	<b>\$ 14,388,854</b>	<b>\$ 5,563,853</b>	<b>\$ 509,106,538</b>

During the year ended June 30, 2017, the University incurred \$8,936,850 in interest costs related to the acquisition and construction of capital assets. Of this total, \$8,747,474 was charged in interest expense, and \$189,376 was capitalized.

Donated assets were recorded using the actual cost of acquisition or construction costs provided to us by the donor.

**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	\$ 3,205,137
Accrued Payroll	803,418
Contract Retainage	518,250
Intergovernmental Payables	1,070
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 4,527,875</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	\$ 91,048,960	\$ 11,484,000	\$ 17,502,482	\$ 85,030,478	\$ 5,140,592
Special Indebtedness	116,275,000	57,235,000	58,760,000	114,750,000	1,310,000
Plus: Unamortized Premium	9,279,034	5,292,778	1,362,659	13,209,153	
Less: Unamortized Discount	(170,092)		(170,092)		
Total Revenue Bonds Payable and Special Indebtedness, Net	216,432,902	74,011,778	77,455,049	212,989,631	6,450,592
Net Pension Liability	13,164,633	19,902,866		33,067,499	
Notes Payable	13,820,995		2,409,821	11,411,174	606,924
Compensated Absences	8,944,081	6,380,003	6,242,345	9,081,739	283,911
Total Long-Term Liabilities, Net	\$ 252,362,611	\$ 100,294,647	\$ 86,107,215	\$ 266,550,043	\$ 7,341,427

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

Additional information regarding the blended component units is included in Note 17.

## B. Revenue Bonds Payable and Special Indebtedness - The University was indebted for revenue bonds payable and special indebtedness (which includes Certificates of Participation and Limited Obligation Bonds) for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017
<b>Revenue Bonds Payable</b>						
<b>UNCW General Revenue Bonds</b>						
Construct MARBIONC Facility	2010	3.75 - 5.97 *	01/01/2040	\$ 15,750,000	\$ 2,275,000	\$ 13,475,000
Schwartz/Suites & Wagoner Renovation Projects	2011	3.64	03/01/2026	9,000,000	3,048,522	5,951,478
Refund 2003A Union	2012	2.84	01/01/2028	11,755,000	205,000	11,550,000
Refund 2006A	2016	2.17	10/01/2033	11,484,000		11,484,000
Total UNCW General Revenue Bonds				47,989,000	5,528,522	42,460,478
<b>The University of North Carolina System Pool Revenue Bonds</b>						
Refund Series J and Recreation (2005A)	(A)	5.0 - 5.25	04/01/2019	12,630,000	11,375,000	1,255,000
Union Addition & Parking (2006A)	(B)	4.5 - 5.0	10/01/2033	19,400,000	19,400,000	
Refund Series 2002A & 2003A: Rec Ctr Exp (2010C)	(C)	3.0 - 5.25	10/01/2026	32,170,000	11,515,000	20,655,000
Recreation Center Expansion (2010D)	(D)	6.627 - 6.727 *	10/01/2039	20,660,000		20,660,000
Total The University of North Carolina System Pool Revenue Bonds				84,860,000	42,290,000	42,570,000
<b>Special Indebtedness</b>						
<b>Certificate of Participation</b>						
Student Housing-Seahawk Crossing & Parking Deck	2008	4.0 - 5.0 *	06/01/2038	61,460,000	61,460,000	
<b>Limited Obligation Bonds</b>						
Student Housing-Seahawk Village & Seahawk Landing	2015	3.0 - 5.0	06/01/2037	59,550,000	2,035,000	57,515,000
Student Housing-Seahawk Crossing & Parking Deck	2016	2.0 - 5.0	06/01/2038	57,235,000		57,235,000
Total Limited Obligation Bonds				116,785,000	2,035,000	114,750,000
Total Special Indebtedness				178,245,000	63,495,000	114,750,000
Total Revenue Bonds Payable and Special Indebtedness (principal only)				\$ 311,094,000	\$ 111,313,522	199,780,478
Plus: Unamortized Premium						13,209,153
Total Revenue Bonds Payable and Special Indebtedness, Net						\$ 212,989,631

