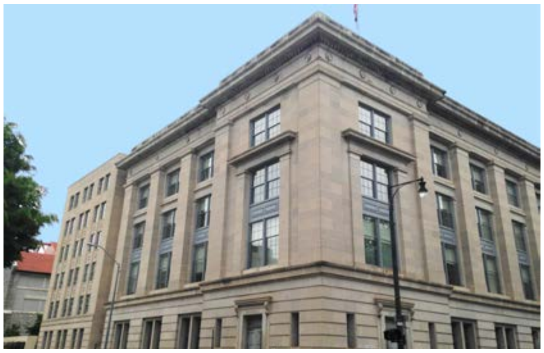
STATE OF NORTH CAROLINA

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, 2016

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

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
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

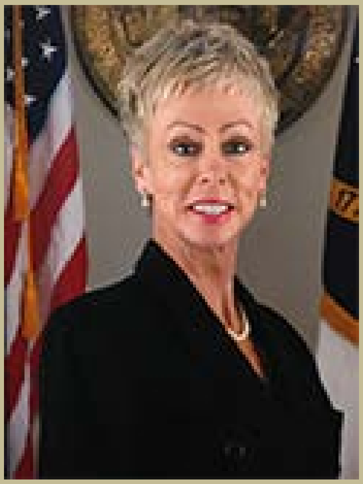
We have completed a financial statement audit of The University of North Carolina at Pembroke for the year ended June 30, 2016, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

Office of the State Auditor

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State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Pembroke (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2016, 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 10 percent, 10 percent, and 1 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, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 12, 2016

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, 2016, with comparative information for the year ended June 30, 2015. 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 6,200 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, 2016. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. 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, 2016 with comparative information for fiscal year 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 or Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating expenses include virtually all University expenses, except for interest on long-term debt and other nonoperating expenses. Operating revenues, however, exclude certain significant revenue streams that the University and other public institutions have traditionally relied upon to fund current operations, including state instructional support, gifts and investment income.

The Statement of Cash Flows details how cash has increased (or decreased) during the year ended June 30, 2016 with comparative information for fiscal year 2015. 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 $1.98 million to $146.29 million. Fall 2015 enrollment increased to 6,451 students which led to a sizable increase in operating revenues. State operating appropriations also increased as there were no required appropriation reversions during the year. Operating expenses were higher as most categories saw moderate increases.

Analysis of Financial Position – Statement of Net Position

Assets and Deferred Outflows of Resources

	FY 2016	FY 2015	Change	% Change
Cash and Short-Term Investments	$ 16,019,450	$ 18,292,790	$ (2,273,340)	-12%
Receivables and Inventories	4,297,787	3,044,088	1,253,699	41%
Current Assets	20,317,237	21,336,878	(1,019,641)	-5%
Endowment Investments	20,435,292	21,202,860	(767,568)	-4%
Cash and Investments	8,553,104	6,888,548	1,664,556	24%
Other Noncurrent Assets	788,757	515,444	273,313	53%
Capital Assets, Net of Accumulated Depreciation	168,093,124	168,249,039	(155,915)	-0.1%
Noncurrent Assets	197,870,277	196,855,891	1,014,386	1%
Total Assets	$ 218,187,514	$ 218,192,769	$ (5,255)	0%
Accumulated Decrease in Fair Value of Hedging Derivatives	$ 2,194,590	$ 1,886,643	$ 307,947	16%
Deferred Outflows Related to Pensions	2,448,319	2,220,180	228,139	10%
Deferred Outflows of Resources	$ 4,642,909	$ 4,106,823	$ 536,086	13%

Current cash and short-term investments declined by $2.27 million to $16.02 million, reflecting a smaller state carryforward, a shift in working capital at the University bookstore from cash to inventories and use of cash balances to finance various maintenance and capital projects across the auxiliary system.

Changes in current receivables were relatively flat year-over-year, whereas inventories saw a large increase of nearly $1.1 million in items held for resale at the University Bookstore in response to increases in retail demand from our increased enrollment in 2016.

Endowment funds are invested in a diversified portfolio of equities, fixed income, real estate, hedge funds, private equity and other investment vehicles. The endowment fund decreased by 4% as the portfolio sustained losses of approximately 5.5% and roughly 4% of the portfolio was liquidated to make scheduled distributions to scholarship and professorship recipients. This decrease in assets was partially offset by new endowed contributions of $960 thousand.

Noncurrent cash and investments primarily reflect assets that are deposited with the University's bond trustees or are held with the University to be used in current capital construction or improvements. Overall, these balances decreased by roughly $1.66 million due to a $1 million prepayment for the 2006 certificates of participation, and the expenditure of previously invested note proceeds to finalize the $1.3 million campus lighting project.

Capital assets, net of accumulated depreciation decreased by $156 thousand as increases in capital construction and acquisition activity kept relative pace with depreciation expenses.

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

Liabilities and Deferred Inflows of Resources

	FY 2016	FY 2015	Change	% Change
Accounts Payable and Accrued Liabilities	$ 1,911,362	$ 2,504,362	$ (593,000)	-24%
Unearned Revenue	242,845	347,950	(105,105)	-30%
Current Portion of Long-Term Liabilities	3,522,773	3,118,121	404,652	13%
Other Current Liabilities	779,936	777,055	2,881	0.4%
Current Liabilities	6,456,916	6,747,488	(290,572)	-4%
Other Noncurrent Liabilities	1,788,813	1,571,991	216,822	14%
Hedging Derivative Liability	2,194,590	1,886,643	307,947	16%
Noncurrent Portion of Long-Term Liabilities	64,616,319	60,613,954	4,002,365	7%
Noncurrent Liabilities	68,599,722	64,072,588	4,527,134	7%
Total Liabilities	$ 75,056,638	$ 70,820,076	$ 4,236,562	6%
Deferred Inflows Related to Pensions	$ 1,484,782	$ 7,172,104	$ (5,687,322)	-79%
Deferred Inflows of Resources	$ 1,484,782	$ 7,172,104	$ (5,687,322)	-79%

A decrease of in-progress capital projects accounted for most of the modest decrease in accounts payables and accrued liabilities. The current portion of long-term liabilities saw a large increase for this fiscal year. Contributing to this was a $310 thousand increase in current notes payable related to the Student Health Services building.

The University's proportionate share of the net pension liability increased from $1.93 million in fiscal year 2015 to $6.10 million in fiscal year 2016. This increase was a result of the pension plan's investments earning a rate of return that underperformed the 7.25% expected rate of return in fiscal year 2015, the year the pension plan's unfunded liability was subject to measurement.

Deferred inflows related to pensions represent changes in actuarial assumptions, differences between those assumptions and actual results, and the difference between expected and actual investment earnings. These amounts are then amortized over the average remaining years of employee employment. For the University, these deferred inflows will be amortized over the next five years, and result in a reduction of pension expense. This caption realized a sizeable decrease of $5.69 million mostly due to the difference in expected versus realized investment earnings discussed above.

