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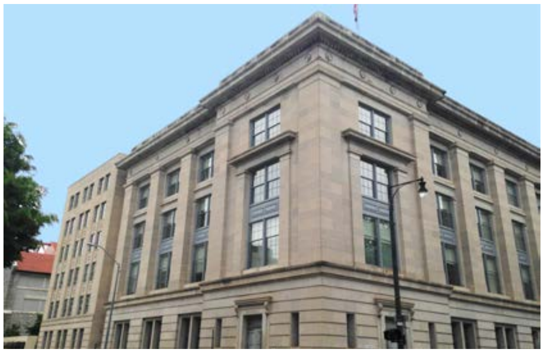
BETH A. WOOD, CPA



THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2017

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

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STATE OF NORTH CAROLINA

Office of the State Auditor

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AUDITOR'S TRANSMITTAL

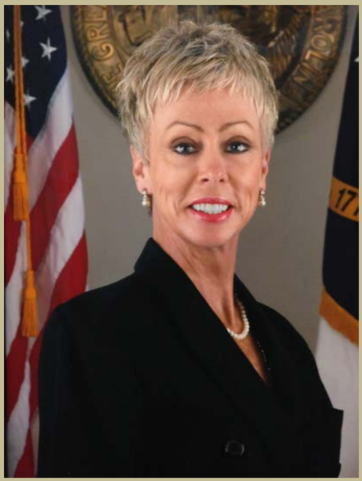
The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, The University of North Carolina at Pembroke

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

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

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

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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

Independent Auditor's Report

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Pembroke (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 University of North Carolina at Pembroke Foundation, Inc., which represent 11 percent, 0 percent, and 2 percent, respectively, of the assets, net position, and revenues of the University. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The University of North Carolina at Pembroke Foundation, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 report 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 at Pembroke, 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 December 5, 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 5, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of The University of North Carolina at Pembroke (the "University") for the year ended June 30, 2017, with comparative information for the year ended June 30, 2016. We encourage you to read this MD&A section in conjunction with the audited financial statements and the Notes to the Financial Statements appearing in this report.

About The University of North Carolina at Pembroke

The University of North Carolina at Pembroke is a constituent institution of the University of North Carolina and is North Carolina's Historically American Indian University, with over 6,250 students and 800 faculty and staff. Founded in 1887 and originally known as the Croatan Normal School, the University is one of the most diverse universities in the United States and has grown into a comprehensive public institution of higher learning, with 41 undergraduate majors and 17 graduate degree programs.

About the Financial Statements

The following financial statements reflect all assets, liabilities, deferred inflows/outflows, and net position (equity) of the University, which is considered the "primary government" for financial reporting purposes. In addition, the financial statements also include the consolidated results for the University's component unit, The University of North Carolina at Pembroke Foundation, Inc., which is a legally separate entity that meets the financial accountability criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity.* Condensed financial information for the blended component unit is provided in the Notes to the Financial Statements.

The University presents its financial reports in a "business-type activity" format, in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34*. In addition to this MD&A section, the financial report includes a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, a Statement of Cash Flows, Notes to the Financial Statements, and required supplementary information.

The Statement of Net Position is the University's balance sheet. It reflects the total assets, liabilities, deferred inflows & outflows of financial resources, and net position (equity) of the University as of June 30, 2017. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at fair value. Capital assets, which include the University's land, buildings, infrastructure, and equipment are shown net of accumulated depreciation. Net position is grouped in the following categories:

- Net Investment in Capital Assets
- Restricted – Nonexpendable
- Restricted – Expendable
- Unrestricted

The Statement of Revenues, Expenses, and Changes in Net Position is the University's income statement. It details how net position has increased during the year ended June 30, 2017 with comparative information for fiscal year 2016. Student tuition and fees revenue is shown net of scholarship discounts and bad debt expenses, depreciation is provided for capital assets, and there are required subtotals for net operating income (loss) and net income (loss) before capital contributions and additions to permanent endowments. It should be noted that the required subtotal for net operating income or loss will reflect a "loss" for state-supported colleges and universities. This is due to the way operating and nonoperating items are defined under GASB Statement No. 9, *Reporting Cash Flows or Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating expenses include virtually all University expenses, except for interest on long-term debt and other nonoperating expenses. Operating revenues, however, exclude certain significant revenue streams that the University and other public institutions have traditionally relied upon to fund current operations, including state instructional support, gifts, and investment income.

The Statement of Cash Flows details how cash has increased (or decreased) during the year ended June 30, 2017 with comparative information for fiscal year 2016. It breaks out the sources and uses of University cash into the following categories:

- Operating activities
- Noncapital financing activities
- Capital financing activities and related financing activities
- Investing activities

Cash flows associated with the University's expendable net position appear in the operating and noncapital financing categories. Capital financing activities include payments for capital assets and long-term debt repayments. Purchases and sales of investments are reflected as investing activities.

The Notes to the Financial Statements, which follow the financial statements, provide additional details on the amounts in the financial statements.

Financial Highlights

The University's net position continued its upward trend, increasing by $2.34 million to $148.46 million. Fall 2016 enrollment decreased to 6,268 students which had a minimal effect on the operating revenues. State operating appropriations increased as there were no required appropriation reversions during the year. Operating expenses were higher as most categories saw moderate increases.

Analysis of Financial Position – Statement of Net Position

Assets and Deferred Outflows of Resources

	FY 2017	FY 2016 (as Restated)	Change
Cash and Short-Term Investments	$ 17,474,541	$ 16,019,450	$ 1,455,091
Receivables and Inventories	3,228,118	4,135,527	(907,409)
Current Assets	20,702,659	20,154,977	547,682
Endowment Investments	22,705,234	20,435,292	2,269,942
Cash and Investments	4,902,497	8,553,104	(3,650,607)
Other Noncurrent Assets	873,972	788,757	85,215
Capital Assets, Net of Accumulated Depreciation	168,550,159	168,093,124	457,035
Noncurrent Assets	197,031,862	197,870,277	(838,415)
Total Assets	$ 217,734,521	$ 218,025,254	$ (290,733)
Accumulated Decrease in Fair Value of Hedging Derivatives	$ 1,507,968	$ 2,194,590	$ (686,622)
Deferred Outflows Related to Pensions	11,441,765	2,448,319	8,993,446
Deferred Outflows of Resources	$ 12,949,733	$ 4,642,909	$ 8,306,824

Current cash and short-term investments increased by $1.46 million to $17.5 million, this reflects a $234 thousand larger state cash carryforward and a $949 thousand increase from housing operations.

Changes in current receivables and inventories were down $907 thousand in the current year. Inventories saw a large decrease of nearly $600 thousand in items held for resale at the University Bookstore as a result of inventory liquidation in anticipation of the transition of the bookstore operations to the Follett Higher Education Group.

Endowment funds are invested in a diversified portfolio of equities, fixed income, real estate, hedge funds, private equity, and other investment vehicles. The endowment fund increased by 11% due to favorable investment environment and additions to endowments of $695 thousand.

Noncurrent cash and investments primarily reflect assets that are deposited with the University's bond trustees or are held with the University to be used in current capital construction or improvements. Overall, these balances decreased by roughly $3.65 million due to the University using all of the $3.57 million 2015 note payable proceeds allocated to construct the Student Health Services Building, as well as a $765 thousand prepayment of the 2006 certificates of participation.

Capital assets, net of accumulated depreciation, increased by $457 thousand as increases in capital construction and acquisition activity kept relative pace with depreciation expenses.

The accumulated decrease in fair value of the hedging derivatives is related to the interest rate swap for the 2001A variable interest rate bond. This amount is entirely offset by the hedging derivative liability, and represents the amount that would have to be paid to the swap's counterparty should The University of North Carolina at Pembroke Foundation, Inc. wish to terminate the swap agreement.

The deferred outflow related to pensions increased $8.99 million due to changes in pension contributions and the University's proportionate share of contributions to the plan.

