

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2015

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 Pat McCrory, 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, 2015, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor



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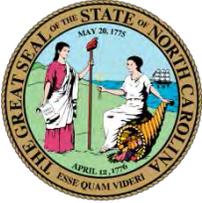
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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to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



INDEPENDENT AUDITOR'S REPORT

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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, 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, 2015, 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. and Subsidiaries, which represent 11 percent, 9 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. and Subsidiaries, 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, 2015, 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.

Emphasis of Matter

As discussed in Note 18 to the financial statements, during the year ended June 30, 2015, The University of North Carolina at Pembroke adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2015 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 16, 2015



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, 2015, with comparative information for the year ended June 30, 2014. We encourage you to read this MD&A section in conjunction with the audited financial statements and 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 6,440 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. and Subsidiaries, 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, 2015. 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 market 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, 2015. 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 of 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, 2015 with comparative information for fiscal year 2014. 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 \$371 thousand to \$144.31 million. Fall 2014 enrollment increased to 6,269 students which led to a sizable increase in sales and services revenues. State operating appropriations also increased as there were no required appropriation reversions during the year. Operating expenses were higher as most categories saw mild to moderate increases.

Analysis of Financial Position – Statement of Net Position

Assets and Deferred Outflows of Resources	FY 2015	FY 2014 (as restated)	Change	% Change
Cash and Short-Term Investments	\$ 18,292,790	\$ 20,469,496	\$ (2,176,706)	-11%
Receivables and Inventories	3,044,088	2,799,757	244,331	9%
Current Assets	21,336,878	23,269,253	(1,932,375)	-8%
Endowment Investments	21,202,860	21,153,758	49,102	0.2%
Cash and Investments	6,888,548	7,507,928	(619,380)	-8%
Other Noncurrent Assets	515,444	608,751	(93,307)	-15%
Capital Assets, Net of Accumulated Depreciation	168,249,039	169,534,583	(1,285,544)	-1%
Noncurrent Assets	196,855,891	198,805,020	(1,949,129)	-1%
Total Assets	\$ 218,192,769	\$ 222,074,273	\$ (3,881,504)	-1.7%
Accumulated Decrease in Fair Value of Hedging Derivatives	\$ 1,886,643	\$ 2,101,545	\$ (214,902)	-10%
Deferred Outflows Related to Pensions	2,220,180	2,018,543	201,637	10%
Total Deferred Outflows of Resources	\$ 4,106,823	\$ 4,120,088	\$ (13,265)	-0.3%

Current cash and short-term investments declined by \$2.17 million to \$18.29 million, reflecting use of unrestricted cash balances to finance the Grace Johnson Stadium expansion project, the bathroom modernization in the Belk and North Hall dormitories and the \$1.935 million partial prepayment of the series 2003B revenue bonds.

Current receivables increased \$564 thousand year-over-year as a result of outstanding receivables from the Golden Leaf Foundation and the federal Economic Development Agency for grants awarded to renovate the future home of the Entrepreneurship Incubator in downtown Pembroke. Inventories saw a decrease of \$300 thousand as the University Bookstore managed their supply-chain in an increasingly efficient manner.

Investments held within the University's endowment fund were notably flat, when compared to the prior year's increase. Endowment funds are invested in a diversified portfolio of equities, fixed income, real estate, hedge funds, private equity and other investment vehicles.

Noncurrent cash and investments primarily reflect assets that are deposited with the University's bond trustees. The decrease in funds held with bond trustees reflect uses for capital maintenance and improvements. A portion of these funds was also utilized to prepay \$1 million of the 2004 certificates of participation.

Capital assets, net of accumulated depreciation decreased by \$1.29 million due to depreciation expenses outpacing capital asset construction and acquisition activity.

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 Foundation wish to terminate the swap agreement.

Liabilities and Deferred Inflows of Resources	FY 2014			
	FY 2015	(as restated)	Change	% Change
Accounts Payables and Accrued Liabilities	\$ 2,504,362	\$ 1,974,920	\$ 529,442	27%
Unearned Revenue	347,950	322,297	25,653	8%
Current Portion of Long-Term Debt	3,118,121	2,513,264	604,857	24%
Other Current Liabilities	777,055	883,001	(105,946)	-12%
Current Liabilities	6,747,488	5,693,482	1,054,006	19%
Other Noncurrent Liabilities	1,571,991	1,578,756	(6,765)	-0.4%
Hedging Derivative Liability	1,886,643	2,101,545	(214,902)	-10%
Noncurrent Portion of Long-Term Debt	60,613,954	72,884,516	(12,270,562)	-17%
Noncurrent Liabilities	64,072,588	76,564,817	(12,492,229)	-16%
Total Liabilities	\$ 70,820,076	\$ 82,258,299	\$ (11,438,223)	-14%
Deferred Inflows Related to Pensions	\$ 7,172,104	\$ 0	\$ 7,172,104	
Total Deferred Inflows of Resources	\$ 7,172,104	\$ 0	\$ 7,172,104	

An uptick in capital projects activity accounted for the modest increase in accounts payables and accrued liabilities. The current portion of long-term debt also saw a large increase for this fiscal year. Contributing to this was a \$0.37 million increase in accrued vacation that is estimated to be paid out in fiscal year 2016, as well as a \$0.17 million increase in the current portion of notes payable.

The Governmental Accounting Standards Board issued a new accounting pronouncement for certain pension plans that became effective for fiscal year 2015. Consequently, a liability for the University's proportionate share of the Teacher's and State Employee's Retirement Plan's net pension liability is newly shown on the University's Statement of Net Position. The University's proportionate share of the net pension liability decreased from \$10.34 million in fiscal year 2014 to \$1.93 million in fiscal year 2015. This decrease was a result of the pension plan's investments earning a rate of return that far exceeded the 7.25% expected rate of return in fiscal year 2014, the year the pension plan's unfunded liability was subject to measurement.

Total liabilities declined by roughly \$11.44 million to \$70.82 million, due in large part to the \$8.41 million decrease in the net pension liability. The University also prepaid \$2.935 million of long-term bond indebtedness that will create a sizable amount of interest savings in future operating periods.

Deferred inflows related to pensions is a new financial statement line-item and represents 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 as pension expense over the next five years.

Net Position

	FY 2015	FY 2014 (as restated)	Change	% Change
Net Investment in Capital Assets	\$ 109,920,514	\$ 107,858,285	\$ 2,062,229	2%
Restricted				
Nonexpendable	15,520,250	15,123,760	396,490	3%
Expendable	15,801,611	15,899,562	(97,951)	-1%
Unrestricted	3,065,037	5,054,455	(1,989,418)	-39%
Total Net Position	\$ 144,307,412	\$ 143,936,062	\$ 371,350	0.3%

Net investment in capital assets consists of University capital assets reduced for accumulated depreciation and related long-term debt. This increased by \$2.1 million during fiscal year 2015 due to construction and acquisition of capital assets, scheduled principal retirements and principal prepayments outpacing depreciation expense.

Restricted nonexpendable net position consists solely of endowment gifts with specific restrictions and gifts whose principal is maintained in perpetuity. This category increased by \$396 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 \$98 thousand. However, dormitory operating surpluses that remain with the University's bond trustee to pay current and future debt service costs have increased by \$1.01 million in fiscal year 2015.