Net Position

	FY 2016	FY 2015	Change	% Change
Net Investment in Capital Assets	$ 111,923,417	$ 109,920,514	$ 2,002,903	2%
Restricted				
Nonexpendable	16,516,332	15,520,250	996,082	6%
Expendable	14,063,150	15,801,611	(1,738,461)	-11%
Unrestricted	3,786,104	3,065,037	721,067	24%
Total Net Position	$ 146,289,003	$ 144,307,412	$ 1,981,591	1%

Net investment in capital assets consists of University capital assets reduced for accumulated depreciation and related debt. This increased by $2 million during fiscal year 2016 due to construction and acquisition of capital assets as well as principal payments on capital debt outpacing depreciation expense and new capital debt issuances.

Restricted nonexpendable net position consists of endowment gifts with specific restrictions and gifts whose principal is maintained in perpetuity. This category increased by $996 thousand, mostly representing increases to permanent endowments.

Restricted expendable net position consists of income from endowment funds, gifts, pledges with specific restrictions, grants from third party agencies with expenditure restrictions, and funds on deposit with bond trustees for the future debt service payments. This category decreased by $1.74 million, largely from the decreases in expendable scholarships and fellowships as well as professorships resulting from the endowment funds investment losses.

Unrestricted net position includes resources not exposed to externally imposed restrictions, and are derived from operating activities, unrestricted gifts, and interest income. Unrestricted net position increased by $721 thousand or 24% due to a significant decrease in deferred inflows related to pensions.

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

Operating Revenues

	FY 2016	FY 2015	Change	% Change
Student Tuition and Fees, Net	$ 24,059,293	$ 21,589,306	$ 2,469,987	11%
Grants and Contracts	486,651	385,993	100,658	26%
Sales and Services, Net	17,884,622	15,673,205	2,211,417	14%
Other Operating Revenues	614,104	661,587	(47,483)	-7%
Total Operating Revenues	$ 43,044,670	$ 38,310,091	$ 4,734,579	12%

Net student tuition and fees revenue increased by 11% or $2.47 million to $24.06 million. Both tuition and fee rates (+3.7%) and student enrollment (+2.9%) modestly increased, increasing gross tuition. Additionally, the tuition discount applied to gross tuition increased by 3.63%, compared to the prior year. The tuition discount represents the amount of University resources that were provided to students to use towards their tuition and fee charges.

Grants and Contracts were up over 26% primarily due to continued revenues from the research grant awarded to the University by the Department of the Army.

Sales and services revenue increased by 14% from fiscal year 2015 due to an overall increase in student rates and demand for services. Notable increases occurred in the dining system ($675 thousand or 14.3%) and the dormitory system ($1.01 million, or 10.8%).

Operating Expenses

	FY 2016	FY 2015	Change	% Change
Salaries and Benefits	$ 67,842,477	$ 65,733,968	$ 2,108,509	3%
Supplies and Materials	11,329,863	10,355,243	974,620	9%
Services	20,944,015	19,382,794	1,561,221	8%
Scholarships and Fellowships	9,982,590	8,752,188	1,230,402	14%
Utilities	3,299,938	3,656,018	(356,080)	-10%
Depreciation	5,682,880	5,471,149	211,731	4%
Total Operating Expenses	119,081,763	113,351,360	5,730,403	5%
Operating Loss	$ (76,037,093)	$ (75,041,269)	$ (995,824)	1%

Total operating expenses increased by $5.73 million from the previous year. Salaries and benefits expenses increased by $2.1 million, reflecting not only an increase in hiring, but also the legislature-mandated $750 one-time bonus for all state employees as well as an increase in the fringe benefit rate.

Supplies and materials expenses increased as financial constraints were lessened. Specifically, the largest contributors to this increase were network equipment (+$400 thousand), personal computers (+$323 thousand) and security equipment (+$197 thousand).

Scholarships and fellowships expense increased by 14%, as awards of Pell grants increased $1.04 million from the prior year.

Utilities expense was down 10% year-over-year as the University continues to enter into energy savings contracts to lower overall energy utilization.

As with the majority of all public universities, the University shows a large operating loss due to the treatment of significant revenue streams, such as state appropriations, noncapital grants and investment income, as non-operating revenue. The University's operating loss increased by $995 thousand for reasons previously mentioned.

Operating Expenses (by Function)

	FY 2016	FY 2015	Change	% Change
Instruction	$ 34,952,259	$ 34,284,292	$ 667,967	2%
Research	373,675	496,944	(123,269)	-25%
Public Service	1,971,785	1,420,338	551,447	39%
Academic Support	11,873,131	11,810,775	62,356	1%
Student Services	6,971,313	6,351,461	619,852	10%
Institutional Support	13,329,765	10,513,142	2,816,623	27%
Operating & Maintenance of Plant	11,633,790	10,510,997	1,122,793	11%
Student Financial Aid	9,938,092	8,659,917	1,278,175	15%
Auxiliary Enterprises	22,355,073	23,832,345	(1,477,272)	-6%
Depreciation	5,682,880	5,471,149	211,731	4%
Total Operating Expenses	$ 119,081,763	$ 113,351,360	$ 5,730,403	5%

From a functional expense perspective, institutional support had the largest increase at $2.81 million, with salaries and benefits increases of approximately $1.31 million, representing the majority of the increase. Other significant increases within institutional support were related to network equipment and purchases of information technology services. The auxiliary enterprise system saw a $1.48 million decrease in expenses, in large part due to less repair and renovation activity and lower utility cost.

Nonoperating Revenues (Expenses)

	FY 2016	FY 2015	Change	% Change
State Appropriations	$ 54,238,608	$ 53,442,034	$ 796,574	1%
Noncapital Grants and Gifts	24,753,796	22,680,246	2,073,550	9%
Investment Income (Loss), Net	(950,248)	258,904	(1,209,152)	-467%
Interest and Fees on Debt	(3,002,240)	(3,028,308)	(26,068)	-1%
Federal Interest Subsidy on Debt	371,338	363,166	8,172	2%
Other Nonoperating Expenses	(236,973)	(69,039)	167,934	243%
Net Nonoperating Revenues	75,174,281	73,647,003	1,527,278	2%
Other Revenues				
Capital Appropriations	1,609,173	302,026	1,307,147	433%
Capital Grants and Gifts	274,541	1,004,568	(730,027)	-73%
Additions to Permanent Endowments	960,689	459,021	501,668	109%
Total Other Revenues	$ 2,844,403	$ 1,765,615	$ 1,078,788	61%
Reconciliation of Net Position				
Beginning Net Position	$ 144,307,412	$ 143,936,062	$ 371,350	0.3%
Total Revenues	124,519,585	116,820,057	7,699,528	7%
Total Expenses	(122,537,994)	(116,448,707)	6,089,287	5%
Increase in Net Position	1,981,591	371,350	1,610,241	434%
Ending Net Position	$ 146,289,003	$ 144,307,412	$ 1,981,591	1%

Appropriations from the State for the University were $54.24 million, an increase of $797 thousand for general operations. Noncapital grants and gifts were up 9%. Participating in the increase were Pell grants ($1.04 million) and the UNC need based grant ($600 thousand).

The endowment fund suffered a -5.5% return for fiscal year 2016, down from the 1.22% return provided in fiscal year 2015. The net investment loss was $950 thousand, a $1.21 million change from the $259 thousand provided through investment gains in the prior year.

The University received $275 thousand in capital grants and gifts, a decrease of $730 thousand from the prior year, as the grant-funded construction of the Entrepreneurship Incubator was completed. The University was given a modest capital appropriation, of $1.6 million, up $1.3 million from fiscal year 2015, for use in repairs and renovations across campus.