Liabilities and Deferred Inflows of Resources

	FY 2017	FY 2016	Change	% Change
Accounts Payable and Accrued Liabilities	$ 2,271,007	$ 1,911,362	$ 359,645	19%
Unearned Revenue	169,435	242,845	(73,410)	-30%
Current Portion of Long-Term Debt	3,640,653	3,522,773	117,880	3%
Other Current Liabilities	704,002	779,936	(75,934)	-10%
Current Liabilities	6,785,097	6,456,916	328,181	5%
Other Noncurrent Liabilities	1,581,132	1,788,813	(207,681)	-12%
Hedging Derivative Liability	1,507,968	2,194,590	(686,622)	-31%
Noncurrent Portion of Long-Term Debt	71,495,371	64,616,319	6,879,052	11%
Noncurrent Liabilities	74,584,471	68,599,722	5,984,749	9%
Total Liabilities	$ 81,369,568	$ 75,056,638	$ 6,312,930	8%
Deferred Inflows Related to Pensions	$ 850,489	$ 1,484,782	$ (634,293)	-43%

Accounts payable and accrued liabilities increased by 19% to $2.27 million due to projects at the varsity soccer complex as well as an increase in accrued payroll. The current portion of long-term debt saw a 3% increase for this fiscal year. Contributing to this was the IT Equipment capital lease that was new for the fiscal year. The hedging derivative liability fluctuates based on market values and decreased approximately $686 thousand in the current year.

The noncurrent portion of long-term debt increased $6.9 million due to the impact of declining investment income on the State of North Carolina's Teachers' and State Employees' Retirement System (TSERS) plan. The University's proportionate share of the net pension liability increased from $6.10 million in fiscal year 2016 to $16.23 million in fiscal year 2017.

Deferred inflows related to pensions represent changes in actuarial assumptions, differences between those assumptions and actual results, and the difference between expected and actual investment earnings. These amounts are then amortized over the average remaining years of employee employment. For the University, these deferred inflows will be amortized over the next four years, and result in a reduction of pension expense. This caption realized a decrease of $634 thousand due to the pension plan's investments earning a rate of return that underperformed.

Net Position	FY 2017	FY 2016 (as Restated)	Change	% Change
Net Investment in Capital Assets	$ 113,413,230	$ 111,923,417	$ 1,489,813	1%
Restricted				
Nonexpendable	17,190,582	16,516,332	674,250	4%
Expendable	12,854,725	14,063,150	(1,208,425)	-9%
Unrestricted	5,005,661	3,623,844	1,381,817	38%
Total Net Position	$ 148,464,198	$ 146,126,743	$ 2,337,455	2%

Net investment in capital assets consists of University capital assets reduced for accumulated depreciation and related debt. This increased by $1.49 million during fiscal year 2017 due to the acquisition of capital assets as well as principal payments on capital debt outpacing depreciation expense and new capital debt issuances.

Restricted nonexpendable net position consists of endowment gifts with specific restrictions and gifts whose principal is maintained in perpetuity. This category increased by $674 thousand, mostly representing increases to permanent endowments.

Restricted expendable net position consists of income from endowment funds, gifts, pledges with specific restrictions, grants from third party agencies with expenditure restrictions, and funds on deposit with bond trustees for the future debt service payments. This category decreased by $1.21 million, largely from the decreases in expendable scholarships and fellowships as well as professorships. There was also an increase in debt service funds expended causing a decrease in expendable debt service.

Unrestricted net position includes resources not exposed to externally imposed restrictions, and are derived from operating activities, unrestricted gifts, and interest income. Unrestricted net position increased by $1.38 million or 38% due to a decrease in deferred inflows related to pensions.

Results of Operations Analysis – Statement of Revenues, Expenses, and Changes in Net Position

Operating Revenues

	FY 2017	FY 2016 (as Restated)	Change	% Change
Student Tuition and Fees, Net	$ 24,687,973	$ 24,059,293	$ 628,680	3%
Grants and Contracts	545,392	486,651	58,741	12%
Sales and Services, Net	18,435,953	18,046,882	389,071	2%
Other Operating Revenues	485,413	614,104	(128,691)	-21%
Total Operating Revenues	$ 44,154,731	$ 43,206,930	$ 947,801	2%

Net student tuition and fees revenue increased by 3% or $629 thousand to $24.7 million. Tuition and fee rates modestly increased, increasing gross tuition. Additionally, the tuition discount applied to gross tuition decreased by 3.4%, compared to the prior year. The tuition discount represents the amount of University resources that were provided to students to use towards their tuition and fee charges.

Grants and contracts were up over 12% primarily due to continued revenues from the research grant awarded to the University by the Department of the Army.

Sales and services revenue increased by 2% from fiscal year 2016 due to an overall increase in student rates and demand for services. Increases occurred in the residential life of $298 thousand.

Operating Expenses

	FY 2017	FY 2016 (as Restated)	Change	% Change
Salaries and Benefits	$ 73,433,663	$ 67,842,477	$ 5,591,186	8%
Supplies and Materials	9,245,669	11,329,863	(2,084,194)	-18%
Services	20,989,842	20,944,015	45,827	0%
Scholarships and Fellowships	9,958,974	9,982,590	(23,616)	0%
Utilities	3,341,067	3,299,938	41,129	1%
Depreciation	5,973,154	5,682,880	290,274	5%
Total Operating Expenses	122,942,369	119,081,763	3,860,606	3%
Operating Loss	$ (78,787,638)	$ (75,874,833)	$ (2,912,805)	4%

Total operating expenses increased by $3.86 million from the previous year. Salaries and benefits expenses increased by $5.59 million, reflecting not only an increase in hiring of vacant positions ($2.25 million), but also the pension expense increased $2.64 million in the current year.

Supplies and materials expenses decreased as library expenses were down $501 thousand. IT equipment also decreased by $1.16 million related to wrapping up current IT projects. Repairs and maintenance expenses also decreased by $303 thousand.

Utilities expense was up 1% year-over-year as the University continues to actively manage its energy usage.

As with the majority of all public universities, the University shows a large operating loss due to the treatment of significant revenue streams, such as state appropriations, noncapital grants, and investment income, as non-operating revenue. The University's operating loss increased by $2.91 million for reasons previously mentioned.

Operating Expenses (by Function)

	FY 2017	FY 2016	Change	% Change
Instruction	$ 36,563,416	$ 34,952,259	$ 1,611,157	5%
Research	527,049	373,675	153,374	41%
Public Service	1,808,242	1,971,785	(163,543)	-8%
Academic Support	12,086,416	11,873,131	213,285	2%
Student Services	7,096,279	6,971,313	124,966	2%
Institutional Support	14,009,226	13,329,765	679,461	5%
Operating & Maintenance of Plant	11,052,063	11,633,790	(581,727)	-5%
Student Financial Aid	9,765,201	9,938,092	(172,891)	-2%
Auxiliary Enterprises	24,061,323	22,355,073	1,706,250	8%
Depreciation	5,973,154	5,682,880	290,274	5%
Total Operating Expenses	$ 122,942,369	$ 119,081,763	$ 3,860,606	3%

From a functional expense perspective, auxiliary enterprises had the largest expense increase at $1.7 million. Within auxiliary enterprises, $700 thousand was an increase in services due to increases in repairs and maintenance costs and maintenance service contracts. The other $1 million in increases was to salaries and benefits and supplies and materials.

Nonoperating Revenues (Expenses)

	FY 2017	FY 2016 (as Restated)	Change	% Change
State Appropriations	$ 55,584,432	$ 54,238,608	$ 1,345,824	2%
Noncapital Grants and Gifts	23,620,946	24,753,796	(1,132,850)	-5%
Investment Income, Net	2,323,893	(950,248)	3,274,141	345%
Interest and Fees on Debt	(2,905,794)	(3,002,240)	96,446	-3%
Federal Interest Subsidy on Debt	371,614	371,338	276	0%
Other Nonoperating Expenses	(335,782)	(236,973)	(98,809)	42%
Net Nonoperating Revenues	$ 78,659,309	$ 75,174,281	$ 3,485,028	5%
Other Revenues				
Capital Appropriations	$ 1,052,949	$ 1,609,173	$ (556,224)	-35%
Capital Grants and Gifts	718,174	274,541	443,633	162%
Additions to Permanent Endowments	694,661	960,689	(266,028)	-28%
Total Other Revenues	$ 2,465,784	$ 2,844,403	$ (378,619)	-13%
Reconciliation of Net Position				
Beginning Net Position	$ 146,126,743	$ 144,145,152	$ 1,981,591	1%
Total Revenues	128,521,399	124,519,585	4,001,814	3%
Total Expenses	(126,183,944)	(122,537,994)	(3,645,950)	-3%
Increase in Net Position	2,337,455	1,981,591	355,864	18%
Ending Net Position	$ 148,464,198	$ 146,126,743	$ 2,337,455	2%

Appropriations from the State for the University were $55.6 million, an increase of $1.35 million for general operations. The noncapital grants and gifts decreased due to a reduction in noncapital grants – student financial aid of $791 thousand and a decrease in noncapital gifts of $337 thousand as donations were concentrated more on capital gifts.