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 decreased by \$1.99 million or 39% due to capital projects and a principal prepayment of the 2003B series bonds funded through the University's unrestricted reserves.

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

	FY 2015	FY 2014	Change	% Change
Student Tuition and Fees, Net	\$ 21,589,306	\$ 21,921,254	\$ (331,948)	-2%
Grants and Contracts	385,993	162,079	223,914	138%
Sales and Services, Net	15,673,205	15,086,268	586,937	4%
Other Operating Revenues	661,587	840,116	(178,529)	-21%
Total Operating Revenues	\$ 38,310,091	\$ 38,009,717	\$ 300,374	1%

Net student tuition and fees revenue decreased by 2% or \$332 thousand to \$21.59 million. While both tuition and fee rates modestly increased, increasing gross tuition, the share of institutional resources provided as financial aid to students increased by almost \$0.95 million.

This increased what is referred to as the University's tuition discount, and is subtracted from gross tuition and fees to arrive at net tuition and fees, the actual tuition and fee revenue earned by the University.

Grants and contracts increased by 138% primarily due to the University being awarded a research grant by the Department of the Army.

Sales and services revenue increased by 4% from fiscal year 2014 due to an overall increase in student demand and rates. Notable increases occurred in the dining system (\$350 thousand, or 6.9%), the dormitory system (\$550 thousand, or 10.71%) and in the University-operated bookstore (\$70 thousand, or 1.45%)

Operating Expenses (by Function)

	FY 2015	FY 2014	Change	% Change
Instruction	\$ 34,038,638	\$ 34,489,512	\$ (450,874)	-1%
Research	493,736	401,601	92,135	23%
Public Service	1,406,877	1,583,420	(176,543)	-11%
Academic Support	11,696,047	11,463,169	232,878	2%
Student Services	6,287,680	5,819,602	468,078	8%
Institutional Support	10,366,407	10,967,310	(600,903)	-5%
Operating & Maintenance of Plant	10,386,722	9,890,680	496,042	5%
Student Financial Aid	8,659,917	9,317,653	(657,736)	-7%
Auxiliary Enterprises	23,761,599	20,950,850	2,810,749	13%
Depreciation	5,471,149	5,279,874	191,275	4%
Pension Expense	782,588		782,588	
Total Operating Expenses	\$ 113,351,360	\$ 110,163,671	\$ 3,187,689	3%

From a functional expense perspective, the auxiliary enterprise system had the largest year-over-year increase. Within the auxiliary system, supplies and materials expenses increased \$1.2 million and services expense increased \$800 thousand. The catalysts for this increase include dormitory repairs and renovations and the expected increase in costs associated with serving a growing campus community.

Operating Expenses

	FY 2015	FY 2014	Change	% Change
Salaries and Benefits	\$ 65,733,968	\$ 64,371,933	\$ 1,362,035	2%
Supplies and Materials	10,355,243	8,625,784	1,729,459	20%
Services	19,382,794	18,852,347	530,447	3%
Scholarships and Fellowships	8,752,188	9,212,240	(460,052)	-5%
Utilities	3,656,018	3,821,493	(165,475)	-4%
Depreciation	5,471,149	5,279,874	191,275	4%
Total Operating Expenses	113,351,360	110,163,671	3,187,689	3%
Operating Loss	\$ (75,041,269)	\$ (72,153,953)	\$ 2,887,316	4%

Total operating expenses increased by \$3.19 million from the previous year. Salaries and benefits expenses increased by \$1.36 million, reflecting not only an increase in hiring, but also the legislature-mandated \$1 thousand raise for all state employees as well as an increase in the fringe benefit rate.

For the first time in four years, supplies and materials expenses increased as financial constraints were lessened. Although these expenses increased by 20%, it is notable that these expenses are lower than they were in fiscal year 2010, exemplifying the success management has had in meeting the operational needs of the University in a limited financial resource environment. The largest year-over-year increases were due to a \$350 thousand increase in cost of goods sold at the bookstore as demand for their products increased and a \$600 thousand increase related to building repairs and renovations.

Scholarships and fellowships expense declined by 5%, as awards of institutional resources in excess of student charges decreased during fiscal year 2015.

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 nonoperating revenue. The University's operating loss increased by \$2.89 million for reasons previously mentioned.

Nonoperating Revenues (Expenses)

	FY 2015	FY 2014	Change	% Change
State Appropriations	\$ 53,442,034	\$ 51,893,896	\$ 1,548,138	3%
Noncapital Grants and Gifts	22,680,246	21,777,489	902,757	4%
Investment Income, Net	258,904	2,852,101	(2,593,197)	-91%
Interest and Fees on Debt	(3,028,308)	(3,382,140)	353,832	-10%
Federal Interest Subsidy on Debt	363,166	368,550	(5,384)	-1%
Other Nonoperating Expenses	(69,039)	(599,526)	530,487	-88%
Net Nonoperating Revenues	<u>73,647,003</u>	<u>72,910,370</u>	<u>736,633</u>	1%
Other Revenues				
Capital Appropriations	302,026	2,594,527	(2,292,501)	-88%
Capital Grants and Gifts	1,004,568	244,846	759,722	310%
Additions to Permanent Endowments	459,021	461,454	(2,433)	-1%
Total Other Revenues	<u>\$ 1,765,615</u>	<u>\$ 3,300,827</u>	<u>\$ (1,535,212)</u>	-47%

Reconciliation of Net Position

	FY 2015	FY 2014	Change	% Change
Beginning Net Position	\$ 152,262,535	\$ 148,205,292	\$ 4,057,243	3%
Restatement	(8,326,473)			
Total Revenues	116,820,057	118,202,580	(1,382,523)	-1%
Total Expenses	(116,448,707)	(114,145,337)	(2,303,370)	-2%
Increase in Net Position	<u>371,350</u>	<u>4,057,243</u>	<u>(3,685,893)</u>	-91%
Ending Net Position	<u>\$ 144,307,412</u>	<u>\$ 152,262,535</u>	<u>\$ 371,350</u>	0.2%

Appropriations from the State for the University were \$53.44 million, an increase of \$1.55 million for general operations. Noncapital grants and gifts were up 4%. Participating in the increase were Pell grants (\$450 thousand) and the UNC Need Based Grant (\$313 thousand).

Net investment income generated \$258 thousand in revenue, a \$2.59 million decrease. The endowment fund provided a 1.22% return for fiscal year 2015, down from the 15.89% return provided in fiscal year 2014.

The University received \$1 million in capital grants and gifts, an increase of \$759 thousand from the prior year, as grant-funded construction of the Entrepreneurship Incubator neared completion and the University was awarded federal funds to purchase laser scanning equipment. The University was given a modest capital appropriation, down 88% from fiscal year 2014, for use in repairs and renovations across campus.