Statement of Cash Flows

Cash Inflows (Outflows) from:	FY 2016	FY 2015	Change	% Change
Operating Activities	$ (73,997,275)	$ (69,743,429)	$ (4,253,846)	-6%
Noncapital Financing Activities	79,422,697	76,389,116	3,033,581	4%
Capital Financing and Related Financing Activities	(5,858,525)	(9,705,426)	3,846,901	40%
Investing Activities	1,188,907	(545,601)	1,734,508	318%
Cash, Beginning of Year	19,596,246	23,201,586	(3,605,340)	-16%
Increase (Decrease) in Cash	755,804	(3,605,340)	4,361,144	121%
Cash, End of Year	$ 20,352,050	$ 19,596,246	$ 755,804	4%

The change in cash used from operating activities is mainly attributable to the University's increase in the scholarships and fellowships expense as well as an increase in cash payments to suppliers and vendors. Cash provided from noncapital financial activities largely mirror the revenues and expenses from the University's nonoperating revenue and expense captions mentioned above.

The issuance of $3.63 million in notes payable for the construction of the Student Health Services building is the primary contributor to the $3.85 million deceased in cash used from capital financing and related financing activities. Cash provided from investing activities reflects the liquidation of investments in the University's bond trustee accounts for the prepayment of the 2006 certificates of participation and liquidation of investments to complete the campus-wide energy efficiency lighting upgrade. Overall the University's cash balance increased by $756 thousand from the prior year.

Capital Assets and Debt Administration

During fiscal year 2016, $1.33 million of equipment was capitalized, the majority of which is attributable to refreshing aging information technology infrastructure equipment. General infrastructure increased by a negligible amount. Buildings increased by $4.13 million during the year, as the $1.9 million Entrepreneurship Incubator was completed, $1.3 million of energy efficiency projects were completed in numerous campus buildings and the nearly $1 million Grace Johnson Stadium expansion was completed.

Construction in progress was $1.79 million at June 30, 2016. The majority of this balance pertains to the ongoing construction for the Student Health Services building. For further information regarding capital assets, see Note 6 of the Notes to the Financial Statements.

During fiscal year 2016, the University issued $4.61 million in bank notes payable to construct Student Health Services Building and to refinance a portion of the 2003B Series Pooled Bonds. The Student Health Services Building will be 11,000 square feet, two-story facility, housing Student Health Services as well as the Counseling and Testing department. Anticipated completion is slated for January 2017.

North Carolina citizens approved the North Carolina Connect Bond referendum in March 2016. This bond referendum contained funding for many capital projects in the University of North Carolina system. The University will receive $23 million towards the new School of Business.

At June 30, 2016, outstanding commitments on construction contracts were $3.33 million and retainage on outstanding construction contracts was $123 thousand.

At June 30, 2016, the University had outstanding bond indebtedness in the amount of $47.9 million of which $1.75 million is due within the next year, and notes payable of $10.6 million of which $0.92 million is due within the next year.

The University's Issuer Credit Rating remained unchanged, as A-, stable. The credit rating on the debt for Oak Hall, Village Apartments and Cypress Hall, collectively known as the project, was upgraded from BB with a positive outlook to BBB- with a stable outlook. For more detailed information about outstanding debt, see Note 9 of the Notes to the Financial Statements.

Economic Factors Affecting Future Operations

The University expects to maintain and build upon its healthy financial position in fiscal year 2017. Demand for a University of North Carolina at Pembroke education was strong although the Fall 2016 headcount declined to 6,268 students. Tuition and fee revenues are still predicted to rise as rates for tuition and fees will increase by 4.6%, beginning Fall 2016.

Demand remains extremely strong for campus housing, even as housing rates increased on average by 3%. For Fall 2016, the dormitory system is at 98% of capacity. This will have positive downstream effects for our dining system, bookstore and other auxiliary enterprises. These factors should contribute to a record high level of operating revenues for the upcoming operating period.

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

Based on currently known facts about the University's financial performance early in the Fall 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 — *Exhibit A-1*
June 30, 2016 — *Page 1 of 2*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 10,747,859.86
Restricted Cash and Cash Equivalents	2,616,229.09
Restricted Short-Term Investments	2,655,361.29
Receivables, Net (Note 5)	2,035,596.92
Inventories	2,230,460.36
Notes Receivable, Net (Note 5)	31,729.71
Total Current Assets	20,317,237.23
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	6,987,960.80
Receivables, Net (Note 5)	429,072.24
Endowment Investments	20,435,291.82
Restricted Investments	1,506,381.79
Cash Surrender Value of Life Insurance Policies	58,761.00
Notes Receivable, Net (Note 5)	359,685.28
Capital Assets - Nondepreciable (Note 6)	5,882,247.47
Capital Assets - Depreciable, Net (Note 6)	162,210,876.42
Total Noncurrent Assets	197,870,276.82
Total Assets	218,187,514.05
DEFERRED OUTFLOWS OF RESOURCES	
Accumulated Decrease in Fair Value of Hedging Derivatives	2,194,590.00
Deferred Outflows Related to Pensions	2,448,319.00
Total Deferred Outflows of Resources	4,642,909.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	1,911,361.66
Unearned Revenue	242,845.48
Interest Payable	779,936.12
Long-Term Liabilities - Current Portion (Note 9)	3,522,772.81
Total Current Liabilities	6,456,916.07
Noncurrent Liabilities:	
Deposits Payable	351,758.73
Funds Held for Others	620,104.95
U. S. Government Grants Refundable	816,949.18
Hedging Derivative Liability	2,194,590.00
Long-Term Liabilities, Net (Note 9)	64,616,318.83
Total Noncurrent Liabilities	68,599,721.69
Total Liabilities	75,056,637.76
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	1,484,782.00

NET POSITION	
Net Investment in Capital Assets	111,923,416.50
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	7,976,185.16
Endowed Professorships	8,342,790.66
Departmental Uses	197,356.34
Expendable:	
Scholarships and Fellowships	1,986,278.90
Endowed Professorships	2,243,737.63
Departmental Uses	890,981.38
Operations and Maintenance	1,872,433.23
Capital Projects	3,419,547.37
Debt Service	3,290,754.72
Other	359,416.98
Unrestricted	3,786,104.42
Total Net Position	$ 146,289,003.29

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, 2016 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 12)	$	24,059,292.69
Federal Grants and Contracts		235,946.60
State and Local Grants and Contracts		180,540.27
Nongovernmental Grants and Contracts		70,164.25
Sales and Services, Net (Note 12)		17,884,622.42
Interest Earnings on Loans		9,699.85
Other Operating Revenues		604,404.04
Total Operating Revenues		43,044,670.12
EXPENSES		
Operating Expenses:		
Salaries and Benefits		67,842,476.60
Supplies and Materials		11,329,863.20
Services		20,944,014.92
Scholarships and Fellowships		9,982,590.60
Utilities		3,299,937.71
Depreciation		5,682,879.60
Total Operating Expenses		119,081,762.63
Operating Loss		(76,037,092.51)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		54,238,608.12
Noncapital Grants - Student Financial Aid		20,405,025.07
Noncapital Grants		3,213,446.69
Noncapital Gifts		1,135,324.44
Investment Loss (Includes Investment Expense of $217,018)		(950,248.13)
Interest and Fees on Debt		(3,002,240.05)
Federal Interest Subsidy on Debt		371,337.60
Other Nonoperating Expenses		(236,972.50)
Net Nonoperating Revenues		75,174,281.24
Loss Before Other Revenues		(862,811.27)
Capital Appropriations		1,609,172.61
Capital Grants		264,541.02
Capital Gifts		10,000.00
Additions to Endowments		960,689.02
Increase in Net Position		1,981,591.38
NET POSITION		
Net Position - July 1, 2015		144,307,411.91
Net Position - June 30, 2016	$	146,289,003.29