The endowment fund incurred a significant increase of 15.5% due to a 10.00% net return in fiscal year 2017, up from the 5.5% loss incurred in fiscal year 2016, which led to the net investment income increase of $3.27 million.

The University received $718 thousand in capital grants and gifts, an increase of $444 thousand from the prior year. The increase in capital gifts is due to donations made to renovations for the soccer field. The University was given capital appropriations of $1.05 million, down $556 thousand from fiscal year 2016, for use in repairs and renovations across campus.

Statement of Cash Flows

Cash Inflows (Outflows) from:	FY 2017	FY 2016	Change	% Change
Operating Activities	$ (70,793,792)	$ (73,997,275)	$ 3,203,483	4%
Noncapital Financing Activities	79,363,017	79,422,697	(59,680)	0%
Capital Financing and Related Financing Activities	(10,761,999)	(5,858,525)	(4,903,474)	-84%
Investing Activities	255,950	1,188,907	(932,957)	-78%
Cash, Beginning of Year	20,352,050	19,596,246	755,804	4%
Increase (Decrease) in Cash	(1,936,824)	755,804	(2,692,628)	-356%
Cash, End of Year	$ 18,415,226	$ 20,352,050	$ (1,936,824)	-10%

The change in cash used from operating activities consists largely in the University's increase in cash payments to suppliers and vendors. Cash provided from noncapital financial activities largely mirror the revenues and expenses from the University's nonoperating revenue and expense captions mentioned above.

The completion of the Student Health Services Building construction is the primary contributor to the $4.90 million increase in cash used from capital financing and related financing activities. Cash provided from investing activities reflects the liquidation of investments in the University's bond trustee accounts for the prepayment of the 2004 and 2006 certificates of participation and refinancing of those 2006 certificates of participation into limited obligation bonds. Overall, the University's cash balance decreased by $1.94 million from the prior year.

Capital Assets and Debt Administration

In the current year, $7.86 million of depreciable capital assets were capitalized, the majority of which is the Student Health Services Building. General infrastructure increased by a negligible amount. Buildings increased by $5.23 million during the year, as the $4 million Student Health Services Building was completed.

Construction in progress was $499 thousand at June 30, 2017. The majority of this balance pertains to the ongoing construction for the varsity soccer complex. For further information regarding capital assets, see Note 6 of the Notes to the Financial Statements.

During fiscal year 2017, the University issued $15.48 million in Series 2017 refunding bonds with an average interest rate of 3.62%. The bonds were issued for a current refunding of $15.48 million of outstanding 2004 and 2006 Certificates of Participation with an average interest rate of 4.46%. The refunding was undertaken to reduce total debt service payments by $1.88 million over the next 18 years and resulted in an economic gain of $974 thousand.

North Carolina citizens approved the North Carolina Connect Bond referendum in March 2016. This bond referendum contained funding for many capital projects in the University of North Carolina system. The University will receive $23 million towards the new School of Business and will raise the additional $13.0 million to complete the $36 million required to start construction. The University also received $10.0 million to renovate West Hall.

At June 30, 2017, outstanding commitments on construction contracts were $642 thousand.

At June 30, 2017, the University had outstanding bond indebtedness in the amount of $45 million of which $1.9 million is due within the next year, and notes payable of $9.7 million of which $0.96 million is due within the next year.

Standard and Poor's maintained the University's issuer credit rating at an "A-" with a stable outlook. For more detailed information about outstanding debt, see Note 9 of the Notes to the Financial Statements.

Economic Factors Affecting Future Operations

The University expects to maintain and build upon its healthy financial position in fiscal year 2018. Demand for a University of North Carolina at Pembroke education was stable as the

Fall 2017 headcount was 6,252 students. Tuition and fee revenues are still predicted to rise as rates for tuition and fees will increase by 4.75%, beginning Fall 2017.

Demand remains extremely strong for campus housing, even as housing rates increased on average by 3%. For Fall 2017, the dormitory system is at 98% of capacity. This will have positive downstream effects for our dining system, bookstore, and other auxiliary enterprises. These factors should contribute to a record high level of operating revenues for the upcoming operating period.

Beginning Fall 2018, the University will be one of three University of North Carolina constituent institutions that will be included in the NC Promise Tuition Plan. This program will offer discounted annual resident and non-residence tuition of $1,000 and $5,000, respectively. Management anticipates that this program will allow the University to strategically grow its enrollment, and consequently increase the University's financial resources to use in furthering its mission.

Based on currently known facts about the University's financial performance early in the Fall 2017 semester, management is confident that its sound financial position will not only be maintained, but strengthened throughout the next operating period. University administration will continue to effectively manage the financial resources of the University to serve the state of North Carolina and to provide the highest quality educational experience to our students.

FINANCIAL STATEMENTS

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

Exhibit A-1

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 11,428,051.66
Restricted Cash and Cash Equivalents	3,721,200.61
Restricted Short-Term Investments	2,325,288.81
Receivables, Net (Note 5)	1,559,224.82
Inventories	1,630,338.34
Notes Receivable, Net (Note 5)	38,555.06
Total Current Assets	20,702,659.30
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	3,265,973.70
Receivables, Net (Note 5)	416,723.79
Endowment Investments	22,705,234.44
Restricted Investments	1,636,523.02
Cash Surrender Value of Life Insurance Policies	56,693.35
Notes Receivable, Net (Note 5)	400,554.50
Capital Assets - Nondepreciable (Note 6)	4,590,927.96
Capital Assets - Depreciable, Net (Note 6)	163,959,231.40
Total Noncurrent Assets	197,031,862.16
Total Assets	217,734,521.46
DEFERRED OUTFLOWS OF RESOURCES	
Accumulated Decrease in Fair Value of Hedging Derivatives	1,507,968.00
Deferred Outflows Related to Pensions	11,441,765.00
Total Deferred Outflows of Resources	12,949,733.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	2,271,006.83
Deposits Payable	53,771.00
Unearned Revenue	169,434.60
Interest Payable	650,231.56
Long-Term Liabilities - Current Portion (Note 9)	3,640,653.24
Total Current Liabilities	6,785,097.23
Noncurrent Liabilities:	
Deposits Payable	298,512.73
Funds Held for Others	521,515.95
U. S. Government Grants Refundable	761,102.61
Hedging Derivative Liability	1,507,968.00
Long-Term Liabilities, Net (Note 9)	71,495,371.32
Total Noncurrent Liabilities	74,584,470.61
Total Liabilities	81,369,567.84
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	850,489.00

NET POSITION		
Net Investment in Capital Assets		113,413,229.85
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		8,543,288.37
Endowed Professorships		8,449,937.66
Departmental Uses		197,356.34
Expendable:		
Scholarships and Fellowships		2,509,207.65
Endowed Professorships		3,006,642.24
Departmental Uses		1,300,545.88
Operations and Maintenance		1,704,799.39
Capital Projects		2,955,461.34
Debt Service		1,162,604.36
Other		215,463.19
Unrestricted		5,005,661.35
Total Net Position	$	148,464,197.62

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

The University of North Carolina at Pembroke
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 12)	$	24,687,973.31
Federal Grants and Contracts		188,829.31
State and Local Grants and Contracts		281,238.20
Nongovernmental Grants and Contracts		75,324.26
Sales and Services, Net (Note 12)		18,435,952.73
Interest Earnings on Loans		6,947.03
Other Operating Revenues		478,465.80
Total Operating Revenues		44,154,730.64
EXPENSES		
Operating Expenses:		
Salaries and Benefits		73,433,663.15
Supplies and Materials		9,245,668.45
Services		20,989,841.79
Scholarships and Fellowships		9,958,974.08
Utilities		3,341,067.17
Depreciation		5,973,154.17
Total Operating Expenses		122,942,368.81
Operating Loss		(78,787,638.17)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		55,584,432.03
Noncapital Grants - Student Financial Aid		19,614,480.46
Noncapital Grants		3,207,756.27
Noncapital Gifts, Net (Note 12)		798,708.00
Investment Income (Net of Investment Expense of $218,974.86)		2,323,893.48
Interest and Fees on Debt		(2,905,794.06)
Federal Interest Subsidy on Debt		371,614.01
Other Nonoperating Expenses		(335,781.59)
Net Nonoperating Revenues		78,659,308.60
Loss Before Other Revenues		(128,329.57)
Capital Appropriations		1,052,948.74
Capital Grants		54,999.71
Capital Gifts		663,174.27
Additions to Endowments		694,661.18
Increase in Net Position		2,337,454.33
NET POSITION		
Net Position - July 1, 2016, as Restated (Note 20)		146,126,743.29
Net Position - June 30, 2017	$	148,464,197.62