Statement of Cash Flows

Cash Inflows (Outflows) from:	FY 2015	FY 2014	Change	% Change
Operating Activities	\$ (69,743,429)	\$ (68,128,813)	\$ (1,614,616)	-2%
Noncapital Financing Activities	76,389,116	73,668,202	2,720,914	4%
Capital Financing and Related Financing Activities	(9,705,426)	(5,615,081)	(4,090,345)	-73%
Investing Activities	(545,601)	140,242	(685,843)	-489%
Cash, Beginning of Year	23,201,586	23,137,036	64,550	0.3%
Net Increase (Decrease) in Cash	(3,605,340)	64,550	(3,669,890)	-5685%
Cash, End of Year	\$ 19,596,246	\$ 23,201,586	\$ (3,605,340)	-16%

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

Prepayment of \$2.935 million of certificates of participation and revenue bonds as well as lower state capital appropriation receipts were primarily behind the \$4.09 million increase in cash used from capital financing and related financing. Cash provided from investing activities reflects the lower cash balances in the University's bond trustee accounts and a decrease in cash allocations within the Endowment fund, relative to the previous year. Overall the University's cash balance decreased by \$3.61 million from the prior year.

Capital Assets and Debt Administration

\$1.10 million of equipment was capitalized, half of which is attributable to refreshing aging information technology infrastructure equipment. General infrastructure increased by a negligible amount. Buildings increased by \$1.49 million during the year, as three aging structures were outfitted with fireproofing and fire-suppression systems.

Projects in progress at the end of the fiscal year include the Entrepreneurship Incubator, the Student Health Services Building and the Grace Johnson Stadium expansion project. In total, construction in progress was \$2.15 million at June 30, 2015. For further information regarding capital assets, see Note 5 of the Notes to the Financial Statements.

During fiscal year 2016 the University is planning to obtain \$3.63 million in bank financing for construction of the Health Services Building. The Health Services Building will be a 11,000 square foot, two-story facility, housing Student Health Services as well as the Counseling and Testing department. Anticipated completion is slated for fiscal year 2017.

North Carolina citizens will vote on the North Carolina Connect Bond referendum in March 2016. This bond referendum contains funding for many capital projects in the University of North Carolina system as well as a specific \$23 million for a new School of Business at the University.

At June 30, 2015, outstanding commitments on construction contracts were \$2.08 million and retainage on outstanding construction contracts was \$79 thousand.

At June 30, 2015, the University had outstanding bond indebtedness in the amount of \$51.6 million of which \$1.8 million is due within the next year, and notes payable of \$6.69 million of which \$0.45 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 eight 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 2016. Demand for a University of North Carolina at Pembroke education was strong for Fall 2015 as our headcount rose by almost three percent to 6,441 students. Coincidentally, rates for tuition and fees are set to rise by 4%, beginning Fall 2016.

Demand has outpaced supply for campus housing, even as housing rates increased on average by 4.2%. For Fall 2015, the dormitory system is at full 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.

Although we expect a robust financial performance in the upcoming fiscal year, the University does face certain financial challenges with respect to nonoperating revenues, including little to no expected growth in state operating support and lower investment returns from the University's endowment fund. These inflows have the ability to constrain financial resources needed for not only operating activities, but for expansion activities as well.

Based on currently known facts about the University's financial performance early in the Fall 2016 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, 2015

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 12,498,189.22
Restricted Cash and Cash Equivalents	3,089,576.42
Restricted Short-Term Investments	2,705,024.39
Receivables, Net (Note 4)	1,845,788.18
Due from State of North Carolina Component Units	35,161.09
Inventories	1,111,167.75
Notes Receivable, Net (Note 4)	51,970.54
	<hr/>
Total Current Assets	21,336,877.59

Noncurrent Assets:

Restricted Cash and Cash Equivalents	4,008,480.51
Receivables, Net (Note 4)	125,136.76
Endowment Investments	21,202,860.07
Restricted Investments	2,825,251.56
Cash Surrender Value of Life Insurance Policies	54,816.23
Notes Receivable, Net (Note 4)	390,306.80
Capital Assets - Nondepreciable (Note 5)	6,238,713.88
Capital Assets - Depreciable, Net (Note 5)	162,010,324.97
	<hr/>
Total Noncurrent Assets	196,855,890.78

Total Assets	<hr/> 218,192,768.37
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DEFERRED OUTFLOWS OF RESOURCES

Accumulated Decrease in Fair Value of Hedging Derivatives (Note 9)	1,886,643.00
Deferred Outflows Related to Pensions	2,220,180.00
	<hr/>
Total Deferred Outflows of Resources	4,106,823.00

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,504,362.39
Deposits Payable	2,309.00
Unearned Revenue	347,950.20
Interest Payable	774,745.80
Long-Term Liabilities - Current Portion (Note 8)	3,118,120.54
	<hr/>
Total Current Liabilities	6,747,487.93

Noncurrent Liabilities:

Deposits Payable	370,355.73
Funds Held for Others	507,606.54
U. S. Government Grants Refundable	694,028.50
Hedging Derivative Liability (Note 9)	1,886,643.00
Long-Term Liabilities, Net (Note 8)	60,613,953.76
	<hr/>
Total Noncurrent Liabilities	64,072,587.53

Total Liabilities	<hr/> 70,820,075.46
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	<hr/> 7,172,104.00
Total Deferred Inflows of Resources	<hr/> 7,172,104.00

The University of North Carolina at Pembroke
Statement of Net Position
June 30, 2015

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	109,920,513.55
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	7,590,553.07
Endowed Professorships	7,732,340.66
Departmental Uses	197,356.34
Expendable:	
Scholarships and Fellowships	2,865,990.40
Endowed Professorships	3,093,940.73
Departmental Uses	307,944.32
Capital Projects	3,665,377.70
Debt Service	4,384,671.29
Operations and Maintenance	1,074,444.61
Other	409,241.89
Unrestricted	<u>3,065,037.35</u>
Total Net Position	<u>\$ 144,307,411.91</u>

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, 2015**

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 11)	\$ 21,589,305.88
Federal Grants and Contracts	96,689.65
State and Local Grants and Contracts	171,852.38
Nongovernmental Grants and Contracts	117,450.59
Sales and Services, Net (Note 11)	15,673,205.11
Other Operating Revenues	<u>661,587.35</u>
Total Operating Revenues	<u>38,310,090.96</u>

EXPENSES

Operating Expenses:

Salaries and Benefits	65,733,968.42
Supplies and Materials	10,355,243.45
Services	19,382,793.66
Scholarships and Fellowships	8,752,187.73
Utilities	3,656,017.85
Depreciation	<u>5,471,149.26</u>
Total Operating Expenses	<u>113,351,360.37</u>

Operating Loss (75,041,269.41)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	53,442,034.11
Noncapital Grants - Student Financial Aid	18,772,116.57
Noncapital Grants	3,061,560.70
Noncapital Gifts, Net (Note 11)	846,568.77
Investment Income (Net of Investment Expense of \$253,436)	258,903.57
Interest and Fees on Debt	(3,028,307.60)
Federal Interest Subsidy on Debt	363,166.31
Other Nonoperating Expenses	<u>(69,038.68)</u>

Net Nonoperating Revenues 73,647,003.75

Loss Before Other Revenues (1,394,265.66)

Capital Appropriations	302,025.78
Capital Grants	992,068.40
Capital Gifts	12,500.00
Additions to Endowments	<u>459,020.98</u>