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 — Exhibit A-3
For the Fiscal Year Ended June 30, 2016 — Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 41,936,094.70
Payments to Employees and Fringe Benefits	(69,563,254.70)
Payments to Vendors and Suppliers	(37,031,692.35)
Payments for Scholarships and Fellowships	(9,982,590.60)
Collection of Loans	41,915.03
Other Receipts	602,253.04
Net Cash Used by Operating Activities	(73,997,274.88)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	54,238,608.12
Noncapital Grants - Student Financial Aid	20,405,025.07
Noncapital Grants	3,082,164.60
Noncapital Gifts	797,089.29
Additions to Endowments	960,689.02
William D. Ford Direct Lending Receipts	39,864,716.00
William D. Ford Direct Lending Disbursements	(39,752,217.59)
Other Payments	(173,377.26)
Net Cash Provided by Noncapital Financing Activities	79,422,697.25
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	4,610,000.00
Capital Appropriations	1,609,172.61
Capital Grants	775,159.91
Capital Gifts	10,000.00
Acquisition and Construction of Capital Assets	(5,805,320.28)
Principal Paid on Capital Debt	(4,429,608.56)
Interest and Fees Paid on Capital Debt	(3,000,155.83)
Federal Interest Subsidy on Debt Received	372,226.78
Net Cash Used by Capital Financing and Related Financing Activities	(5,858,525.37)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	21,835,004.45
Investment Income	599,228.58
Purchase of Investments and Related Fees	(21,245,326.43)
Net Cash Provided by Investing Activities	1,188,906.60
Net Increase in Cash and Cash Equivalents	755,803.60
Cash and Cash Equivalents - July 1, 2015	19,596,246.15
Cash and Cash Equivalents - June 30, 2016	$ 20,352,049.75

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

Operating Loss	$	(76,037,092.51)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		5,682,879.60
Allowances and Write-Offs		442,307.96
Pension Expense		580,123.00
Miscellaneous Pension Adjustment		2,427.00
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		(872,254.67)
Inventories		(1,119,292.61)
Notes Receivable, Net		(8,947.32)
Accounts Payable and Accrued Liabilities		(385,007.33)
Deferred Outflows for Contributions Subsequent to the Measurement Date		(2,332,649.00)
Compensated Absences		66,797.00
Deposits Payable		(16,566.00)
Net Cash Used by Operating Activities	$	(73,997,274.88)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	10,747,859.86
Restricted Cash and Cash Equivalents		2,616,229.09
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		6,987,960.80
Total Cash and Cash Equivalents - June 30, 2016	$	20,352,049.75

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	(933,704.86)
Loss on Disposal of Capital Assets	(63,595.24)
Amortization of Bond Premiums	(3,106.10)
Increase in Receivables Related to Nonoperating Income	515,495.91

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 blended component units is provided in Note 18.

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, 2016, the Foundation distributed $284,897.10 to the University for both restricted and unrestricted purposes.

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

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

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

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

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

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

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

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

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost. Merchandise for resale in the University bookstore is valued at the lower of cost or market using the weighted-average cost method. Merchandise for resale in The Museum of the Southeast American Indian is valued at cost using the last invoice method.

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

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

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

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

I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, 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 2015 Comprehensive Annual Financial Report. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 14 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows 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 liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Net Investment in Capital Assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

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

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

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

Cash on hand at June 30, 2016 was $18,014.05. The carrying amount of the University's deposits not with the State Treasurer was $1,012,877.53 and the bank balance was $1,012,877.53. 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, 2016, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 693,630.79

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

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

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

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

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

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the value of investments. The University does not have a formal policy that addresses interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy that addresses credit risk.

Short-Term Investment Fund - At June 30, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes $19,321,158.17 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the 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.

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 undisputed value and undistributed earnings. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2016, for the Long-Term Investment Pool.

Long-Term Investment Pool

		Investment Maturities (in Years)			
	Amount	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 839,792.20	$ 47,178.88	$ 481,943.22	$ 310,670.10	$ 0.00
U.S. Agencies	492,843.66	16,065.56	84,422.73	5,104.98	387,250.39
Commercial Paper	72,580.71	72,580.71			
Debt Mutual Funds	379,734.22	41,902.42	176,921.53	141,785.50	19,124.77
Money Market Mutual Funds	1,253,003.93	1,253,003.93			
Domestic Corporate Bonds	1,103,782.32		454,903.98	575,078.31	73,800.03
Total Debt Securities	4,141,737.04	$ 1,430,731.50	$ 1,198,191.46	$ 1,032,638.89	$ 480,175.19
Other Securities					
Unit Investment Trust	80,833.05				
International Mutual Funds	1,578,625.66				
Equity Mutual Funds	437,444.84				
Hedge Funds	1,991,276.84				
Private Equity Limited Partnerships	1,534,366.13				
Real Assets Limited Partnerships	165,498.36				
Other Limited Partnerships	336,935.20				
Domestic Stocks	8,166,528.04				
Foreign Stocks	2,002,046.66				
Total Long-Term Investment Pool	$ 20,435,291.82				

At June 30, 2016, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
U.S. Agencies	$ 492,843.66	$ 0.00	$ 100,488.29	$ 0.00	$ 0.00	$ 0.00	$ 392,355.37
Debt Mutual Funds	379,734.22						379,734.22
Money Market Mutual Funds	1,253,003.93						1,253,003.93
Commercial Paper	72,580.71			36,293.58	36,287.13		
Domestic Corporate Bonds	1,103,782.32	156,411.07	113,701.62	309,452.27	439,096.61	85,120.75	
Totals	$ 3,301,944.84	$ 156,411.07	$ 214,189.91	$ 345,745.85	$ 475,383.74	$ 85,120.75	$ 2,025,093.52

Rating Agency: Standard & Poor's

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2016, for the University's non-pooled investments.