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

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

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

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

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



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

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Special Indebtedness		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest*
2018	\$ 5,140,592	\$ 3,858,958	\$ 1,310,000	\$ 4,733,475	\$ 606,924	\$ 383,958
2019	5,593,435	3,635,595	1,505,000	4,681,075	643,209	363,181
2020	5,005,036	3,418,391	1,725,000	4,635,925	689,647	341,081
2021	5,188,423	3,232,169	3,845,000	4,566,925	724,194	317,495
2022	5,393,625	3,020,292	4,410,000	4,393,625	767,110	292,659
2023-2027	23,501,367	12,468,047	26,655,000	18,835,375	3,716,650	1,093,179
2028-2032	14,047,000	8,503,568	32,775,000	12,691,000	3,783,221	402,337
2033-2037	12,856,000	4,797,577	38,265,000	5,243,025	480,219	11,798
2038-2040	8,305,000	898,982	4,260,000	127,800		
<b>Total Requirements</b>	<b>\$ 85,030,478</b>	<b>\$ 43,833,579</b>	<b>\$ 114,750,000</b>	<b>\$ 59,908,225</b>	<b>\$ 11,411,174</b>	<b>\$ 3,205,688</b>

\*Interest on the variable rate College Station note payable is based on Libor plus 2.05% calculated at 3.13% at June 30, 2017.

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

On November 15, 2016, the University issued an \$11,484,000 General Revenue Refunding Bond, Series 2016 with an interest rate of 2.33%. The bond was issued for a current refunding of \$11,337,574 of outstanding University of North Carolina Pool System Revenue Bonds (2006A Pool General Trust Indenture), Series 2006A with an average interest rate of 4.960883%. The refunding was undertaken to reduce total debt service payments by \$3,308,490 over eighteen years and resulted in a net present value savings of \$2,243,913.

On July 6, 2016, the University executed and delivered \$57,235,000 in Refunding Limited Obligation Bonds, Series 2016 with an average interest rate of 3.584433%. The bonds were executed and delivered to advance refund \$57,580,000 of outstanding Certificates of Participation, Series 2008 with an average interest rate of 4.787971%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability was removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by \$8,241,467 over twenty-two years and resulted in a net present value savings of \$7,722,214. At June 30, 2017, the outstanding balance was \$56,725,000 for the defeased Series 2008 Certificates of Participation.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017
College Station	BB&T	Variable	11/05/2022	\$ 1,394,730	\$ 612,740	\$ 781,990
Energy Conservation Loan	BB&T	3.47%	03/01/2030	4,542,387	639,548	3,902,839
Energy Conservation Loan	PNC Equipment Finance, LLC	3.42%	06/30/2033	6,846,011	119,666	6,726,345
Total Notes Payable				<u>\$ 12,783,128</u>	<u>\$ 1,371,954</u>	<u>\$ 11,411,174</u>

**NOTE 9 - OPERATING LEASE OBLIGATIONS**

The University entered into operating leases for \$1,384,799 for an aquaculture facility, land, IT server, printer, copier, and landscape equipment. Future minimum lease payments under noncancelable operating lease obligations consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	\$ 203,607
2019	96,551
2020	44,641
2021	40,000
2022	40,000
2023-2027	200,000
2028-2032	200,000
2033-2037	200,000
2038-2042	200,000
2043-2046	160,000
Total Minimum Lease Payments	<u>\$ 1,384,799</u>

Rental expense for all operating leases during the year was \$222,126.

# 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	\$ 129,544,574	\$ 0	\$ 18,492,924	\$ 8,239	\$ 111,043,411
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 26,230,344	\$ 182,987	\$ 3,689,251	\$ 32,838	\$ 22,325,268
Dining	15,876,436	76,483	1,698,146	13,974	14,087,833
Physical Plant	4,221,983	4,204,363			17,620
Parking	3,591,813	87,382	165,509	6,642	3,332,280
Communications	3,325,174	3,325,174			
Recreation Services	3,501,406	44,317		23,511	3,433,578
Printing and Duplicating	1,418,435	1,250,280			168,155
Bookstore	941,624				941,624
Postal Services	342,603	139,465		478	202,660
Other	2,805,626	1,468,032		26,576	1,311,018
Sales and Services of Education and Related Activities	4,820,898	2,400,645		3,812	2,416,441
<b>Total Sales and Services, Net</b>	<b>\$ 67,076,342</b>	<b>\$ 13,179,128</b>	<b>\$ 5,552,906</b>	<b>\$ 107,831</b>	<b>\$ 48,236,477</b>
<b>Nonoperating Revenues:</b>					
Noncapital Gifts, Net	\$ 7,241,057	\$ 0	\$ 0	\$ 197,901	\$ 7,043,156