Increase in Net Position 371,349.50

NET POSITION

Net Position - July 1, 2014, as Restated (Note 18)	<u>143,936,062.41</u>
Net Position - June 30, 2015	<u>\$ 144,307,411.91</u>

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, 2015

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 37,986,938.35
Payments to Employees and Fringe Benefits	(66,726,913.34)
Payments to Vendors and Suppliers	(32,832,965.13)
Payments for Scholarships and Fellowships	(8,752,187.73)
Loans Issued	(144,527.00)
Collection of Loans	62,300.86
Other Receipts	663,924.83
	<hr/>
Net Cash Used by Operating Activities	(69,743,429.16)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	53,442,034.11
Noncapital Grants - Student Financial Aid	18,772,116.57
Noncapital Grants	2,791,604.13
Noncapital Gifts	955,807.66
Additions to Endowments	459,020.98
William D. Ford Direct Lending Receipts	31,930,065.00
William D. Ford Direct Lending Disbursements	(31,930,065.00)
Related Activity Agency Receipts	29,699.19
Other Payments	(61,166.53)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	76,389,116.11

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	1,377,960.56
State Capital Appropriations	302,025.78
Capital Grants	279,770.22
Capital Gifts	12,500.00
Acquisition and Construction of Capital Assets	(3,951,497.89)
Principal Paid on Capital Debt	(4,958,300.01)
Interest and Fees Paid on Capital Debt	(3,132,821.74)
Federal Interest Subsidy on Debt Received	364,936.98
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(9,705,426.10)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	22,065,553.31
Investment Income	350,158.10
Purchase of Investments and Related Fees	(22,961,312.03)
	<hr/>
Net Cash Used by Investing Activities	(545,600.62)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(3,605,339.77)
Cash and Cash Equivalents - July 1, 2014	23,201,585.92
	<hr/>
Cash and Cash Equivalents - June 30, 2015	<u>\$ 19,596,246.15</u>

The University of North Carolina at Pembroke
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (75,041,269.41)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,471,149.26
Allowances and Write-Offs	612,267.81
Pension Expense	782,588.00
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(187,724.65)
Inventories	300,931.55
Notes Receivable, Net	(87,203.15)
Accounts Payable and Accrued Liabilities	291,803.21
Unearned Revenue	(25,652.95)
Deferred Outflows for Contributions Subsequent to the Measurement Date	(2,220,180.00)
Compensated Absences	325,799.00
Deposits Payable	34,062.17
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (69,743,429.16)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 12,498,189.22
Restricted Cash and Cash Equivalents	3,089,576.42
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	4,008,480.51
	<hr/>
Total Cash and Cash Equivalents - June 30, 2015	<u>\$ 19,596,246.15</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	(1,281,116.15)
Loss on Disposal of Capital Assets	(7,872.15)
Amortization of Bond Premiums	(3,106.10)
Increase in Receivables Related to Nonoperating Income	122,758.53

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.

Blended Component Unit - Although legally separate, The University of North Carolina at Pembroke Foundation, Inc. and Subsidiaries (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 of North Carolina at Pembroke (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, as well as those of its wholly owned subsidiaries, have been included with those of the University.

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

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

The significant transactions between the University and its blended component unit relate to operating and capital lease payments for student housing complexes.

During the year ended June 30, 2015, the Foundation distributed \$378,819.56 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** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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 fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-50 years
Machinery & Equipment	2-30 years
General Infrastructure	10-50 years

Displays in the Museum of the Southeast American Indian and portrait collections are capitalized at cost of fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

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

required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, certificates of participation, notes payable, net pension liability, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums. The University amortizes bond premiums over the life of the bonds using the straight-line method. If the University's bond premiums or discounts are considered immaterial they are expensed as bond issuance costs. Issuance costs are expensed.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 13 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

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

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

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

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

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

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

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

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

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

N. Revenue and Expense Recognition - The University classifies its revenues and expenses as operating or nonoperating in the

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

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

- O. **Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as 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.

At June 30, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$18,613,596.63 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2015 was \$21,313.30. The carrying amount of the University's deposits not with the State Treasurer was \$961,336.22 and the bank balance was \$961,336.22. 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, 2015, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ 687,605.69
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- 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 Endowment Fund are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the fair 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.

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 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 the fair value of investments by type and investments subject to interest rate risk at June 30, 2015, for the Long-Term Investment Pool.

Long-Term Investment Pool

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Debt Mutual Funds	\$ 158,528.51	\$ 0.00	\$ 125,856.35	\$ 32,672.16
Money Market Mutual Funds	154,976.55	154,976.55		
Domestic Corporate Bonds	<u>2,442,684.29</u>	<u>443,835.74</u>	<u>1,359,109.54</u>	<u>639,739.01</u>
Total Debt Securities	2,756,189.35	<u>\$ 598,812.29</u>	<u>\$ 1,484,965.89</u>	<u>\$ 672,411.17</u>
Other Securities				
Domestic ETF/Closed End Funds	301,939.94			
International ETFs/Closed End Funds	771,319.88			
Fixed Income ETFs/Closed End Funds	301,465.71			
Unit Investment Trusts	16,976.10			
Investments in Real Estate	600,478.95			
Real Estate Investment Trust	785,693.38			
Hedge Funds	2,544,176.28			
Private Equity Limited Partnerships	253,272.71			
Real Assets Limited Partnerships	676,234.54			
Unallocated Insurance Contracts	626,908.13			
Domestic Stocks	7,473,761.14			
Foreign Stocks	<u>4,094,443.96</u>			
Total Long-Term Investment Pool	<u>\$ 21,202,860.07</u>			

At June 30, 2015, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	\$ 158,528.51	\$ 46,729.27	\$ 1,921.67	\$ 10,701.05	\$ 10,228.91	\$ 73,461.01	15,486.60
Money Market Mutual Funds	154,976.55						154,976.55
Domestic Corporate Bonds	<u>2,442,684.29</u>	<u>1,390,119.68</u>	<u>93,065.47</u>	<u>375,681.61</u>	<u>583,817.53</u>		
Totals	<u>\$ 2,756,189.35</u>	<u>\$ 1,436,848.95</u>	<u>\$ 94,987.14</u>	<u>\$ 386,382.66</u>	<u>\$ 594,046.44</u>	<u>\$ 73,461.01</u>	<u>\$ 170,463.15</u>

Rating Agency: Standard & Poor's

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2015, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 to 5
Debt Securities			
U.S. Treasuries	\$ 745,137.50	\$ 0.00	\$ 745,137.50
Commercial Paper	859,932.15	859,932.15	
Money Market Mutual Funds	3,925,206.30	3,925,206.30	
Total Non-Pooled Investments	\$ 5,530,275.95	\$ 4,785,138.45	\$ 745,137.50

At June 30, 2015, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	Unrated
Commercial Paper	\$ 859,932.15	\$ 859,932.15
Money Market Mutual Funds	3,925,206.30	3,925,206.30
Totals	\$ 4,785,138.45	\$ 4,785,138.45

Rating Agency: Moody's

Total Investments - The following table presents the fair value of the total investments at June 30, 2015:

Investment Type	Fair Value
Debt Securities	
U.S. Treasuries	\$ 745,137.50
Commercial Paper	859,932.15
Debt Mutual Funds	158,528.51
Money Market Mutual Funds	4,080,182.85
Domestic Corporate Bonds	2,442,684.29
Other Securities	
Domestic ETF/Closed End Funds	301,939.94
International ETFs/Closed End Funds	771,319.88
Fixed Income ETFs/Closed End Funds	301,465.71
Unit Investment Trusts	16,976.10
Investments in Real Estate	600,478.95
Real Estate Investment Trust	785,693.38
Hedge Funds	2,544,176.28
Private Equity Limited Partnerships	253,272.71
Real Assets Limited Partnerships	676,234.54
Unallocated Insurance Contracts	626,908.13
Domestic Stocks	7,473,761.14
Foreign Stocks	4,094,443.96
Total Investments	\$ 26,733,136.02

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2015, is as follows:

Cash on Hand	\$	21,313.30
Amount of Deposits with Private Financial Institutions		961,336.22
Deposits in the Short-Term Investment Fund		18,613,596.63
Long-Term Investment Pool		21,202,860.07
Non-Pooled Investments		<u>5,530,275.95</u>
Total Deposits and Investments	\$	<u>46,329,382.17</u>
Deposits		
Current:		
Cash and Cash Equivalents	\$	12,498,189.22
Restricted Cash and Cash Equivalents		3,089,576.42
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>4,008,480.51</u>
Total Deposits		<u>19,596,246.15</u>
Investments		
Current:		
Short-Term Investments		
Restricted Short-Term Investments	\$	2,705,024.39
Noncurrent:		
Endowment Investments		21,202,860.07
Restricted Investments		<u>2,825,251.56</u>
Total Investments		<u>26,733,136.02</u>
Total Deposits and Investments	\$	<u>46,329,382.17</u>

NOTE 3 - 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 three 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, 2015, net appreciation of \$5,940,672.20 was available to be spent, of which \$3,063,013.77 was classified in net position as a component of restricted: expendable: endowed professorships; \$2,739,437.31 was classified in net position as a component of restricted: expendable: scholarships and fellowships; and \$138,221.12 was classified in net position as a component of restricted: expendable: departmental uses.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 828,691.36	\$ 495,420.09	\$ 333,271.27
Accounts	233,074.93	179,797.63	53,277.30
Intergovernmental	1,225,389.42		1,225,389.42
Pledges	144,245.93	43,288.78	100,957.15
Employees	620.77		620.77
Federal Interest Subsidy on Debt	125,273.89		125,273.89
Interest	6,998.38		6,998.38
Total Current Receivables	<u>\$ 2,564,294.68</u>	<u>\$ 718,506.50</u>	<u>\$ 1,845,788.18</u>
Noncurrent Receivables:			
Pledges	<u>\$ 178,766.79</u>	<u>\$ 53,630.03</u>	<u>\$ 125,136.76</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 107,118.41</u>	<u>\$ 55,147.87</u>	<u>\$ 51,970.54</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 786,321.30</u>	<u>\$ 396,014.50</u>	<u>\$ 390,306.80</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
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	600,151.98	1,682,112.98	135,860.35	2,146,404.61
Total Capital Assets, Nondepreciable	<u>4,692,461.25</u>	<u>1,682,112.98</u>	<u>135,860.35</u>	<u>6,238,713.88</u>
Capital Assets, Depreciable:				
Buildings	183,540,647.05	1,493,196.99		185,033,844.04
Machinery and Equipment	18,755,543.72	1,103,526.39	41,386.96	19,817,683.15
General Infrastructure	23,723,301.19	50,501.00		23,773,802.19
Total Capital Assets, Depreciable	<u>226,019,491.96</u>	<u>2,647,224.38</u>	<u>41,386.96</u>	<u>228,625,329.38</u>
Less Accumulated Depreciation for:				
Buildings	45,150,005.89	3,862,249.74		49,012,255.63
Machinery and Equipment	9,233,173.61	1,142,036.62	33,514.81	10,341,695.42
General Infrastructure	6,794,190.46	466,862.90		7,261,053.36
Total Accumulated Depreciation	<u>61,177,369.96</u>	<u>5,471,149.26</u>	<u>33,514.81</u>	<u>66,615,004.41</u>
Total Capital Assets, Depreciable, Net	<u>164,842,122.00</u>	<u>(2,823,924.88)</u>	<u>7,872.15</u>	<u>162,010,324.97</u>
Capital Assets, Net	<u>\$ 169,534,583.25</u>	<u>\$ (1,141,811.90)</u>	<u>\$ 143,732.50</u>	<u>\$ 168,249,038.85</u>

During the year ended June 30, 2015, the University incurred \$2,802,173.14 in interest expense related to the acquisition and construction of capital assets.

The University has pledged machinery and equipment with carrying value of \$4,013,849.79 as security for Siemens Public Inc. Energy Services Agreement note. Additional information regarding the note can be found in Note 8.

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 are subject to security provisions in the agreement to ensure timely debt service payments. The University's proportionate share of the energy savings improvement assets includes \$481,453.25 which has been completed in the UNC System as of June 30, 2015 and \$860,051.36 which is remaining to be completed by the ESCO provider. Additional information regarding the UNC System Energy Savings Installment Financing Agreement can be found in Note 8.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 2,111,040.79
Accrued Payroll	311,541.20
Contract Retainage	79,976.61
Other	1,803.79
	<hr/>
Total Accounts Payable and Accrued Liabilities	<u>\$ 2,504,362.39</u>

NOTE 7 - SHORT-TERM DEBT – LETTER OF CREDIT

In connection with the long-term debt, the University has a letter of credit in the amount of \$9,346,230 with Wells Fargo Bank, National Association. The letter of credit serves as a credit enhancement to the bonds and expires December 31, 2015.

Short-term debt activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Draws	Repayments	Balance June 30, 2015
Letter of Credit	\$ 0.00	\$ 309,091.55	\$ 309,091.55	\$ 0.00

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (as restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Revenue Bonds Payable	\$ 36,595,000.00	\$ 0.00	\$ 3,115,000.00	\$ 33,480,000.00	\$ 1,225,000.00
Certificates of Participation	19,630,000.00		1,560,000.00	18,070,000.00	580,000.00
Plus: Unamortized Premium	86,970.85		3,106.10	83,864.75	
	<hr/>		<hr/>	<hr/>	<hr/>
Total Revenue Bonds and Certificates of Participation Payable, Net	56,311,970.85		4,678,106.10	51,633,864.75	1,805,000.00
Net Pension Liability	10,345,016.00		8,408,059.00	1,936,957.00	
Notes Payable	5,600,000.00	1,377,960.56	283,300.01	6,694,660.55	452,035.56
Compensated Absences	3,140,793.00	2,901,799.00	2,576,000.00	3,466,592.00	861,084.98
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Long-Term Liabilities	<u>\$ 75,397,779.85</u>	<u>\$ 4,279,759.56</u>	<u>\$ 15,945,465.11</u>	<u>\$ 63,732,074.30</u>	<u>\$ 3,118,120.54</u>

Additional information regarding the net pension liability is included in Note 13.
Additional information regarding blended component unit included in Note 16.