Non-Pooled Investments

		Investment Maturities (in Years)	
	Amount	Less Than 1	1 to 5
Investment Type			
Debt Securities			
U.S. Treasuries	$ 250,655.00	$ 0.00	$ 250,655.00
U.S. Agencies	948,432.50		948,432.50
Commercial Paper	407,441.01	407,441.01	
Money Market Mutual Funds	2,555,214.57	2,555,214.57	
Total Non-Pooled Securities	$ 4,161,743.08	$ 2,962,655.58	$ 1,199,087.50

At June 30, 2016, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	Unrated
U.S Agencies	$ 948,432.50	$ 948,432.50	$ 0.00
Commercial Paper	407,441.01		407,441.01
Money Market Mutual Funds	2,555,214.57		2,555,214.57
Totals	$ 3,911,088.08	$ 948,432.50	$ 2,962,655.58

Rating Agency: Moody's

Total Investments - The following table presents the total investments at June 30, 2016:

	Amount
Investment Type	
Debt Securities	
U.S. Treasuries	$ 1,090,447.20
U.S. Agencies	1,441,276.16
Commercial Paper	480,021.72
Debt Mutual Funds	379,734.22
Money Market Mutual Funds	3,808,218.50
Domestic Corporate Bonds	1,103,782.32
Other Securities	
Unit Investment Trust	80,833.05
International Mutual Funds	1,578,625.66
Equity Mutual Funds	437,444.84
Hedge Funds	1,991,276.84
Private Equity Limited Partnerships	1,534,366.13
Real Assets Limited Partnerships	165,498.36
Other Limited Partnerships	336,935.20
Domestic Stocks	8,166,528.04
Foreign Stocks	2,002,046.66
Total Investments	$ 24,597,034.90

C. **Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the University as of June 30, 2016, is as follows:

Cash on Hand	$ 18,014.05
Amount of Deposits with Private Financial Institutions	1,012,877.53
Deposits in the Short-Term Investment Fund	19,321,158.17
Long-Term Investment Pool	20,435,291.82
Non-Pooled Investments	4,161,743.08
Total Deposits and Investments	$ 44,949,084.65
Deposits	
Current:	
Cash and Cash Equivalents	$ 10,747,859.86
Restricted Cash and Cash Equivalents	2,616,229.09
Noncurrent:	
Restricted Cash and Cash Equivalents	6,987,960.80
Total Deposits	20,352,049.75
Investments	
Current:	
Restricted Short-Term Investments	2,655,361.29
Noncurrent:	
Endowment Investments	20,435,291.82
Restricted Investments	1,506,381.79
Total Investments	24,597,034.90
Total Deposits and Investments	$ 44,949,084.65

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments and derivatives are recorded at fair value as of June 30, 2016. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

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

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

The following table summarizes the University's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2016:

	Fair Value Measurements Using		
	Fair Value	Level 1	Level 2
Investments by Fair Value Level			
Debt Securities			
U.S. Treasuries	$ 1,090,447.20	$ 0.00	$ 1,090,447.20
U.S. Agencies	1,441,276.16		1,441,276.16
Debt Mutual Funds	379,734.22	379,734.22	
Domestic Corporate Bonds	1,103,782.32		1,103,782.32
Total Debt Securities	4,015,239.90	379,734.22	3,635,505.68
Other Securities			
Short-Term Investment Fund	19,321,158.17		19,321,158.17
Unit Investment Trusts	80,833.05	80,833.05	
International Mutual Funds	1,578,625.66	1,578,625.66	
Equity Mutual Funds	437,444.84	437,444.84	
Domestic Stocks	8,166,528.04	8,166,528.04	
Foreign Stocks	2,002,046.66	2,002,046.66	
Total Investments by Fair Value Level	35,601,876.32	$ 12,645,212.47	$ 22,956,663.85
Investments Measured at the Net Asset Value (NAV)			
Credit Long/Short Hedge Funds	601,393.12		
Equity Long/Short Hedge Funds	107,497.92		
Multi-Strategy Hedge Funds	1,282,385.50		
Private Equity Limited Partnerships	1,534,366.13		
Real Assets Limited Partnerships	165,498.36		
Other Limited Partnerships	336,935.50		
Total Investments Measured at the NAV	4,028,076.53		
Total Investments Measured at Fair Value	$ 39,629,952.85		
Derivative Instruments			
Hedging Derivative Instruments			
Pay-Fixed, Receive Variable Interest Rate Swap	$ (2,194,590.00)	$ 0.00	$ (2,194,590.00)

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

Debt and Equity Securities - Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

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

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

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Multi-Strategy Hedge Funds[A]	$ 1,282,385.50	$ 0.00	Quarterly	65-125 days
Equity Long/Short Hedge Funds[B]	107,497.92		Quarterly	95 days
Credit Long/Short Hedge Funds[C]	601,393.12		Quarterly	60-125 days
Private Equity Limited Partnerships[D]	1,534,366.13	1,062,714.65	Quarterly	30 days
Real Asset Limited Partnerships[E]	165,498.36	131,079.00	Not Allowed	
Other Limited Partnerships[F]	336,935.50		Monthly	30 days
Total Investments Measured at the NAV	$ 4,028,076.53			

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

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

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

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

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

F. **Other Limited Partnerships** – This type includes one investment in a limited partnership that seeks to achieve capital appreciation through a quantitative-trading based approach. The limited partnership primarily trades in interest rate, foreign exchange, global stock indices and commodities futures markets. The fair value of the investment in this type has been determined using the NAV per share of its investments.

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5.5% of the "average market value" of the endowment funds. The "average market value" is defined as an average of the market values on December 31 of the previous five years. The actual spending may be less than the 5.5% maximum rate due to the economic environment. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2016, net appreciation of $3,948,518.98 was available to be spent, of which $2,228,099.90 was classified in net position as a component of restricted: expendable: endowed professorships; $1,599,315.56 was classified in net position as restricted: expendable scholarships and fellowships; and $121,103.52 was classified in net position as a component of restricted: expendable: departmental uses.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2016 the amount of investment losses reported against the nonexpendable endowment balances was $21,075.37.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,130,106.14	$ 495,420.09	$ 634,686.05
Accounts	317,206.82	86,818.00	230,388.82
Intergovernmental	899,029.67		899,029.67
Pledges	145,166.22	9,909.40	135,256.82
Interest on Loans	11,850.85		11,850.85
Federal Interest Subsidy on Debt	124,384.71		124,384.71
Total Current Receivables	$ 2,627,744.41	$ 592,147.49	$ 2,035,596.92
Noncurrent Receivables:			
Pledges	$ 476,746.96	$ 47,674.72	$ 429,072.24
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 79,271.21	$ 47,541.50	$ 31,729.71
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 733,845.46	$ 374,160.18	$ 359,685.28

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
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	2,146,404.61	2,537,483.44	2,893,949.85	1,789,938.20
Total Capital Assets, Nondepreciable	6,238,713.88	2,537,483.44	2,893,949.85	5,882,247.47
Capital Assets, Depreciable:				
Buildings	185,033,844.04	4,131,580.96		189,165,425.00
Machinery and Equipment	19,817,683.15	1,330,204.83	239,735.79	20,908,152.19
General Infrastructure	23,773,802.19	485,240.50		24,259,042.69
Total Capital Assets, Depreciable	228,625,329.38	5,947,026.29	239,735.79	234,332,619.88
Less Accumulated Depreciation for:				
Buildings	49,012,255.63	3,953,543.83		52,965,799.46
Machinery and Equipment	10,341,695.42	1,256,190.39	176,140.55	11,421,745.26
General Infrastructure	7,261,053.36	473,145.38		7,734,198.74
Total Accumulated Depreciation	66,615,004.41	5,682,879.60	176,140.55	72,121,743.46
Total Capital Assets, Depreciable, Net	162,010,324.97	264,146.69	63,595.24	162,210,876.42
Capital Assets, Net	$ 168,249,038.85	$ 2,801,630.13	$ 2,957,545.09	$ 168,093,123.89

During the year ended June 30, 2016, the University incurred $2,786,043.50 in interest expense related to the acquisition and construction of capital assets.