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

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 43,957,729.98
Payments to Employees and Fringe Benefits	(72,726,724.41)
Payments to Vendors and Suppliers	(32,404,924.06)
Payments for Scholarships and Fellowships	(9,958,974.08)
Loans Issued	(189,682.44)
Collection of Loans	45,392.89
Interest Earned on Loans	4,924.12
Other Receipts	478,465.80
Net Cash Used by Operating Activities	(70,793,792.20)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	55,584,432.03
Noncapital Grants - Student Financial Aid	19,614,480.46
Noncapital Grants	3,109,971.48
Noncapital Gifts	606,018.88
Additions to Endowments	694,661.18
William D. Ford Direct Lending Receipts	40,500,084.00
William D. Ford Direct Lending Disbursements	(40,513,624.00)
Related Activity Agency Disbursements	(85,049.00)
Other Payments	(147,957.78)
Net Cash Provided by Noncapital Financing Activities	79,363,017.25
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	396,140.91
Capital Appropriations	1,052,948.74
Capital Grants	54,999.71
Capital Gifts	864,987.02
Proceeds from Sale of Capital Assets	9,972.99
Acquisition and Construction of Capital Assets	(6,122,220.86)
Principal Paid on Capital Debt and Leases	(4,351,836.39)
Interest and Fees Paid on Capital Debt and Leases	(3,038,604.72)
Federal Interest Subsidy on Debt Received	371,614.01
Net Cash Used by Capital Financing and Related Financing Activities	(10,761,998.59)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	24,474,601.97
Investment Income	300,457.71
Purchase of Investments and Related Fees	(24,519,109.92)
Net Cash Provided by Investing Activities	255,949.76
Net Decrease in Cash and Cash Equivalents	(1,936,823.78)
Cash and Cash Equivalents - July 1, 2016	20,352,049.75
Cash and Cash Equivalents - June 30, 2017	$ 18,415,225.97

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

Operating Loss	$	(78,787,638.17)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		5,973,154.17
Allowances and Write-Offs		1,042,983.98
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(660,524.74)
Inventories		600,122.02
Notes Receivable, Net		(144,289.55)
Deferred Outflows for Pensions		(8,993,446.00)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		523,880.09
Net Pension Liability		10,130,883.00
Compensated Absences		154,851.00
Deposits Payable		525.00
Deferred Inflows for Pensions		(634,293.00)
Net Cash Used by Operating Activities	$	(70,793,792.20)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	11,428,051.66
Restricted Cash and Cash Equivalents		3,721,200.61
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		3,265,973.70
Total Cash and Cash Equivalents - June 30, 2017	$	18,415,225.97

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of Capital Lease	$	670,000.00
Change in Fair Value of Investments		2,023,435.77
Loss on Disposal of Capital Assets		(130,129.31)
Amortization of Bond Premiums		(3,106.10)
Funds Escrowed to Defease Debt		15,475,000.00

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Unit - Although legally separate, The University of North Carolina at Pembroke Foundation, Inc. (Foundation), a component unit of the University, is reported as if it was part of the University.

The Foundation is a not-for-profit organization established to foster public understanding of, and support for the University and to solicit and promote donations of any kind for the exclusive benefit of the University. Because the Foundation's operations are so intertwined with the University, its financial statements have been included with those of the University.

Separate financial statements for the Foundation may be obtained from the University Controller's Office, P.O. Box 1510, Pembroke, NC 28372**,** or by calling (910) 521-6471.

Condensed combining information regarding the blended component unit is provided in Note 18.

The transactions which are significant between the University and the blended component unit are the operating and capital lease payments for student housing complexes.

During the year ended June 30, 2017, the Foundation distributed $406,910.75 to the University for both restricted and unrestricted purposes.

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, savings 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.

Commercial paper, money market mutual funds, real estate investment trusts, and fixed income ETFs are reported at cost. Real assets limited partnerships, private equity limited partnerships and hedge funds are reported at Net Asset Value (NAV).

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 the last invoice cost. Merchandise for resale in the University bookstore is valued at the lower of cost or market using the weighted-average cost method. Merchandise for resale in The Museum of the Southeast American Indian is valued at cost using the last invoice method.

H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

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

Asset Class	Estimated Useful Life
Buildings	10-50 years
Machinery and Equipment	2-30 years
General Infrastructure	10-46 years

Displays in The Museum of the Southeast American Indian and portrait collections are capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

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

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, special indebtedness, notes payable, capital lease obligations, net pension liability, 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. The University amortizes bond premiums 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 14 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

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

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

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

L. Deferred Outflows/Inflows of Resources - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The University has the following items that qualify for reporting in this category: the accumulated decrease in fair value of hedging derivatives 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 item that qualifies for reporting in this category: deferred inflows related to pensions.

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

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

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

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

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

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

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

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

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

P. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as dining, residential life, physical plant, motor pool, print shop, and the bookstore. 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 $21,711.31. The carrying amount of the University’s deposits not with the State Treasurer was $1,046,292.34, and the bank balance was $1,046,292.34. 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 $700,269.28.

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 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 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 $17,347,222.32, 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, each participating fund's investment balance is determined on its pro-rata share of the principal value, undisputed value and undistributed 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

		Investment Maturities (in Years)			
	Amount	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 300,095.65	$ 0.00	$ 300,095.65	$ 0.00	$ 0.00
U.S. Agencies	94,815.93		32,356.34		62,459.59
Debt Mutual Funds	1,239,910.74		1,239,910.74		
Money Market Mutual Funds	349,701.51	349,701.51			
Domestic Corporate Bonds	909,464.42	142,837.48	373,576.42	393,050.52	
Fixed Income ETFs	1,258,045.92	1,258,045.92			
Total Debt Securities	4,152,034.17	$ 1,750,584.91	$ 1,945,939.15	$ 393,050.52	$ 62,459.59
Other Securities					
Equity Mutual Funds	354,004.33				
Investments in Real Estate	334,281.73				
Real Estate Investment Trust	171,731.61				
Hedge Funds	1,561,840.59				
Private Equity Limited Partnerships	1,614,412.48				
Real Assets Limited Partnerships	555,236.16				
Other Limited Partnerships	504,957.89				
Domestic Stocks	8,286,237.00				
Foreign Stocks	3,483,510.84				
Emerging Market Equities	1,418,749.25				
Other	268,238.39				
Total Long-Term Investment Pool	$ 22,705,234.44				

At June 30, 2017, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
U.S. Agencies	$ 94,815.93	$ 94,815.93	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Debt Mutual Funds	1,239,910.74						1,239,910.74
Money Market Mutual Funds	349,701.51	349,701.51					
Domestic Corporate Bonds	909,464.42	411,813.46	51,585.59	184,505.43	178,663.81	82,896.13	
Fixed income ETFs	1,258,045.92						1,258,045.92
Totals	$ 3,851,938.52	$ 856,330.90	$ 51,585.59	$ 184,505.43	$ 178,663.81	$ 82,896.13	$ 2,497,956.66

Rating Agency: Standard & Poor's

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 Maturities (in Years)	
	Amount	Less Than 1	1 to 5
vestment Type			
Debt Securities			
U.S. Treasuries	$ 549,347.00	$ 0.00	$ 549,347.00
U.S. Agencies	938,666.50		938,666.50
Commercial Paper	127,202.31	127,202.31	
Money Market Mutual Funds	2,346,596.02	2,346,596.02	
Total Non-Pooled Securities	$ 3,961,811.83	$ 2,473,798.33	$ 1,488,013.50

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

	Amount	AAA Aaa	Unrated
U.S. Agencies	$ 938,666.50	$ 938,666.50	$ 0.00
Commercial Paper	127,202.31		127,202.31
Money Market Mutual Funds	2,346,596.02		2,346,596.02
Totals	$ 3,412,464.83	$ 938,666.50	$ 2,473,798.33