B. Revenue Bonds Payable and Certificates of Participation - The University was indebted for revenue bonds payable and certificates of participation 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, 2015	Principal Outstanding June 30, 2015	See Table Below
Revenue Bonds Payable							
Dormitory System							
Cypress Hall Project	2010A	3.00-4.00%**	03/01/2017	\$ 2,455,000.00	\$ 1,585,000.00	\$ 870,000.00	(1)
Cypress Hall Project	2010B	3.08-6.62%**	03/01/2042	18,435,000.00		18,435,000.00	(1)
Student Housing - Courtyard Apartments	2001A	3.91%*	07/01/2031	11,385,000.00	2,195,000.00	9,190,000.00	(2)
Total Dormitory System				32,275,000.00	3,780,000.00	28,495,000.00	
Auxiliaries							
Dining System	2006B	4.00%	09/25/2015	518,060.00	450,000.00	68,060.00	
Recreational Facilities	2006B	3.75-5.00%	09/25/2020	816,940.00	430,000.00	386,940.00	
University Center Expansion Supplement	2006B	3.75-5.00%	09/25/2026	1,965,000.00	595,000.00	1,370,000.00	
University Center Renovations	2003B	4.10-4.30%	03/10/2018	3,100,000.00	2,744,981.94	355,018.06	
Auxiliary Services Building	2003B	4.10-4.75%	03/10/2028	1,550,000.00	566,176.48	983,823.52	
Recreational Facilities	2003B	4.10-4.30%	03/10/2018	620,000.00	548,841.58	71,158.42	
Multipurposes Facility Athletic Field House	2008A	4.00-5.00%	10/01/2033	2,055,000.00	305,000.00	1,750,000.00	
Total Auxiliaries				10,625,000.00	5,640,000.00	4,985,000.00	
Certificates of Participation							
University Village Apartments	2004	3.75-4.50%	03/01/2034	9,540,000.00	3,295,000.00	6,245,000.00	(1)
Oak Hall Project	2006	4.00-5.00%	03/01/2037	13,770,000.00	1,945,000.00	11,825,000.00	(1)
Total Certificates of Participation				23,310,000.00	5,240,000.00	18,070,000.00	
Total Revenue Bonds Payable and Certificates of Participation (principal only)				\$ 66,210,000.00	\$ 14,660,000.00	51,550,000.00	
Plus: Unamortized Premium						83,864.75	
Total Revenue Bonds Payable and Certificates of Participation, Net						\$ 51,633,864.75	

* For variable rate debt, interest rates in effect at June 30, 2015 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 certificates of participation as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Courtyard Lease Revenues	\$ 13,043,828.50	\$ 979,350.99	\$ 325,000.00	\$ 366,681.00	32%
(2)	Oak, Village and Cypress Hall Lease Revenues	67,189,954.50	2,155,450.34	975,000.00	2,032,609.58	44%

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 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 rate of prime plus 1% for the first 90 days will be incurred. At June 30, 2015, no 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 five-year period bearing an adjustable interest rate equal to the bank's prime lending rate plus 1.5%. 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 \$9,190,000 of demand bonds were "put" and not resold, the University would be required to pay the amounts referenced in the table below assuming a 4.75% interest rate.

Fiscal Year	Potential Annual Requirements Installment Loan Payable @ 4.75%	
	Principal	Interest
2016	\$ 325,000.00	\$ 436,525.00
2017	340,000.00	421,087.50
2018	365,000.00	404,937.50
2019	385,000.00	387,600.00
2020	410,000.00	369,312.50
2021-2025	2,455,000.00	1,529,737.50
2026-2030	3,295,000.00	871,387.50
2031-2032	1,615,000.00	116,137.50
Total Requirements	\$ 9,190,000.00	\$ 4,536,725.00

The letter of credit bank must give 180 day advance cancellation notice. As of June 30, 2015, the letter of credit expires on July 1, 2017.

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2015, are as follows:

Fiscal Year	Annual Requirements						
	Revenue Bonds Payable			Certificates of Participation		Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2016	\$ 1,225,000.00	\$ 1,394,264.08	\$ 363,464.50	\$ 580,000.00	\$ 799,505.84	\$ 452,035.56	\$ 234,226.32
2017	1,200,000.00	1,361,589.91	350,610.75	610,000.00	775,155.84	610,430.21	196,856.94
2018	1,260,000.00	1,324,674.72	337,163.75	630,000.00	750,273.76	644,877.76	177,422.93
2019	1,160,000.00	1,284,772.91	322,728.00	655,000.00	724,080.43	667,923.74	157,008.14
2020	1,205,000.00	1,249,214.25	307,501.25	685,000.00	696,067.93	448,843.36	141,863.29
2021-2025	6,430,000.00	5,651,601.57	1,273,707.75	3,725,000.00	2,999,027.97	2,126,055.37	503,382.33
2026-2030	7,770,000.00	4,454,355.59	725,544.75	4,050,000.00	2,164,956.33	1,744,494.55	148,065.10
2031-2035	6,095,000.00	3,099,242.64	96,699.75	5,520,000.00	1,030,693.86		
2036-2040	4,880,000.00	1,629,058.98		1,615,000.00	87,952.10		
2041-2042	2,255,000.00	175,730.27					
Total Requirements	\$ 33,480,000.00	\$ 21,624,504.92	\$ 3,777,420.50	\$ 18,070,000.00	\$ 10,027,714.06	\$ 6,694,660.55	\$ 1,558,825.05

Interest on the variable rate 2001A revenue bonds is calculated at 0.08% at June 30, 2015. 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 9 Derivative Instruments.

E. Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2015, the outstanding balance of prior year defeased bonds was \$70,000.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015
Energy Service Agreement	Siemens Public Inc.	3.91%	08/01/2029	\$ 4,500,000.00	\$ 83,300.01	\$ 4,416,699.99
Refunding Series 1998B Bonds	BB&T Bank	3.19%	10/01/2018	1,470,000.00	570,000.00	900,000.00
Energy Savings Improvement	Banc of America Public Capital Corp.	1.84%	02/14/2023	1,377,960.56		1,377,960.56
Total Notes Payable				<u>\$ 7,347,960.56</u>	<u>\$ 653,300.01</u>	<u>\$ 6,694,660.55</u>

G. Annuities Payable - In June 2007, the University Foundation entered into a loan agreement with a charitable remainder trust (“the trust”). The terms of the agreement require quarterly payments of interest only of \$9,375 from December 31, 2007 for 120 quarters or such time as the trust property of the trust is distributed to the University Foundation. The University Foundation is the sole beneficiary of the trust. The University Foundation has elected not to record the loan on its Statement of Net Position because the loan is part of the trust which reverts back to the University Foundation.

NOTE 9 - DERIVATIVE INSTRUMENT

The derivative instrument held at June 30, 2015 is as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2015	
		Classification	Increase (Decrease)	Classification	Asset (Liability)
<i>Hedging Derivative Instrument</i>					
<i>Cash Flow Hedge</i>					
Pay fixed, receive variable interest rate swap for 2001A Bonds	\$ 9,190,000	Deferred Outflow of Resources	\$ 214,902.44	Hedging Derivative Liability	\$ (1,886,643.00)
Total Derivative Instrument			<u>\$ 214,902.44</u>		<u>\$ (1,886,643.00)</u>

The hedging derivative instrument held at June 30, 2015 is as:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-fixed, receive variable interest rate	Hedge Cash Flows for 2001A Bonds	\$ 9,190,000	11/01/01	07/01/31	Pay 3.955%, Receive 67% of 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.