# 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	\$ 100,012,479	\$ 7,017,059	\$ 10,585,031	\$ 223,576	\$ 2,510	\$ 0	\$ 117,840,655
Research	6,895,783	11,858	2,597,446	116,349	242		9,621,678
Public Service	2,471,992	761,976	1,318,918	10,625	1,173		4,564,684
Academic Support	13,581,144	5,463,360	3,378,153	10,522	1,210		22,434,389
Student Services	9,431,043	1,116,411	2,740,443	38,774	242		13,326,913
Institutional Support	24,632,327	1,516,083	3,738,227	13,800	5,434		29,905,871
Operations and Maintenance of Plant	16,172,460	1,651,655	2,851,275		5,268,133		25,943,523
Student Financial Aid	607			16,399,175			16,399,782
Auxiliary Enterprises	9,956,615	4,452,522	31,841,876	790,745	2,473,024		49,514,782
Depreciation						11,248,332	11,248,332
<b>Total Operating Expenses</b>	<b>\$ 183,154,450</b>	<b>\$ 21,990,924</b>	<b>\$ 59,051,369</b>	<b>\$ 17,603,566</b>	<b>\$ 7,751,968</b>	<b>\$ 11,248,332</b>	<b>\$ 300,800,609</b>

# 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 \$3,450,431, and the University's contributions were \$5,739,218 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 \$33,067,499 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 .35978%, which was an increase of .00255 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% )
\$ 62,193,575	\$ 33,067,499	\$ 8,576,461

*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 \$6,263,327. 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	\$ 1,562,816
Changes of Assumptions	4,876,652	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	11,792,930	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	337,196	304,802
Contributions Subsequent to the Measurement Date	5,739,218	
<b>Total</b>	<b>\$ 22,745,996</b>	<b>\$ 1,867,618</b>

The amount of \$5,739,218 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension



liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year Ended June 30:	Amount
2018	\$ 2,441,528
2019	2,530,623
2020	6,514,768
2021	3,652,241
Total	<u>\$ 15,139,160</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 \$124,750,663, of which \$67,243,473 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$4,599,454 and \$4,034,608, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions.

#### 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 \$7,252,952, \$6,652,135, and \$6,275,091, 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 \$474,053, \$487,031, and \$468,632, 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 \$25,000 per occurrence deductible.

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

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

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

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

## **3. Employee Dishonesty and Computer Fraud**

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

## **4. Statewide Workers' Compensation Program**

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

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

## 5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Policies include boiler and machinery, crime, oceanographic equipment, watercraft and watercraft pollution coverage, and professional liability.

## NOTE 15 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$4,799,896 and on other purchases were \$2,778,309 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.
- C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end are as follows:

Purpose	Amount
Endowment Pledges	\$ 955,154

## NOTE 16 - RELATED PARTIES

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

The UNCW Student Aid Association, Inc. fosters and promotes the education of student athletes by obtaining donations for the scholarship program at the University. The association also raises funds for the improvement and construction of physical facilities used by the University for athletic purposes,

for the University's athletic scholarship fund, and to provide operational and supplementary support for the entire sports program. In addition, the association exists to encourage a fraternal spirit of loyalty and interest in the University by alumni, friends, and benefactors. Direct support from the UNCW Student Aid Association, Inc. totaled \$1,436,472 for the year ended June 30, 2017.

The Foundation assists the University by soliciting and receiving private gifts from individuals, corporations, and other organizations. These gifts support the University by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds for academic programs. In addition, the Foundation can accept and liquidate non-cash gifts for the University and acquire property on the University's behalf. The Foundation's direct support to the University totaled \$157,003 for the year ended June 30, 2017.

The Alumni Association of the University of North Carolina at Wilmington serves to connect and involve alumni, students, and friends in the promotion and advancement of the University. Occasionally donations are made from this association to the University. This support totaled \$100,080 for the year ended June 30, 2017.