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

	Amount
Investment Type	
Debt Securities	
U.S. Treasuries	$ 849,442.65
U.S. Agencies	1,033,482.43
Commercial Paper	127,202.31
Debt Mutual Funds	1,239,910.74
Money Market Mutual Funds	2,696,297.53
Domestic Corporate Bonds	909,464.42
Fixed Income ETFs	1,258,045.92
Other Securities	
Equity Mutual Funds	354,004.33
Investments in Real Estate	334,281.73
Real Estate Investment Trust	171,731.61
Hedge Funds	1,561,840.59
Private Equity Limited Partnerships	1,614,412.48
Real Assets Limited Partnerships	555,236.16
Other Limited Partnerships	504,957.89
Domestic Stocks	8,286,237.00
Foreign Stocks	3,483,510.84
Emerging Market Equities	1,418,749.25
Other	268,238.39
Total Investments	$ 26,667,046.27

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	$ 21,711.31
Amount of Deposits with Private Financial Institutions	1,046,292.34
Deposits in the Short-Term Investment Fund	17,347,222.32
Long-Term Investment Pool	22,705,234.44
Non-Pooled Investments	3,961,811.83
Total Deposits and Investments	$ 45,082,272.24
Deposits	
Current:	
Cash and Cash Equivalents	$ 11,428,051.66
Restricted Cash and Cash Equivalents	3,721,200.61
Noncurrent:	
Restricted Cash and Cash Equivalents	3,265,973.70
Total Deposits	18,415,225.97
Investments	
Current:	
Restricted Short-Term Investments	2,325,288.81
Noncurrent:	
Endowment Investments	22,705,234.44
Restricted Investments	1,636,523.02
Total Investments	26,667,046.27
Total Deposits and Investments	$ 45,082,272.24

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments and derivatives 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 or liabilities in active markets that a government can access at the measurement date.

Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs for an asset or liability and may require a degree of professional judgment.

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

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	$ 849,442.65	$ 0.00	$ 849,442.65	$ 0.00
U.S. Agencies	1,033,482.43		1,033,482.43	
Debt Mutual Funds	1,239,910.74	1,239,910.74		
Domestic Corporate Bonds	909,464.42		909,464.42	
Total Debt Securities	4,032,300.24	1,239,910.74	2,792,389.50	
Other Securities				
Short-Term Investment Fund	17,347,222.32		17,347,222.32	
Equity Mutual Funds	354,004.33	354,004.33		
Investments in Real Estate	334,281.73	334,281.73		
Real Estate Investment Trust	171,731.61	171,731.61		
Domestic Stocks	8,286,237.00	8,286,237.00		
Foreign Stocks	3,483,510.84	3,483,510.84		
Other Limited Partnerships	504,957.89	504,957.89		
Emerging Market Equities	1,418,749.25	1,418,749.25		
Total Investments by Fair Value Level	35,932,995.21	$ 15,793,383.39	$ 20,139,611.82	$ 0.00
Investments Measured at the Net Asset Value (NAV)				
Credit Long/Short Hedge Funds	215,786.12			
Equity Long/Short Hedge Funds	117,039.86			
Multi-Strategy Hedge Funds	1,229,014.61			
Private Equity Limited Partnerships	1,614,412.48			
Real Assets Limited Partnerships	555,236.16			
Total Investments Measured at the NAV	3,731,489.23			
Total Investments Measured at Fair Value	$ 39,664,484.44			
Derivative Instruments				
Hedging Derivative Instruments				
Pay-Fixed, Receive Variable Interest Rate Swap	$ (1,507,968.00)	$ 0.00	$ (1,507,968.00)	$ 0.00

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.

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. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Derivative Instruments - The derivative instrument classified as Level 2 of the fair value hierarchy is valued using an income approach that considers future anticipated cash flows and discounts them to achieve a single current amount.

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

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Multi-Strategy Hedge Funds[A]	$ 1,229,014.61	$ 0.00	Quarterly	65-125 days
Equity Long/Short Hedge Funds[B]	117,039.86		Quarterly	95 days
Credit Long/Short Hedge Funds[C]	215,786.12		Quarterly	60-125 days
Private Equity Limited Partnerships[D]	1,614,412.48	1,015,541.33	Quarterly	30 days
Real Asset Limited Partnerships[E]	555,236.16	193,942.40	Not Allowed	
Total Investments Measured at the NAV	$ 3,731,489.23			

A. **Multi-Strategy Hedge Funds** - This type invests in three hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The fair values of the investments in this type have been determined using the NAV per share of its investments.

B. **Equity Long/Short Hedge Funds** - This type invests in one hedge fund that combines core long and short positions in stocks, stock indices or derivatives related to the equity markets. The fair values of the investments in this type have been determined using the NAV per share of its investments.

C. **Credit Long/Short Hedge Funds** - This type invests in three hedge funds that seek to generate capital appreciation through the successful selection of credit securities while reducing the effects of market-wide or sector-wide price movements. The fair values of the investments in this type have been determined using the NAV per share of its investments.

D. **Private Equity Limited Partnerships** - This type includes nine private equity funds that invest in a variety of strategies, but they primarily invest in event driven and opportunistic strategies. Event driven strategies seek to earn excess return through the purchase and sale of securities based upon anticipated outcomes of company-specific or transaction-specific situations. Similarly, opportunistic strategies seek to earn an excess return through exploiting perceived inefficiencies across varying markets. Eight of these investments cannot be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the funds would be liquidated over one to ten years. The fair value of the investment in this type has been determined using the NAV per share of its investments.

E. **Real Assets Limited Partnerships** - This type includes one investment that seeks long-term capital appreciation through acquiring secondary interests in private equity real estate funds and direct real-estate assets. This investment cannot be redeemed with the fund. Instead, the nature of the investment in this type is that distributions are received through liquidation of the underlying assets of the fund. If this investment were held, it is expected that the underlying assets of the fund would be liquidated over ten to eleven years.

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5.5% of the "average market value" of the endowment funds. The "average market value" is defined as an average of the market values on December 31 of the previous five years. The actual spending may be less than the 5.5% maximum rate due to the economic environment. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation to make up the difference. At June 30, 2017, net appreciation of $5,665,809.16 was available to be spent, of which $3,006,642.24 was classified in net position as a component of restricted: expendable: endowed professorships; $2,509,207.65 was classified in net position as restricted: expendable: scholarships and fellowships; and $149,871.53 was classified in net position as a component of restricted: expendable: departmental uses.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2017 the amount of investment losses reported against the nonexpendable endowment balances was $87.74.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,004,119.63	$ 622,554.02	$ 381,565.61
Accounts	329,310.53	95,856.44	233,454.09
Intergovernmental	665,877.72		665,877.72
Pledges	155,780.43	15,578.04	140,202.39
Interest on Loans	13,873.76		13,873.76
Federal Interest Subsidy on Debt	124,251.25		124,251.25
Total Current Receivables	$ 2,293,213.32	$ 733,988.50	$ 1,559,224.82
Noncurrent Receivables:			
Pledges	$ 463,026.43	$ 46,302.64	$ 416,723.79
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 81,301.91	$ 42,746.85	$ 38,555.06
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 817,791.96	$ 417,237.46	$ 400,554.50

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	$ 3,918,579.40	$ 0.00	$ 0.00	$ 3,918,579.40
Art, Literature, and Artifacts	173,729.87			173,729.87
Construction in Progress	1,789,938.20	3,931,664.19	5,222,983.70	498,618.69
Total Capital Assets, Nondepreciable	5,882,247.47	3,931,664.19	5,222,983.70	4,590,927.96
Capital Assets, Depreciable:				
Buildings	189,165,425.00	5,226,590.80		194,392,015.80
Machinery and Equipment	20,908,152.19	2,264,398.34	396,126.52	22,776,424.01
General Infrastructure	24,259,042.69	370,622.31		24,629,665.00
Total Capital Assets, Depreciable	234,332,619.88	7,861,611.45	396,126.52	241,798,104.81
Less Accumulated Depreciation for:				
Buildings	52,965,799.46	4,085,031.97		57,050,831.43
Machinery and Equipment	11,421,745.26	1,405,878.85	256,024.22	12,571,599.89
General Infrastructure	7,734,198.74	482,243.35		8,216,442.09
Total Accumulated Depreciation	72,121,743.46	5,973,154.17	256,024.22	77,838,873.41
Total Capital Assets, Depreciable, Net	162,210,876.42	1,888,457.28	140,102.30	163,959,231.40
Capital Assets, Net	$ 168,093,123.89	$ 5,820,121.47	$ 5,363,086.00	$ 168,550,159.36

During the year ended June 30, 2017, the University incurred $2,736,169.25 in interest costs related to the acquisition and construction of capital assets.