The University has pledged machinery and equipment with a carrying value of $3,898,596.87 as security for Siemens Public Energy Services Agreement note. Additional information regarding the note can be found in Note 9.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (agreement) dated September 1, 2014. The value of the energy savings improvement assets associated with the agreement is $26,014,129.56 and is 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 $1,348,444.42, which has been completed as of June 30, 2016. Additional information regarding the agreement can be found in Note 9.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 1,500,954.28
Accrued Payroll	280,675.64
Contract Retainage	122,954.94
Other	6,776.80
Total Current Accounts Payable and Accrued Liabilities	$ 1,911,361.66

NOTE 8 - SHORT-TERM DEBT – LETTER OF CREDIT

In connection with the long-term debt, the University has a letter of credit in the amount of $9,015,705.00 with Wells Fargo Bank, National Association. The letter of credit serves as a credit enhancement to the bonds and expires June 30, 2016.

Short-term debt activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Draws	Repayments	Balance June 30, 2016
Letter of Credit	$ 0.00	$ 333,486.14	$ 333,486.14	$ 0.00

NOTE 9 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Revenue Bonds Payable	$ 33,480,000.00	$ 0.00	$ 2,145,000.00	$ 31,335,000.00	$ 1,140,000.00
Certificates of Participation	18,070,000.00		1,580,000.00	16,490,000.00	610,000.00
Plus: Unamortized Premium	83,864.75		3,106.10	80,758.65	
Total Revenue Bonds Payable and Certificates of Participation, Net	51,633,864.75		3,728,106.10	47,905,758.65	1,750,000.00
Net Pension Liability	1,936,957.00	4,165,362.00		6,102,319.00	
Notes Payable	6,694,660.55	4,610,000.00	707,035.56	10,597,624.99	920,429.81
Compensated Absences	3,466,592.00	2,485,826.00	2,419,029.00	3,533,389.00	852,343.00
Total Long-Term Liabilities, Net	$ 63,732,074.30	$ 11,261,188.00	$ 6,854,170.66	$ 68,139,091.64	$ 3,522,772.81

Additional information regarding the net pension liability is included in Note 14.

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, 2016	Principal Outstanding June 30, 2016	See Table Below
Revenue Bonds Payable							
Dormitory System							
Cypress Hall Project	2010A	4.00%	03/01/2017	$ 2,455,000.00	$ 2,015,000.00	$ 440,000.00	(2)
Cypress Hall Project	2010B	4.525-6.623%**	03/01/2042	18,435,000.00		18,435,000.00	(2)
Student Housing - Courtyard Apartments	2001A	3.95%*	07/01/2031	11,385,000.00	2,520,000.00	8,865,000.00	(1)
Total Dormitory System				32,275,000.00	4,535,000.00	27,740,000.00	
Auxiliaries							
Recreational Facilities	2006B	3.75-5.00%	09/25/2020	816,940.00	486,940.00	330,000.00	
University Center Expansion Supplement	2006B	3.75-5.00%	09/25/2026	1,965,000.00	685,000.00	1,280,000.00	
University Center Renovations	2003B	4.20-4.30%	03/10/2018	3,100,000.00	2,854,265.00	245,735.00	
Recreational Facilities	2003B	4.20-4.30%	03/10/2018	620,000.00	570,735.00	49,265.00	
Multipurposes Facility Athletic Field House	2008A	4.00-5.00%	01/01/2033	2,055,000.00	365,000.00	1,690,000.00	
Total Auxiliaries				8,556,940.00	4,961,940.00	3,595,000.00	
Certificates of Participation							
University Village Apartments	2004	3.75-4.50%	03/01/2034	9,540,000.00	3,545,000.00	5,995,000.00	(2)
Oak Hall Project	2006	4.25-4.625%	03/01/2037	13,770,000.00	3,275,000.00	10,495,000.00	(2)
Total Certificates of Participation				23,310,000.00	6,820,000.00	16,490,000.00	
Total Revenue Bonds Payable and Certificates of Participation (principal only)				$ 64,141,940.00	$ 16,316,940.00	47,825,000.00	
Plus: Unamortized Premium						80,758.65	
Total Revenue Bonds Payable and Certificates of Participation, Net						$ 47,905,758.65	

* For variable rate debt, interest rates in effect at June 30, 2016 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

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

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal	Current Year Interest	Estimate of % of Revenues Pledged
(1)	Courtyard Lease Revenues	$ 12,355,277.12	$ 680,155.64	$ 325,000.00	$ 339,696.40	30%
(2)	Oak, Village and Cypress Hall Lease Revenues	62,306,988.93	2,214,446.38	1,010,000.00	1,952,373.18	34%

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

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

The UNCP Foundation Project, Series 2001A: On January 1, 2001 the University issued tax-exempt adjustable mode demand bonds in the amount of $11,385,000.00 that have a final maturity date of July 1, 2031. The bonds are subject to a 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, 2016, no drawings under the letter of credit are outstanding.

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 $8,865,000.00 of demand bonds were "put" and not resold, the University would be required to pay the amounts referenced in the table below assuming a 5.00% interest rate.

	Potential Annual Requirements Installment Loan Payable @ 5.00%	
Fiscal Year	Principal	Interest
2017	$ 340,000.00	$ 443,250.00
2018	365,000.00	426,250.00
2019	385,000.00	408,000.00
2020	410,000.00	388,750.00
2021	435,000.00	368,250.00
2022-2026	2,605,000.00	1,487,500.00
2027-2031	3,495,000.00	752,500.00
2032	830,000.00	41,500.00
Total Requirements	$ 8,865,000.00	$ 4,316,000.00

The letter of credit bank must give 180 day advance cancellation notice. As of June 30, 2016 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, 2016, are as follows:

	Annual Requirements						
	Revenue Bonds Payable			Certificates of Participation		Notes Payable	
Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2017	$ 1,140,000.00	$ 1,348,172.91	$ 322,988.87	$ 610,000.00	$ 724,547.08	$ 920,430.21	$ 319,621.19
2018	1,200,000.00	1,312,708.05	310,601.26	630,000.00	699,582.50	964,877.76	291,218.43
2019	1,095,000.00	1,274,303.79	297,302.79	655,000.00	673,224.17	992,923.74	261,583.77
2020	1,135,000.00	1,240,461.75	283,275.63	685,000.00	645,211.67	783,843.36	237,039.66
2021	1,190,000.00	1,204,642.03	268,337.63	715,000.00	615,555.00	819,789.62	213,301.10
2022-2026	6,435,000.00	5,418,511.35	1,083,916.41	3,710,000.00	2,581,183.33	4,742,843.19	666,161.21
2027-2031	7,545,000.00	4,201,049.32	548,334.18	4,465,000.00	1,726,481.25	1,372,917.11	87,649.24
2032-2036	5,355,000.00	2,820,633.39	30,240.36	4,195,000.00	633,668.75		
2037-2041	5,090,000.00	1,303,511.31		825,000.00	25,437.50		
2042	1,150,000.00	50,776.33					
Total Requirements	$ 31,335,000.00	$ 20,174,770.23	$ 3,144,997.13	$ 16,490,000.00	$ 8,324,891.25	$ 10,597,624.99	$ 2,076,574.60