The Friends of the University of North Carolina at Wilmington, Inc. contribute gifts to the University based on grant requests and may at a donor's request, contribute to a University academic scholarship fund. This support totaled \$9,488 for the year ended June 30, 2017.

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

# NOTE 17 - BLENDED COMPONENT UNITS

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

Condensed Statement of Net Position  
June 30, 2017

	University	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Eliminations*	Total
<b>ASSETS</b>							
Current Assets	\$ 149,684,133	\$ 13,432	\$ 0	\$ 2,474	\$ 345,013	\$ (1,275)	\$ 150,043,777
Capital Assets	507,860,538			1,246,000	19,833	(19,833)	509,106,538
Other Noncurrent Assets	108,135,225	1,513,014			956	(398)	109,648,797
Component Unit Receivable from Primary Government			125,942,099	102,009		(126,044,108)	
Total Assets	765,679,896	1,526,446	125,942,099	1,350,483	365,802	(126,065,614)	768,799,112
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	30,932,629		6,703,611			(6,703,611)	30,932,629
<b>LIABILITIES</b>							
Current Liabilities	19,349,588		1,695,881	416,953	5,550		21,467,972
Long-Term Liabilities, Net	134,315,277		124,246,218	647,121			259,208,616
Other Noncurrent Liabilities	12,664,917				2,895		12,667,812
Primary Government Payable to Component Unit	126,044,108					(126,044,108)	
Total Liabilities	292,373,890		125,942,099	1,064,074	8,445	(126,044,108)	293,344,400
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	2,454,430		6,703,611			(6,703,611)	2,454,430
<b>NET POSITION</b>							
Net Investment in Capital Assets	298,326,682			566,019			298,892,701
Restricted - Nonexpendable	56,882,997	999,796					57,882,793
Restricted - Expendable	43,129,374	526,650			47,861		43,703,885
Unrestricted	103,445,152			(279,610)	309,496	(21,506)	103,453,532
Total Net Position	\$ 501,784,205	\$ 1,526,446	\$ 0	\$ 286,409	\$ 357,357	\$ (21,506)	\$ 503,932,911

\* The \$21,506 disclosed as total elimination net position represents differences in both expense recognition and capital asset recognition between the Research Foundation and the University.

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

	University	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Eliminations	Total
<b>OPERATING REVENUES</b>							
Student Tuition and Fees, Net	\$ 111,043,411	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 111,043,411
Federal Grants and Contracts	5,934,265						5,934,265
State and Local Grants and Contracts	1,053,739						1,053,739
Nongovernmental Grants & Contracts	1,548,252				30,878	(30,878)	1,548,252
Sales & Services	48,140,191		4,816,209	39,040	179,702	(4,938,665)	48,236,477
Interest Earnings on Loans	26,950						26,950
Other Operating Revenues	6,967,517	1,852	435,611	172,059	264,519	(768,073)	7,073,485
Total Operating Revenues	174,714,325	1,852	5,251,820	211,099	475,099	(5,737,616)	174,916,579
<b>OPERATING EXPENSES</b>							
Operating Expenses	289,299,349	93,044	22,265	103,655	607,074	(573,110)	289,552,277
Depreciation	11,248,332						11,248,332
Total Operating Expenses	300,547,681	93,044	22,265	103,655	607,074	(573,110)	300,800,609
Operating Income (Loss)	(125,833,356)	(91,192)	5,229,555	107,444	(131,975)	(5,164,506)	(125,884,030)
<b>NONOPERATING REVENUES (EXPENSES)</b>							
State Appropriations	124,217,703						124,217,703
Noncapital Grants - Student Financial Aid	24,551,829						24,551,829
Noncapital Gifts, Net	7,015,722				27,434		7,043,156
Investment Income, Net	10,536,844	169,198				(69,945)	10,636,097
Interest & Fees on Debt	(8,729,548)		(4,816,209)	(39,040)		4,816,209	(8,768,588)
Federal Interest Subsidy on Debt	693,815						693,815
Other Nonoperating Revenues (Expenses)	(416,018)		(413,346)	(233,437)		401,554	(661,247)
Net Nonoperating Revenues (Expenses)	157,870,347	169,198	(5,229,555)	(272,477)	27,434	5,147,818	157,712,765
Capital Appropriations	1,185,683						1,185,683
Capital Grants	647,870						647,870
Capital Gifts	802,872						802,872
Additions to Endowments	2,814,635						2,814,635
Increase (Decrease) in Net Position	37,488,051	78,006		(165,033)	(104,541)	(16,688)	37,279,795
<b>NET POSITION</b>							
Net Position, July 1, 2016	464,296,154	1,448,440		451,442	461,898	(4,818)	466,653,116
Net Position, June 30, 2017	\$ 501,784,205	\$ 1,526,446	\$ 0	\$ 286,409	\$ 357,357	\$ (21,506)	\$ 503,932,911