Of this total, $2,589,059.03 was charged in interest expense, and $147,110.22 was capitalized.

The University has pledged machinery and equipment with a carrying value of $3,783,343.95 as security for the Siemens Public Energy Services Agreement note. Additional information regarding the note can be found in Note 9.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (agreement) dated September 1, 2014. The value of the energy savings improvement assets associated with the agreement is $1,247,311.06 and is subject to security provisions in the agreement to ensure timely debt service payments. Additional information regarding the agreement can be found in Note 9.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 1,693,902.57
Accrued Payroll	330,266.74
Contract Retainage	206,623.45
Other	40,214.07
Total Current Accounts Payable and Accrued Liabilities	$ 2,271,006.83

NOTE 8 - SHORT-TERM DEBT – LETTER OF CREDIT

In connection with the long-term debt, the University has a letter of credit in the amount of $8,669,925.00 with Wells Fargo Bank, National Association. The letter of credit serves as a credit enhancement to the bonds and expires July 1, 2019.

Short-term debt activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Draws	Repayments	Balance June 30, 2017
Line of Credit	$ 0.00	$ 396,140.91	$ 396,140.91	$ 0.00

NOTE 9 - 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 (as Restated)	Additions	Reductions	Balance June 30, 2017	Current Portion
Revenue Bonds Payable	$ 12,460,000.00	$ 0.00	$ 1,465,000.00	$ 10,995,000.00	$ 740,000.00
Special Indebtedness	35,365,000.00	15,475,000.00	16,930,000.00	33,910,000.00	1,160,000.00
Plus: Unamortized Premium	80,758.65		3,106.10	77,652.55	
Total Revenue Bonds Payable and Special Indebtedness	47,905,758.65	15,475,000.00	18,398,106.10	44,982,652.55	1,900,000.00
Net Pension Liability	6,102,319.00	10,130,883.00		16,233,202.00	
Notes Payable	10,597,624.99		920,430.21	9,677,194.78	964,877.76
Capital Leases Payable		670,000.00	115,265.27	554,734.73	104,756.49
Compensated Absences	3,533,389.00	2,683,483.50	2,528,632.00	3,688,240.50	671,018.99
Total Long-Term Liabilities, Net	$ 68,139,091.64	$ 28,959,366.50	$ 21,962,433.58	$ 75,136,024.56	$ 3,640,653.24

Additional information regarding capital lease obligations is included in Note 11.
Additional information regarding the net pension liability is included in Note 14.

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	See Table Below
Revenue Bonds Payable							
Dormitory System							
Student Housing - Courtyard Apartments	2001A	4.12%*	07/01/2031	$ 11,385,000.00	$ 2,860,000.00	$ 8,525,000.00	(1)
Auxiliaries							
Recreational Facilities	2006B	3.75-5.00%	09/25/2020	816,940.00	616,940.00	200,000.00	
University Center Expansion Supplement	2006B	3.75-5.00%	09/25/2026	1,965,000.00	1,475,000.00	490,000.00	
University Center Renovations	2003B	4.30%	03/10/2018	3,100,000.00	2,975,050.00	124,950.00	
Recreational Facilities	2003B	4.30%	03/10/2018	620,000.00	594,950.00	25,050.00	
Multipurpose Facility Athletic Field House	2008A	4.00-5.00%	10/01/2033	2,055,000.00	425,000.00	1,630,000.00	
Total Auxiliaries				8,556,940.00	6,086,940.00	2,470,000.00	
Special Indebtedness							
Certificates of Participation							
University Village Apartments	2004	3.75-4.50%	03/01/2034	9,540,000.00	9,540,000.00		
Oak Hall Project	2006	4.25-4.625%	03/01/2037	13,770,000.00	13,770,000.00		
Total Certificates of Participation				23,310,000.00	23,310,000.00		
Limited Obligation Bonds							
University Village Apartments and Oak Hall Project	2017	3.62%	03/01/2036	15,475,000.00		15,475,000.00	(2)
Cypress Hall Project	2010B	4.525-6.623%**	03/01/2042	18,435,000.00		18,435,000.00	(2)
Total Limited Obligation Bonds				33,910,000.00		33,910,000.00	
Total Special Indebtedness				57,220,000.00	23,310,000.00	33,910,000.00	
Total Revenue Bonds Payable and Special Indebtedness (principal only)				$ 77,161,940.00	$ 32,256,940.00	44,905,000.00	
Plus: Unamortized Premium						77,652.55	
Total Revenue Bonds Payable and Special Indebtedness						$ 44,982,652.55	

* For variable rate debt, interest rates in effect at June 30, 2017 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

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

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

			Current Year			
Ref	Revenue Source	Total Future Revenues Pledged	Revenues Net of Expenses	Principal	Interest	Estimate of % of Revenues Pledged
(1)	Courtyard Lease Revenues	$ 11,650,304.34	$ 954,003.21	$ 340,000.00	$ 351,352.17	32%
(2)	Oak, Village and Cypress Hall Lease Revenues	57,358,248.02	2,155,383.37	1,050,000.00	1,854,415.80	100%

Reference item 2 includes a principal prepayment of $405,000.

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

With regards to the following demand bond, the University has entered into a take-out agreement, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

The UNCP Foundation Project, Series 2001A: On January 1, 2001 the University issued tax-exempt adjustable mode demand bonds in the amount of $11,385,000.00 that have a final maturity date of July 1, 2031. The bonds are subject to mandatory sinking fund redemption that began on July 1, 2003. The proceeds of this issuance were used for the construction of the Courtyard Apartment student housing complex. The bonds are subject to purchase on demand with seven days’ notice and delivery to the University’s remarketing agent, Wells Fargo Bank, National Association.

Under an irrevocable letter of credit issued by Wells Fargo Bank, National Association, the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The University is required to pay an annual commitment fee of 1.3% of the amount of the bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wells Fargo Bank, National Association in which it has agreed, upon termination of the letter of credit or upon a bond tender event, to repay all amounts that are drawn under the letter of credit. Interest at the adjustable interest rate equal to the greater of the bank’s prime lending rate plus 1.0%, the federal funds rate plus 2.0% or 7.0% for the first 90 days will be incurred. At June 30, 2017, no outstanding drawings had been made under the letter of credit.

If the remarketing agent is unable to resell any bonds that are “put” within 90 days of the “put” date, the University has a take-out agreement with Wells Fargo Bank, National Association to convert the amount of bonds "put" to an installment loan payable over a two-year period, bearing an adjustable interest rate equal to the greater of the bank's prime lending rate plus 3.0%, the federal funds rate plus 4.0% or 9.0%. The take-out agreement expires on the letter of credit expiration date. Per the take-out agreement, the structure of the installment loan cannot allow the bond principal to be retired faster than originally prescribed in the bond indenture amortization schedule.

If the take-out agreement were to be exercised because the entire issue of $8,525,000.00 of demand bonds were "put" and not resold, the University would be required to pay the amounts referenced in the table below assuming a 9.00% interest rate.

	Potential Annual Requirements Installment Loan Payable @ 9.00%	
Fiscal Year	Principal	Interest
2018	$ 365,000.00	$ 767,250.00
2019	385,000.00	734,400.00
2020	410,000.00	699,750.00
2021	435,000.00	662,850.00
2022	460,000.00	623,700.00
2023-2027	2,765,000.00	2,443,050.00
2028-2032	3,705,000.00	1,039,950.00
Total Requirements	$ 8,525,000.00	$ 6,970,950.00

The letter of credit bank must give 180 days advance cancellation notice. As of June 30, 2017, the letter of credit expires on July 1, 2019.

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

	Annual Requirements						
	Revenue Bonds Payable			Special Indebtedness		Notes Payable	
Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2018	$ 740,000.00	$ 184,443.76	$ 267,258.21	$ 1,160,000.00	$ 1,659,010.94	$ 964,877.76	$ 304,385.99
2019	455,000.00	168,333.76	255,815.49	1,150,000.00	1,657,987.36	992,923.74	275,221.93
2020	650,000.00	158,318.76	243,745.76	1,190,000.00	1,611,638.56	783,843.36	245,257.65
2021	635,000.00	145,681.89	230,892.29	1,230,000.00	1,563,206.16	819,789.62	221,877.02
2022	650,000.00	133,545.02	217,255.06	1,270,000.00	1,512,160.16	856,837.85	197,347.90
2023-2027	3,335,000.00	504,642.54	850,994.04	7,090,000.00	6,670,624.24	4,282,300.18	552,911.82
2028-2032	4,265,000.00	242,913.75	362,248.52	8,540,000.00	4,879,214.74	976,622.27	48,641.17
2033-2037	265,000.00	13,375.00		6,975,000.00	2,814,306.68		
2038-2042				5,305,000.00	1,080,099.18		
Total Requirements	$ 10,995,000.00	$ 1,551,254.48	$ 2,428,209.37	$ 33,910,000.00	$ 23,448,248.02	$ 9,677,194.78	$ 1,845,643.48

Interest on the variable rate 2001A revenue bonds is calculated at 0.90% at June 30, 2017.
Interest rates are reset weekly by the remarketing agent based upon the LLC's credit rating and market conditions.