Interest on the variable rate 2001A revenue bonds is calculated at 0.40% at June 30, 2016
Interest rates are reset weekly by the remarketing agent based upon the LLC's credit rating and market conditions

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

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2016	Principal Outstanding June 30, 2016
Energy Service Agreement	Siemens Public Inc.	3.91%	08/01/2029	$ 4,500,000.00	$ 281,909.91	$ 4,218,090.09
Refuding Series 1998B Bonds	BB&T Bank	3.19%	10/01/2018	1,470,000.00	780,000.00	690,000.00
Energy Savings Improvement	U.S. Bank National Assoc.	1.84%	02/14/2023	1,377,960.56	43,425.66	1,334,534.90
Construction of Student Health Bldg.	PNC	2.87%	04/01/2025	4,610,000.00	255,000.00	4,355,000.00
Total Notes Payable				$ 11,957,960.56	$ 1,360,335.57	$ 10,597,624.99

NOTE 10 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2016 are as follows:

Type	Notional Amount	Change in Value		Value at June 30, 2016	
		Classification	Increase (Decrease)	Classification	Asset (Liability)
Hedging Derivative Instruments					
Cash Flow Hedges					
Pay-Fixed, Receive Variable Interest Rate Swap for 2001A Bonds	$ 8,865,000	Deferred Outflow of Resources	$ (307,947.00)	Hedging Derivative Liability	$ (2,194,590.00)
Total Derivative Instrument			$ (307,947.00)		$ (2,194,590.00)

The hedging derivative instrument held at June 30, 2016 is as follows: :

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed, Receive Variable Interest Rate	Hedge Cash Flows for 2001A Bonds	$ 8,865,000	11/01/01	07/01/31	Pay 3.955%, Receive 67% of 1-month USD-LIBOR-BBA

Hedging Derivative Risks

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

Basis Risk: The University is exposed to basis risk because the variable-rate payments received by the University on the hedging derivative are based on a different rate than the University pays on its 2001A Series variable rate debt. As of June 30, 2016, the interest rate on the University's pay-fixed interest rate swap is benchmarked to 67% of 1-month LIBOR, which is 0.31%. 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, 2016, the interest rate on the demand bond was 0.40%.

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

NOTE 11 - 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, 2016:

Fiscal Year	Amount
2017	$ 238,233.48
2018	19,852.79
Present Value of Future Lease Payments	$ 258,086.27

Rental expense for all operating leases during the year was $237,893.90.

NOTE 12 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees, Net	$ 34,272,290.79	$ 0.00	$ 9,932,748.75	$ 280,249.35	$ 24,059,292.69
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 10,945,688.72	$ 57,905.68	$ 3,099,020.78	$ 0.00	$ 7,788,762.26
Dining	6,161,032.31	1,422.00	1,757,190.34		4,402,419.97
Student Union Services	45,139.05	2,368.00			42,771.05
Health, Physical Education, and Recreation Services	1,764,138.20		512,313.17		1,251,825.03
Bookstore	3,997,908.01	363,856.99	670,585.33		2,963,465.69
Parking	440,343.79			92,979.63	347,364.16
Athletic	232,790.58	3,244.82			229,545.76
Motor Pool	239,965.31	236,740.94			3,224.37
Laundry	19,953.95				19,953.95
Lyceum	173,932.37	9,061.96			164,870.41
Physical Plant	129,759.14	129,623.25			135.89
Printing	314,747.56	312,021.94			2,725.62
Vending	55,450.83				55,450.83
Sales and Services of Education and Related Activities	640,441.06	28,333.63			612,107.43
Total Sales and Services, Net	$ 25,161,290.88	$ 1,144,579.21	$ 6,039,109.62	$ 92,979.63	$ 17,884,622.42

NOTE 13 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 33,403,926.84	$ 425,153.11	$ 892,180.82	$ 226,980.00	$ 4,018.20	$ 0.00	$ 34,952,258.97
Research	286,232.38	52,166.53	35,276.03				373,674.94
Public Service	1,311,737.92	116,536.32	509,414.91	34,095.90			1,971,785.05
Academic Support	7,438,242.88	2,300,778.26	2,132,609.48	1,500.00			11,873,130.62
Student Services	4,299,311.60	145,164.39	2,221,287.75	4,035.70	301,513.08		6,971,312.52
Institutional Support	9,708,101.87	1,130,026.77	2,491,636.42				13,329,765.06
Operations and Maintenance of Plant	5,769,831.25	2,174,780.58	2,050,634.03		1,638,544.17		11,633,790.03
Student Financial Aid	215,263.45	137.84	8,471.32	9,714,219.00			9,938,091.61
Auxiliary Enterprises	5,409,828.41	4,985,119.40	10,602,504.16	1,760.00	1,355,862.26		22,355,074.23
Depreciation						5,682,879.60	5,682,879.60
Total Operating Expenses	$ 67,842,476.60	$ 11,329,863.20	$ 20,944,014.92	$ 9,982,590.60	$ 3,299,937.71	$ 5,682,879.60	$ 119,081,762.63

NOTE 14 - PENSION PLANS

A. Defined Benefit Plan

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate

Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the 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, 2016 was 9.15% of covered payroll. The University's contributions to the pension plan were $2,332,646.44, and employee contributions were $1,529,604.22 for the year ended June 30, 2016.

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 2015 *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 2015 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, the University reported a liability of $6,102,319.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. 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, 2015, the University's proportion was 0.16559%, which was an increase of 0.00308 from its proportion measured as of June 30, 2014.

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	12/31/2014
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, 2014 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, 2015 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 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%)
$ 18,366,297.00	$ 6,102,319.00	$ (4,305,080.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the University recognized pension expense of $580,123.00. At June 30, 2016, 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	$ 693,834.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		661,135.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	115,670.00	129,813.00
Contributions Subsequent to the Measurement Date	2,332,649.00	
Total	$ 2,448,319.00	$ 1,484,782.00

The amount of $2,332,649.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. 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
2017	$ (809,048.00)
2018	(809,048.00)
2019	(774,199.00)
2020	1,023,183.00
Total	$ (1,369,112.00)

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, 2016, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of $47,954,108.00, of which $22,460,678.00 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $1,536,310.38 and $1,347,640.68, 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 $103,259.39 that were recognized during the reporting period.

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the current fiscal year the University contributed 5.60% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.40%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were $2,685,428.57, $2,545,902.77, and $2,406,032.81, 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, 2016, 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, 2015, and 2014, were .41% and .44%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were $196,611.73, $190,131.17, and $196,047.12, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 16 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Examples of such coverage are workers' compensation for non-appropriated employees, student accident, student health, boiler and machinery accident and hazardous substance, internship liability, commercial inland marine for music and related equipment, biodiesel, and fine arts.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $3,334,037.78 and on other purchases were $1,899,424.82 at June 30, 2016.