\*The \$21,506 disclosed as total elimination net position represents differences in both expense recognition and capital asset recognition between the Research Foundation and the University.

*Condensed Statement of Cash Flows  
June 30, 2017*

	University	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Total
Net Cash Provided (Used) by Operating Activities	\$ (113,453,993)	\$ (91,043)	\$ 1,101,815	\$ 134,449	\$ (19,894)	\$ (112,328,666)
Net Cash Provided by Noncapital Financing Activities	154,633,885					154,633,885
Net Cash Used by Capital and Related Financing Activities	(29,945,892)		(1,101,815)	(137,299)		(31,185,006)
Net Cash Provided (Used) by Investing Activities	4,708,826	84,965			(19,833)	4,773,958
Net Increase (Decrease) in Cash and Cash Equivalents	15,942,826	(6,078)		(2,850)	(39,727)	15,894,171
Cash and Cash Equivalents, July 1, 2016	145,660,147	19,510		2,850	366,758	146,049,265
Cash and Cash Equivalents, June 30, 2017	\$ 161,602,973	\$ 13,432	\$ 0	\$ 0	\$ 327,031	\$ 161,943,436

The consolidated financial statements include the elimination of capital lease transactions for residence halls between the University and the Corporation and between the University and the Corporation II for a financed building and land.



**NOTE 18 - 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. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

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

GASB Statement No. 74 establishes new accounting and financial reporting requirements for defined benefit other postemployment benefits (OPEB) plans that replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

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**

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

**Exhibit B-1**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.35978%	0.35723%	0.36424%	0.38300%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 33,067,499	\$ 13,164,633	\$ 4,270,426	\$ 23,252,003
Covered Payroll	\$ 57,507,190	\$ 53,297,118	\$ 52,894,845	\$ 55,820,098
Net Pension Liability as a Percentage of Covered Payroll	57.50%	24.70%	8.07%	41.66%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

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

**Exhibit B-2**

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Contractually Required Contribution	\$ 5,739,218	\$ 4,904,056	\$ 4,876,686	\$ 4,596,562	\$ 4,649,814
Contributions in Relation to the Contractually Determined Contribution	<u>5,739,218</u>	<u>4,904,056</u>	<u>4,876,686</u>	<u>4,596,562</u>	<u>4,649,814</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 57,507,190	\$ 53,596,237	\$ 53,297,118	\$ 52,894,845	\$ 55,820,098
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Contractually Required Contribution	\$ 4,220,585	\$ 2,874,128	\$ 2,073,920	\$ 1,970,758	\$ 1,667,988
Contributions in Relation to the Contractually Determined Contribution	<u>4,220,585</u>	<u>2,874,128</u>	<u>2,073,920</u>	<u>1,970,758</u>	<u>1,667,988</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 56,728,297	\$ 58,298,735	\$ 58,092,990	\$ 58,653,497	\$ 54,688,144
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.

**University of North Carolina Wilmington**  
**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>									
<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
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

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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  
University of North Carolina Wilmington  
Wilmington, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of North Carolina Wilmington (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 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 10, 2017. Our report includes a reference to other auditors who audited the financial statements the UNCW Corporation (Corporation), the UNCW Corporation II (Corporation II), and the UNCW Research Foundation (Research Foundation), as described in our report on the University's financial statements. The financial statements of the Corporation, the Corporation II, and the Research Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a

deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### Compliance and Other Matters

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

### Purpose of this Report

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



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

November 10, 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 673 hours at an approximate cost of \$69,319.