This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 10 Derivative Instruments.

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
Energy Service Agreement	Siemens Public Inc.	3.91%	08/01/2029	$ 4,500,000.00	$ 495,968.35	$ 4,004,031.65
Refunding Series 1998B Bonds	BB&T Bank	3.19%	10/01/2018	1,470,000.00	1,000,000.00	470,000.00
Energy Savings Improvement	U.S. Bank National Assoc.	1.84%	02/14/2023	1,377,960.56	219,797.43	1,158,163.13
Construction of Student Health Bldg.	PNC	2.87%	04/01/2025	4,610,000.00	565,000.00	4,045,000.00
Total Notes Payable				$ 11,957,960.56	$ 2,280,765.78	$ 9,677,194.78

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

On March 31, 2017 the University issued $15,475,000.00 in Series 2017 refunding bonds with an average interest rate of 3.62%. The bonds were issued for a current refunding of $15,475,000.00 of outstanding 2004 and 2006 Certificates of Participation with an average interest rate of 4.46%. The refunding was undertaken to reduce total debt service payments by $1,879,072.63 over the next 18 years and resulted in an economic gain of $973,635.22.

NOTE 10 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2017 are as follows:

Type	Notional Amount	Change in Value		Value at June 30, 2017	
		Classification	Increase (Decrease)	Classification	Asset (Liability)
Hedging Derivative Instrument					
Cash Flow Hedge					
Pay-Fixed, Receive Variable Interest Rate Swap for 2001A Bonds	$ 8,525,000	Deferred Outflow of Resources	$ 686,622.00	Hedging Derivative Liability	$ (1,507,968.00)

The hedging derivative instruments held at June 30, 2017 is as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed, Receive Variable Interest Rate	Hedge Cash Flows for 2001A Bonds	$ 8,525,000	11/01/01	07/01/31	Pay 3.955%, Receive 67% 1-month USD-LIBOR-BBA

The fair value of the pay-fixed, receive-variable interest rate swap was estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Hedging Derivative Risks

Interest Rate Risk: The University is exposed to interest rate risk on the interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. As the London Interbank Offered Rate (LIBOR) increases, the University's net payment on the swap increases.

Basis Risk: The University is exposed to basis risk because the variable-rate payments received by the University on the hedging derivative are based on a different rate than the University pays on its 2001A Series variable rate debt. As of June 30, 2017, the interest rate on the University's pay-fixed interest rate swap is benchmarked to 67% of 1-month LIBOR, which is 0.82%. The variable-interest rate paid on the University's 2001A Series variable rate debt is not benchmarked to a reference rate. It is reset weekly by the remarketing agent based upon market conditions and the University's credit rating. At June 30, 2017, the interest rate on the demand bond was 0.90%.

Termination Risk: The University or its counterparty may terminate the pay-fixed, receive-variable interest rate swap if the other party fails to perform under the terms of the contract.

NOTE 11 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to IT equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	$ 125,333.00
2019	125,333.00
2020	125,333.00
2021	125,333.00
2022	125,333.00
Total Minimum Lease Payments	626,665.00
Amount Representing Interest (4.38% Rate of Interest)	71,930.27
Present Value of Future Lease Payments	$ 554,734.73

Machinery and equipment acquired under capital lease amounted to $670,000.00 at June 30, 2017.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $37,222.22 at June 30, 2017.

B. Operating Lease Obligations - The University entered into operating leases for land and office space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	$ 238,233.48
2019	19,852.79
Total Minimum Lease Payments	$ 258,086.27

Rental expense for all operating leases during the year was $238,233.48.

NOTE 12 - 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
Operating Revenues:					
Student Tuition and Fees, Net	$ 35,173,386.60	$ 0.00	$ 9,596,694.42	$ 888,718.87	$ 24,687,973.31
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 11,276,037.17	$ 61,826.00	$ 2,915,863.46	$ 0.00	$ 8,298,347.71
Dining	6,014,460.31	593.34	1,620,253.30		4,393,613.67
Student Union Services	46,337.38	3,060.89			43,276.49
Health, Physical Education, and Recreation Services	1,616,523.15		516,937.57		1,099,585.58
Bookstore	3,725,187.49	304,646.44	551,092.77	57,670.13	2,811,778.15
Parking	328,297.67				328,297.67
Athletic	236,476.18				236,476.18
Motor Pool	191,992.62	189,194.75			2,797.87
Laundry	16,087.14				16,087.14
Lyceum	206,878.30				206,878.30
Physical Plant	199,921.68	166,331.92			33,589.76
Printing	417,510.13	387,666.76			29,843.37
Vending	77,112.52				77,112.52
Sales and Services of Education and Related Activities	878,459.57	20,191.25			858,268.32
Total Sales and Services, Net	$ 25,231,281.31	$ 1,133,511.35	$ 5,604,147.10	$ 57,670.13	$ 18,435,952.73
Nonoperating Revenues:					
Noncapital Gifts, Net	$ 1,211,999.41	$ 0.00	$ 0.00	$ 413,291.41	$ 798,708.00

NOTE 13 - 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	$ 34,779,533.16	$ 526,082.63	$ 951,476.67	$ 306,324.00	$ 0.00	$ 0.00	$ 36,563,416.46
Research	418,733.23	63,391.89	44,923.44				527,048.56
Public Service	1,420,473.42	71,758.97	284,915.78	31,093.35			1,808,241.52
Academic Support	8,613,867.13	1,301,383.65	2,169,665.17	1,500.00			12,086,415.95
Student Services	4,503,156.89	332,809.84	1,937,508.75	4,228.00	318,575.28		7,096,278.76
Institutional Support	10,969,337.28	476,732.16	2,562,524.00		632.99		14,009,226.43
Operations and Maintenance of Plant	6,562,488.85	965,067.39	1,696,793.41		1,827,713.31		11,052,062.96
Student Financial Aid	134,371.85		15,798.14	9,615,030.73			9,765,200.72
Auxiliary Enterprises	6,031,701.34	5,508,441.92	11,326,236.43	798.00	1,194,145.59		24,061,323.28
Depreciation						5,973,154.17	5,973,154.17
Total Operating Expenses	$ 73,433,663.15	$ 9,245,668.45	$ 20,989,841.79	$ 9,958,974.08	$ 3,341,067.17	$ 5,973,154.17	$ 122,942,368.81

NOTE 14 - PENSION PLANS

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $1,639,286.22, and the University's contributions were $2,726,679.00 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 $16,233,202.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2016, the University's proportion was .17662%, which was an increase of .01103 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%)
$ 30,531,517.00	$ 16,233,202.00	$ 4,210,280.00

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 $3,223,982.00. At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 767,204.00
Changes of Assumptions	2,394,003.00	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	5,789,280.00	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	531,803.00	83,285.00
Contributions Subsequent to the Measurement Date	2,726,679.00	
Total	$ 11,441,765.00	$ 850,489.00

The amount of $2,726,679.00 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	$ 1,347,819.00
2019	1,384,339.00
2020	3,299,831.00
2021	1,832,608.00
Total	$ 7,864,597.00

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 $49,923,549.00, of which $22,602,112.00 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $1,545,984.46 and $1,356,126.72, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of $119,333.00.

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the period July 1, 2016 through December 31, 2016, the University contributed 5.60% of the covered payroll under TSERS and ORP to the Fund, and for the period January 1, 2017 through June 30, 2017, the University contributed 6.02% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $2,900,558.00, $2,685,430.00, and $2,545,903.00, 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 $189,709.49, $196,611.73, and $190,131.17, 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 16 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. The University also purchased through the Fund all risk coverage for auxiliary buildings and contents.

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. Examples of such coverage are workers' compensation for non-appropriated employees, student accident, student health, boiler and machinery accident and hazardous substance, internship liability, commercial inland marine for music and related equipment, biodiesel, and fine arts.