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

NOTE 18 - BLENDED COMPONENT UNIT

Condensed combining information for the University's blended component unit for the year ended June 30, 2016, is presented as follows:

Condensed Statement of Net Position

June 30, 2016

	UNCP	UNCP Foundation, Inc. and Subsidiaries	Eliminations	Total
ASSETS				
Current Assets	$ 16,294,620.13	$ 5,899,637.61	$ (1,877,020.51)	$ 20,317,237.23
Capital Assets	157,130,418.79	10,962,705.10		168,093,123.89
Other Noncurrent Assets	23,942,973.98	43,755,221.71	(37,921,042.76)	29,777,152.93
Total Assets	197,368,012.90	60,617,564.42	(39,798,063.27)	218,187,514.05
Total Deferred Outflows of Resources	2,448,319.00	2,194,590.00		4,642,909.00
LIABILITIES				
Current Liabilities	6,265,134.97	2,068,801.61	(1,877,020.51)	6,456,916.07
Long-Term Liabilities, Net	58,010,560.18	42,920,758.65	(36,315,000.00)	64,616,318.83
Other Noncurrent Liabilities	1,788,812.86	3,800,632.76	(1,606,042.76)	3,983,402.86
Total Liabilities	66,064,508.01	48,790,193.02	(39,798,063.27)	75,056,637.76
Total Deferred Inflows of Resources	1,484,782.00			1,484,782.00
NET POSITION				
Net Investment in Capital Assets	107,933,487.29	2,070,687.88	1,919,241.33	111,923,416.50
Restricted - Nonexpendable	12,274,301.27	4,242,030.89		16,516,332.16
Restricted - Expendable	6,823,952.59	6,887,635.68	351,561.94	14,063,150.21
Unrestricted	5,235,300.74	821,606.95	(2,270,803.27)	3,786,104.42
Total Net Position	$ 132,267,041.89	$ 14,021,961.40	$ 0.00	$ 146,289,003.29

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

	UNCP	UNCP Foundation, Inc. and Subsidiaries	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 24,059,292.69	$ 0.00	$ 0.00	$ 24,059,292.69
Sales and Services, Net	17,947,316.55	4,064,779.85	(4,127,473.98)	17,884,622.42
Other Operating Revenues	839,698.73	261,665.26	(608.98)	1,100,755.01
Total Operating Revenues	42,846,307.97	4,326,445.11	(4,128,082.96)	43,044,670.12
OPERATING EXPENSES				
Salaries and Benefits	67,842,476.60			67,842,476.60
Supplies and Materials	11,053,211.85	279,445.07	(2,793.72)	11,329,863.20
Services	22,097,585.79	707,089.56	(1,860,660.43)	20,944,014.92
Scholarships and Fellowships	9,978,944.90	284,897.10	(281,251.40)	9,982,590.60
Utilities	2,998,424.63	301,513.08		3,299,937.71
Depreciation	5,342,570.98	340,308.62		5,682,879.60
Total Operating Expenses	119,313,214.75	1,913,253.43	(2,144,705.55)	119,081,762.63
Operating Income (Loss)	(76,466,906.78)	2,413,191.68	(1,983,377.41)	(76,037,092.51)
NONOPERATING REVENUES (EXPENSES)				
State Appropriations	54,238,608.12			54,238,608.12
Noncapital Grants - Student Financial Aid	20,405,025.07			20,405,025.07
Other Noncapital Grants	3,213,446.69			3,213,446.69
Noncapital Gifts	1,018,194.14	416,628.89	(299,498.59)	1,135,324.44
Investment Loss, Net	(696,068.36)	(254,179.77)		(950,248.13)
Interest and Fees on Debt	(2,799,660.60)	(2,481,122.74)	2,278,543.29	(3,002,240.05)
Federal Interest Subsidy on Debt		371,337.60		371,337.60
Other Nonoperating Revenues (Expenses)	(353,468.90)	112,163.69	4,332.71	(236,972.50)
Net Nonoperating Revenues (Expenses)	75,026,076.16	(1,835,172.33)	1,983,377.41	75,174,281.24
Capital Appropriations	1,609,172.61			1,609,172.61
Capital Grants		264,541.02		264,541.02
Capital Gifts		10,000.00		10,000.00
Additions to Endowments	692,587.90	268,101.12		960,689.02
Increase in Net Position	860,929.89	1,120,661.49		1,981,591.38
NET POSITION				
Net Position, July 1, 2015	131,406,112.00	12,901,299.91		144,307,411.91
Net Position, June 30, 2016	$ 132,267,041.89	$ 14,021,961.40	$ 0.00	$ 146,289,003.29

Condensed Statement of Cash Flows
June 30, 2016

	University	UNCP Foundation, Inc. and Subsidiaries	Total
Net Cash Provided (Used) by Operating Activities	$ (76,634,931.91)	$ 2,637,657.03	$ (73,997,274.88)
Net Cash Provided by Noncapital Financing Activities	78,804,746.20	617,951.05	79,422,697.25
Net Cash Used by Capital and Related Financing Activities	(2,068,273.68)	(3,790,251.69)	(5,858,525.37)
Net Cash Provided by Investing Activities	1,072,495.31	116,411.29	1,188,906.60
Net Increase (Decrease) in Cash and Cash Equivalents	1,174,035.92	(418,232.32)	755,803.60
Cash and Cash Equivalents, July 1, 2015	17,436,444.06	2,159,802.09	19,596,246.15
Cash and Cash Equivalents, June 30, 2016	$ 18,610,479.98	$ 1,741,569.77	$ 20,352,049.75

The University is party to a capital lease agreement with the Foundation, with an outstanding balance of $37,365,000.00 at June 30, 2016. The Condensed Statement of Net Position includes the elimination of the current and noncurrent receivable recorded by the Foundation, in the amount of $1,050,000.00 and $36,315,000.00, respectively. Consequently, the current and noncurrent portion of the capital lease payable recorded by the University was eliminated.

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72 - *Fair Value Measurement and Application*

GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

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 Three Fiscal Years — *Exhibit B-1*

	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.16559%	0.16251%	0.17040%
Proportionate Share of TSERS Collective Net Pension Liability	$ 6,102,319.00	$ 1,936,957.00	$ 10,345,016.00
Covered-Employee Payroll	$ 24,264,258.00	$ 23,228,361.00	$ 23,946,233.50
Net Pension Liability as a Percentage of Covered-Employee Payroll	25.15%	8.34%	43.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

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

Exhibit B-2

	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 2,332,649.00	$ 2,220,179.62	$ 2,018,544.57	$ 1,994,721.25	$ 1,777,703.29
Contributions in Relation to the Contractually Determined Contribution	2,332,649.00	2,220,179.62	2,018,544.57	1,994,721.25	1,777,703.29
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 25,493,403.69	$ 24,264,258.14	$ 23,228,361.00	$ 23,946,233.50	$ 23,893,861.40
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	2011	2010	2009	2008	2007
Contractually Required Contribution	$ 1,177,679.00	$ 822,852.00	$ 785,148.00	$ 642,660.00	$ 505,038.26
Contributions in Relation to the Contractually Determined Contribution	1,177,679.00	822,852.00	785,148.00	642,660.00	505,038.26
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 23,888,021.00	$ 23,049,067.00	$ 23,367,513.00	$ 21,070,827.00	$ 18,986,400.78
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

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

Changes of Benefit Terms:

Cost of Living Increase

2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
1.00%	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.

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report*, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Pembroke (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2016, 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 12, 2016. 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.

<u>Compliance and Other Matters</u>

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.*

<u>Purpose of this Report</u>

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 12, 2016

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For additional information contact:
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919-807-7513

NCOSA
The Taxpayers' Watchdog

This audit required 646 hours at an approximate cost of $66,538.00.