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, 2015, the interest rate on the University’s pay-fixed interest rate swap is benchmarked to 67% of 1-month LIBOR, which is 0.12%. 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, 2015, the interest rate on the demand bond was 0.08%.

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 10 - 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, 2015:

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 201,619.54
2017	16,555.00
Total Minimum Lease Payments	<u>\$ 218,174.54</u>

Rental expense for all operating leases during the year was \$233,590.53.

NOTE 11 - 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	\$ 31,654,021.70	\$ 3,835.00	\$ 9,654,466.16	\$ 406,414.66	\$ 21,589,305.88
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 9,550,550.53	\$ 45,142.00	\$ 2,930,546.27	\$ 0.00	\$ 6,574,862.26
Dining	5,346,704.02	17,804.16	1,595,755.02		3,733,144.84
Student Union Services	31,601.06	14,394.85			17,206.21
Health, Physical Education, and Recreation Services	1,916,235.34	8,647.75	544,022.40		1,363,565.19
Bookstore	3,693,917.40	105,606.91	687,520.94		2,900,789.55
Parking	208,395.11			110,827.63	97,567.48
Athletic	249,427.31	1,246.07			248,181.24
Motor Pool	243,383.62	213,717.31			29,666.31
Laundry	17,194.52				17,194.52
Lyceum	164,702.77				164,702.77
Physical Plant	124,205.44	121,499.02			2,706.42
Printing	399,705.06	399,705.06			
Vending	78,842.00				78,842.00
Sales and Services of Education and Related Activities	470,773.20	25,996.88			444,776.32
Total Sales and Services	\$ 22,495,637.38	\$ 953,760.01	\$ 5,757,844.63	\$ 110,827.63	\$ 15,673,205.11
Nonoperating - Noncapital Gifts:	\$ 893,363.62	\$ 0.00	\$ 0.00	\$ 46,794.85	\$ 846,568.77

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 32,169,236.53	\$ 594,662.22	\$ 1,077,059.91	\$ 197,662.92	\$ 16.00	\$ 0.00	\$ 34,038,637.58
Research	366,439.16	38,493.27	88,803.44				493,735.87
Public Service	1,047,890.58	60,614.06	263,372.60	35,000.00			1,406,877.24
Academic Support	7,886,035.81	1,769,089.37	2,039,171.94	1,750.00			11,696,047.12
Student Services	4,041,007.58	580,873.65	1,665,798.84				6,287,680.07
Institutional Support	8,396,073.69	238,136.95	1,732,196.08				10,366,406.72
Operations and Maintenance of Plant	5,529,042.16	1,482,591.96	1,466,693.29		1,908,394.98		10,386,722.39
Student Financial Aid	123,317.75		19,849.11	8,516,749.81			8,659,916.67
Auxiliary Enterprises	5,392,337.16	5,590,781.97	11,029,848.45	1,025.00	1,747,606.87		23,761,599.45
Depreciation						5,471,149.26	5,471,149.26
Pension Expense	782,588.00						782,588.00
Total Operating Expenses	\$ 65,733,968.42	\$ 10,355,243.45	\$ 19,382,793.66	\$ 8,752,187.73	\$ 3,656,017.85	\$ 5,471,149.26	\$ 113,351,360.37

NOTE 13 - PENSION PLANS

A. Defined Benefit Plan

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The University's contributions to the pension plan were \$2,220,180, and employee contributions were \$1,455,855.49 for the year ended June 30, 2015.

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 2014 *Comprehensive Annual Financial*

Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the University reported a liability of \$1,936,957 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. 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, 2014, the University's proportion was 0.16521%, which was a decrease of 0.00519% from its proportion measured as of June 30, 2013.

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	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	Net Pension Liability (Asset)		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$	13,904,818.70	\$ 1,936,957.00	\$ (8,168,159.17)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the University recognized pension expense of \$782,588. At June 30, 2015, 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	\$ 451,494.00
Changes of Assumptions		
Net Differenc Between Projected and Actual Earnings on Pension Plan Investments		6,544,269.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		176,341.00
Contributions Subsequent to the Measurement Date	2,220,180.00	
Total	\$ 2,220,180.00	\$ 7,172,104.00

The \$2,220,180 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, 2016. 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
2016	\$ (1,801,724.00)
2017	(1,801,724.00)
2018	(1,801,724.00)
2019	(1,766,932.00)
2020	
Total	<u>\$ (7,172,104.00)</u>

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

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2015, 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 \$48,563,531.66, of which \$22,109,198.59 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,512,269.18 and \$1,326,551.92, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions. Reflected in employer contributions are forfeitures in the amount of \$82,146.73 that were recognized during the reporting period.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the current fiscal year the University contributed 5.49% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.40% and 5.30%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were \$2,545,902.77, \$2,406,032.81, and \$2,350,405.73, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS and ORP. Benefit and

contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the University made a statutory contribution of .41% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, was .44% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were \$190,131.17, \$196,047.12, and \$195,128.02, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

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

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

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. The University also purchased through the Fund all risk coverage for auxiliary buildings and contents.

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 \$75,000 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, and commercial inland marine for music and related equipment, biodiesel, and fine arts.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$2,086,253.94 and on other purchases were \$1,084,855.24 at June 30, 2015.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 17 - BLENDED COMPONENT UNIT

Condensed combining information for the University's blended component unit for the year ended June 30, 2015, is presented as follows:

Condensed Statement of Net Position

June 30, 2015

	UNCP	UNCP Foundation Inc. and Subsidiaries	Eliminations	Total
ASSETS				
Current Assets	\$ 16,554,101.27	\$ 6,627,416.00	\$ (1,844,639.68)	\$ 21,336,877.59
Capital Assets	157,765,685.73	10,483,353.12		168,249,038.85
Other Noncurrent Assets	22,420,111.24	45,157,783.45	(38,971,042.76)	28,606,851.93
Total Assets	<u>196,739,898.24</u>	<u>62,268,552.57</u>	<u>(40,815,682.44)</u>	<u>218,192,768.37</u>
Total Deferred Outflows of Resources	<u>2,220,180.00</u>	<u>1,886,643.00</u>		<u>4,106,823.00</u>
LIABILITIES				
Current Liabilities	6,144,782.46	2,447,345.15	(1,844,639.68)	6,747,487.93
Noncurrent Liabilities	54,237,079.78	48,806,550.51	(38,971,042.76)	64,072,587.53
Total Liabilities	<u>60,381,862.24</u>	<u>51,253,895.66</u>	<u>(40,815,682.44)</u>	<u>70,820,075.46</u>
Total Deferred Inflows of Resources	<u>7,172,104.00</u>			<u>7,172,104.00</u>
NET POSITION				
Net Investment in Capital Assets	107,711,025.18	2,209,488.37		109,920,513.55
Restricted - Nonexpendable	11,561,015.49	3,959,234.58		15,520,250.07
Restricted - Expendable	8,473,564.79	5,879,503.39	1,448,542.76	15,801,610.94
Unrestricted	3,660,506.54	853,073.57	(1,448,542.76)	3,065,037.35
Total Net Position	<u>\$ 131,406,112.00</u>	<u>\$ 12,901,299.91</u>	<u>\$ 0.00</u>	<u>\$ 144,307,411.91</u>

*Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2015*

	UNCP	UNCP Foundation Inc and Subsidiaries	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	\$ 21,589,305.88	\$ 0.00	\$ 0.00	\$ 21,589,305.88
Sales and Services, Net	15,692,202.26	4,126,086.85	(4,145,084.00)	15,673,205.11
Other Operating Revenues	1,028,688.32	37,631.00	(18,739.35)	1,047,579.97
Total Operating Revenues	<u>38,310,196.46</u>	<u>4,163,717.85</u>	<u>(4,163,823.35)</u>	<u>38,310,090.96</u>
OPERATING EXPENSES				
Salaries and Benefits	65,733,968.42			65,733,968.42
Supplies and Materials	10,175,859.91	179,383.54		10,355,243.45
Services	20,740,770.86	509,349.30	(1,867,326.50)	19,382,793.66
Scholarships and Fellowships	8,755,350.73	140,099.17	(143,262.17)	8,752,187.73
Utilities	3,344,431.48	311,586.37		3,656,017.85
Depreciation	5,148,956.94	322,192.32		5,471,149.26
Total Operating Expenses	<u>113,899,338.34</u>	<u>1,462,610.70</u>	<u>(2,010,588.67)</u>	<u>113,351,360.37</u>
Operating Income (Loss)	<u>(75,589,141.88)</u>	<u>2,701,107.15</u>	<u>(2,153,234.68)</u>	<u>(75,041,269.41)</u>
NONOPERATING REVENUES (EXPENSES)				
State Appropriations	53,442,034.11			53,442,034.11
Noncapital Grants - Student Financial Aid	18,772,116.57			18,772,116.57
Other Noncapital Grants	3,061,560.70			3,061,560.70
Noncapital Gifts	584,659.50	536,076.51	(274,167.24)	846,568.77
Investment Income, Net	220,535.50	38,368.07		258,903.57
Interest and Fees on Debt	(2,715,583.04)	(2,598,071.41)	2,285,346.85	(3,028,307.60)
Federal Interest Subsidy on Debt		363,166.31		363,166.31
Other Nonoperating Expenses	(16,179.80)	(194,913.95)	142,055.07	(69,038.68)
Net Nonoperating Revenues (Expenses)	<u>73,349,143.54</u>	<u>(1,855,374.47)</u>	<u>2,153,234.68</u>	<u>73,647,003.75</u>
Capital Appropriations	302,025.78			302,025.78
Capital Grants	189,534.10	802,534.30		992,068.40
Capital Gifts		12,500.00		12,500.00
Additions to Endowments	75,218.11	383,802.87		459,020.98
Increase (Decrease) in Net Position	<u>(1,673,220.35)</u>	<u>2,044,569.85</u>		<u>371,349.50</u>
NET POSITION				
Net Position as Restated, July 1, 2014	<u>133,079,332.35</u>	<u>10,856,730.06</u>		<u>143,936,062.41</u>
Net Position, June 30, 2015	<u>\$ 131,406,112.00</u>	<u>\$ 12,901,299.91</u>	<u>\$ 0.00</u>	<u>\$ 144,307,411.91</u>

*Condensed Statement of Cash Flows
June 30, 2015*

	UNCP	UNCP Foundation Inc. and Subsidiaries	Total
Net Cash Provided (Used) by Operating Activities	\$ (72,792,088.85)	\$ 3,048,659.69	\$ (69,743,429.16)
Net Cash Provided by Noncapital Financing Activities	75,430,748.79	958,367.32	76,389,116.11
Net Cash Used by Capital and Related Financing Activities	(5,514,353.47)	(4,191,072.63)	(9,705,426.10)
Net Cash Provided (Used) by Investing Activities	(821,482.12)	275,881.50	(545,600.62)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,697,175.65)	91,835.88	(3,605,339.77)
Cash and Cash Equivalents, July 1, 2014	<u>21,133,619.71</u>	<u>2,067,966.21</u>	<u>23,201,585.92</u>
Cash and Cash Equivalents, June 30, 2015	<u>\$ 17,436,444.06</u>	<u>\$ 2,159,802.09</u>	<u>\$ 19,596,246.15</u>

The University is party to a capital lease agreement with the Foundation, with an outstanding balance of \$38,375,000 at June 30, 2015. The Condensed Statement of Net Position includes the elimination of the current and noncurrent receivable recorded by the Foundation, in the amount of \$1,010,000.00 and \$37,365,000.00, respectively. Consequently, the current and noncurrent portion of the capital lease payable recorded by the University was eliminated.

NOTE 18 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2014 Net Position as Previously Reported	\$ 152,262,535.41
Restatements:	
Record the University's net pension liability and pension related deferred outflows of resources per GASB 68 requirements.	<u>(8,326,473.00)</u>
July 1, 2014 Net Position as Restated	<u><u>\$ 143,936,062.41</u></u>

NOTE 19 - SUBSEQUENT EVENTS

On October 15, 2015, the University issued a bank note in the amount of \$4,610,000 for the purpose of refunding \$980,000 of the Series 2003B Pooled Revenue Series and \$3,630,000 to finance the construction of the Student Health Services building.



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 Two Fiscal Years**

Exhibit B-1

	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.16251%	0.1704%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 1,936,957.00	\$ 10,345,016.00
Covered-Employee Payroll	\$ 23,228,361.00	\$ 23,946,233.50
Net Pension Liability as a Percentage of Covered-Employee Payroll	8.34%	43.2%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.6%

**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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contribution	\$ 2,220,179.62	\$ 2,018,544.57	\$ 1,994,721.25	\$ 1,777,703.29	\$ 1,177,679.00
Contributions in Relation to the Contractually Determined Contribution	<u>2,220,179.62</u>	<u>2,018,544.57</u>	<u>1,994,721.25</u>	<u>1,777,703.29</u>	<u>1,177,679.00</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>				
Covered-Employee Payroll	\$ 24,264,258.14	\$ 23,228,361.00	\$ 23,946,233.50	\$ 23,893,861.40	\$ 23,888,021.00
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually Required Contribution	\$ 822,852.00	\$ 785,148.00	\$ 642,660.00	\$ 505,038.26	\$ 396,215.20
Contributions in Relation to the Contractually Determined Contribution	<u>822,852.00</u>	<u>785,148.00</u>	<u>642,660.00</u>	<u>505,038.26</u>	<u>396,215.20</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>				
Covered-Employee Payroll	\$ 23,049,067.00	\$ 23,367,513.00	\$ 21,070,827.00	\$ 18,986,400.78	\$ 16,932,273.39
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

**The University of North Carolina at Pembroke
Notes to Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015**

Changes of Benefit Terms:

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

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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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, 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, 2015, 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 16, 2015. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Pembroke Foundation, Inc. and Subsidiaries, 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.

Internal Control Over Financial Reporting

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

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

prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 16, 2015

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