NOTE 17 - 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 $642,237.07 and on other purchases were $2,194,019.61 at June 30, 2017.

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

NOTE 18 - BLENDED COMPONENT UNIT

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

Condensed Statement of Net Position
June 30, 2017

	UNCP	UNCP Foundation, Inc.	Eliminations	Total
ASSETS				
Current Assets	$ 16,195,153.62	$ 4,507,505.68	$ 0.00	$ 20,702,659.30
Capital Assets, Net	157,477,272.28	11,072,887.08		168,550,159.36
Other Noncurrent Assets	20,027,560.28	8,454,142.52		28,481,702.80
Component Unit Receivable from Primary Government		34,420,081.00	(34,420,081.00)	
Primary Government Receivable from Component Unit	1,606,042.76		(1,606,042.76)	
Total Assets	195,306,028.94	58,454,616.28	(36,026,123.76)	217,734,521.46
TOTAL DEFERRED OUTFLOWS OF RESOURCES	11,441,765.00	1,507,968.00		12,949,733.00
LIABILITIES				
Current Liabilities	4,625,111.71	2,159,985.52		6,785,097.23
Long-Term Liabilities, Net	30,507,718.77	40,987,652.55		71,495,371.32
Other Noncurrent Liabilities	1,581,131.60	1,507,967.69		3,089,099.29
Primary Government Payable to Component Unit	34,420,081.00		(34,420,081.00)	
Component Unit Payable to Primary Government		1,606,042.76	(1,606,042.76)	
Total Liabilities	71,134,043.08	46,261,648.52	(36,026,123.76)	81,369,567.84
TOTAL DEFERRED INFLOWS OF RESOURCES	850,489.00			850,489.00
NET POSITION				
Net Investment in Capital Assets	110,865,342.77	2,547,887.08		113,413,229.85
Restricted - Nonexpendable	12,421,472.72	4,769,109.65		17,190,582.37
Restricted - Expendable	7,968,845.76	4,885,878.29		12,854,724.05
Unrestricted	3,507,600.61	1,498,060.74		5,005,661.35
Total Net Position	$ 134,763,261.86	$ 13,700,935.76	$ 0.00	$ 148,464,197.62

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

	UNCP	UNCP Foundation, Inc.	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 24,687,973.31	$ 0.00	$ 0.00	$ 24,687,973.31
Sales and Servcies, Net	18,507,099.64	4,101,832.54	(4,172,979.45)	18,435,952.73
Other Operating Revenues	3,159,871.36	283,015.24	(2,412,082.00)	1,030,804.60
Total Operating Revenues	46,354,944.31	4,384,847.78	(6,585,061.45)	44,154,730.64
OPERATING EXPENSES				
Salaries and Benefits	73,433,663.15			73,433,663.15
Supplies and Materials	9,103,920.23	141,748.22		9,245,668.45
Services	22,250,791.53	715,675.93	(1,976,625.67)	20,989,841.79
Scholarships and Fellowships	9,955,146.08	406,910.75	(403,082.75)	9,958,974.08
Utilities	3,023,916.15	317,151.02		3,341,067.17
Depreciation	5,613,398.69	359,755.48		5,973,154.17
Total Operating Expenses	123,380,835.83	1,941,241.40	(2,379,708.42)	122,942,368.81
Operating Income (Loss)	(77,025,891.52)	2,443,606.38	(4,205,353.03)	(78,787,638.17)
NONOPERATING REVENUES (EXPENSES)				
State Appropriations	55,584,432.03			55,584,432.03
Noncapital Grants - Student Financial Aid	19,614,480.46			19,614,480.46
Other Noncapital Grants	3,207,756.27			3,207,756.27
Noncapital Gifts	779,701.97	432,297.44	(413,291.41)	798,708.00
Investment Loss, Net	1,805,241.74	518,651.74		2,323,893.48
Interest and Fees on Debt	(2,501,439.41)	(2,610,090.43)	2,205,735.78	(2,905,794.06)
Federal Interest Subsidy on Debt		371,614.01		371,614.01
Other Nonoperating Expenses	(321,836.21)	(2,476,247.79)	2,462,302.41	(335,781.59)
Net Nonoperating Revenues (Expenses)	78,168,336.85	(3,763,775.03)	4,254,746.78	78,659,308.60
Capital Appropriations	1,052,948.74			1,052,948.74
Capital Grants		54,999.71		54,999.71
Capital Gifts	79,485.00	583,689.27		663,174.27
Additions to Endowments	221,340.91	522,714.02	(49,393.75)	694,661.18
Increase (Decrease) in Net Position	2,496,219.98	(158,765.65)		2,337,454.33
NET POSITION				
Net Position, July 1, 2016, as Restated	132,267,041.89	13,859,701.40		146,126,743.29
Net Position, June 30, 2017	$ 134,763,261.87	$ 13,700,935.75	$ 0.00	$ 148,464,197.62

Condensed Statement of Cash Flows
June 30, 2017

	UNCP	UNCP Foundation, Inc.	Total
Net Cash Provided (Used) by Operating Activities	$ (73,852,155.54)	$ 3,058,363.34	$ (70,793,792.20)
Net Cash Provided by Noncapital Financing Activities	78,408,415.88	954,601.37	79,363,017.25
Net Cash Used by Capital and Related Financing Activities	(7,922,556.87)	(2,839,441.72)	(10,761,998.59)
Net Cash Provided (Used) by Investing Activities	499,763.53	(243,813.77)	255,949.76
Net Increase (Decrease) in Cash and Cash Equivalents	(2,866,533.00)	929,709.22	(1,936,823.78)
Cash and Cash Equivalents, July 1, 2016	18,610,479.98	1,741,569.77	20,352,049.75
Cash and Cash Equivalents, June 30, 2017	$ 15,743,946.98	$ 2,671,278.99	$ 18,415,225.97

The University is party to a capital lease agreement with the Foundation, with an outstanding balance of $33,910,000.00 at June 30, 2017. The Condensed Statement of Net Position includes the elimination of the current and noncurrent receivable by the Foundation, in the amount of $1,160,000.00 and $32,750,000.00, respectively. Consequently, the current and noncurrent portion of the capital lease payable recorded by the University was eliminated.

NOTE 19 - 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.

NOTE 20 - NET POSITION RESTATEMENT

As of July 1, 2016, net position as previously reported was restated as follows:

	Amount
July 1, 2016 Net Position as Previously Reported	$ 146,289,003.29
Restatements:	
Correction of Accounting Error - Receivables, Net	(162,260.00)
July 1, 2016 Net Position as Restated	$ 146,126,743.29

REQUIRED SUPPLEMENTARY INFORMATION

The University of North Carolina at Pembroke
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Four Fiscal Years — *Exhibit B-1*

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.17662%	0.16559%	0.16521%	0.17040%
Proportionate Share of TSERS Collective Net Pension Liability	$ 16,233,202.00	$ 6,102,319.00	$ 1,936,957.00	$ 10,345,016.00
Covered Payroll	$ 25,493,403.69	$ 24,264,258.00	$ 23,228,361.00	$ 23,946,233.50
Net Pension Liability as a Percentage of Covered Payroll	63.68%	25.15%	8.34%	43.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

The University of North Carolina at Pembroke
Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years — *Exhibit B-2*

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 2,726,679.00	$ 2,332,649.00	$ 2,220,179.62	$ 2,018,544.57	$ 1,994,721.25
Contributions in Relation to the Contractually Determined Contribution	2,726,679.00	2,332,649.00	2,220,179.62	2,018,544.57	1,994,721.25
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 27,321,437.00	$ 25,493,403.69	$ 24,264,258.14	$ 23,228,361.00	$ 23,946,234.50
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 1,777,703.29	$ 1,177,679.00	$ 822,852.00	$ 785,148.00	$ 642,660.00
Contributions in Relation to the Contractually Determined Contribution	1,777,703.29	1,177,679.00	822,852.00	785,148.00	642,660.00
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 23,893,861.40	$ 23,888,021.00	$ 23,049,067.00	$ 23,367,513.00	$ 21,070,827.00
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

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

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

Changes of Benefit Terms:

Cost of Living Increase

2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
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

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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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Pembroke (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 December 5, 2017. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Pembroke Foundation, Inc., as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

<u>Internal Control Over Financial Reporting</u>

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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 5, 2017

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This audit required 610 hours at an approximate cost of $62,830.00.