

Introduction

The University of North Carolina at Greensboro (the "University") provides the following management discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2017. This discussion, the following financial statements, required supplementary information, and the related notes to the financial statements have been prepared by management and comprise the University's complete financial report. The financial statements, required supplementary information, notes to the financial statements, and this discussion are the responsibility of management.

The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. However, this discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the related financial statements, required supplementary information, and notes to the financial statements.

Using the Financial Report

The University's financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements, which establish standards for external financial reporting for public colleges and universities. GASB standards require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net position categories.

Statement of Net Position

The Statement of Net Position is a "point of time" financial statement that presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University. The purpose of this financial statement is to present to the readers of the University's financial report a fiscal snapshot as of the end of the fiscal year (i.e., June 30th). The Statement of Net Position presents both the current and noncurrent portions of assets and liabilities as well as deferred outflows and deferred inflows. The differences between current and noncurrent assets and liabilities are discussed further in the notes to the financial statements.

From the data presented, readers of this statement are able to determine the assets available to continue the operations of the institution. They are able to determine how much the institution owes vendors, bond holders, and other creditors. The Statement of Net Position also provides a picture of the net position (assets and deferred outflows minus liabilities and deferred inflows) and their availability for expenditure by the institution. Net position is divided into three major categories: net investment in capital assets; unrestricted net position; and restricted net position, which is reflected in two subcategories – expendable and nonexpendable. These three categories of net position are discussed further in the notes to the financial statements.

A condensed Statement of Net Position is reflected in the following table.

Condensed Statement of Net Position		
	6/30/2017	6/30/2016
Assets		
Current Assets	\$ 159,539,595	\$ 154,144,634
Noncurrent Capital Assets, Net of Accumulated Depreciation	750,315,842	717,035,982
Other Noncurrent Assets	295,588,570	255,326,521
Total Assets	1,205,444,007	1,126,507,137
Deferred Outflows of Resources		
Deferred Loss on Refunding	4,234,479	4,583,446
Deferred Outflows Related to Pensions	29,886,669	6,794,463
Total Deferred Outflows of Resources	34,121,148	11,377,909
Liabilities		
Current Liabilities	36,681,016	33,058,192
Long-Term Liabilities, Net	410,142,953	357,144,516
Other Noncurrent Liabilities	12,383,265	13,081,985
Total Liabilities	459,207,234	403,284,693
Deferred Inflows of Resources		
Deferred Revenue, Split-Interest Trust Agreements	155,715	161,046
Deferred Inflows Related to Pensions	3,311,474	5,622,820
Total Deferred Inflows of Resources	3,467,189	5,783,866
Net Position		
Net Investment in Capital Assets	393,035,143	383,786,101
Restricted - Nonexpendable	149,351,074	138,145,648
Restricted - Expendable	146,993,613	122,156,867
Unrestricted	87,510,902	84,727,871
Total Net Position	\$ 776,890,732	\$ 728,816,487

The total assets of the University increased by \$78.9 million for the year (\$5.4 million increase for current assets and a \$73.5 million increase for noncurrent assets). This overall increase was comprised of an increase of \$39.4 million in endowment investments, an increase of \$33.3 million in capital assets, net of accumulated depreciation, an increase of \$7.4 million in current unrestricted cash and cash equivalents, and a \$1.2 million decrease in all other assets. The increase in capital assets, net of accumulated depreciation, is mainly due to an increase in capital assets - nondepreciable from the increase in construction in progress due to \$35.3 million in construction costs incurred in fiscal year 2017 for the Spartan Village Phase II project. The increase in endowment investments is directly attributable to increases in the value of investments of UCG Endowment Partners, LP, which holds the endowment pool assets, and to a significant increase in endowment gifts. The increase in unrestricted cash and cash equivalents is related to increases in student enrollment, as well as increases in tuition and fee rates for fiscal year 2017, leading to increases in operating revenues.

The total liabilities of the University increased by \$55.9 million for the year (\$3.6 million increase for current liabilities and a \$52.3 million increase in noncurrent liabilities). This overall increase in total liabilities consists of a \$25.5 million increase in net pension liability, a \$26.9 million net increase in notes and bonds payable, a \$4.8 million increase in accounts payable and accrued

liabilities, and a \$1.3 million decrease in all other liability categories, both current and noncurrent. The University is required to recognize its proportionate share of the State of North Carolina's net pension liability for fiscal year 2017, in accordance with GASB Statement No. 68. The overall net pension liability for the State of North Carolina increased substantially in fiscal year 2017, thus the University's Statement of Net Position reflects a similar increase in net pension liability. Additional information on the University's pension plans is provided in Note 12 of the notes to the financial statements and in the Required Supplementary Information. Notes payable increased by \$40.8 million due to increased borrowing on a construction loan to finance the construction costs for Spartan Village Phase II, while bonds payable decreased by \$13.9 million due to principal payments made throughout the fiscal year, resulting in the net increase in notes and bonds payable of \$26.9 million previously mentioned. The increase in accounts payable and accrued liabilities is related to increased construction activity for Spartan Village Phase II, the 1510 Walker Avenue renovations, and the Nursing Instruction Building.

Deferred outflows of resources increased by \$22.8 million mainly due to the increase in deferred outflows related to pensions which represents the University's proportionate share of the accumulated difference between projected and actual earnings on pension plan investments and cumulative changes in assumptions concerning future economic and demographic factors. Deferred inflows of resources decreased by \$2.3 million mainly due to the decrease in the deferred inflows related to pensions which represents the University's proportionate share of the accumulated difference between actual and expected experience for the State's pension plan. The net amount of deferred outflows related to pensions and deferred inflows related to pensions is included in pension expense using a systemic and rational amortization method over a closed five-year period (refer to Note 12 of the notes to the financial statements for details).

The combination of the increase in total assets of \$78.9 million, the increase in total liabilities of \$55.9 million, the increase of \$22.8 million in deferred outflows of resources, and the \$2.3 million decrease in deferred inflows of resources yields an overall increase in total net position of \$48.1 million. The net position category of net investment in capital assets increased by \$9.3 million due to the capitalization of additional costs for the Kaplan Center for Wellness, the Moore/Strong fire alarm replacement project, and the Elliott University Center freight elevator project. An increase of \$11.2 million in the category of nonexpendable net position is directly related to the continued receipt of endowed gifts. An increase of \$24.8 million in the category of restricted expendable net position is the result of an increase in the value of endowment investments during the fiscal year. The unrestricted net position category increased by \$2.8 million. This increase is primarily attributable to the effect of increased student enrollment on tuition and fees and sales and services revenues.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues earned by the institution, both operating and nonoperating, and the expenses incurred by the institution, operating and nonoperating, and any other revenues earned by the institution.

Generally speaking, operating revenues are earned for providing goods and services to the various constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the institution. Nonoperating revenues are revenues earned for which goods and services are not provided. State appropriations and federal financial aid awards are

MANAGEMENT'S DISCUSSION AND ANALYSIS

included as nonoperating revenues in accordance with GASB guidelines even though these revenues are instrumental to the University's mission and operations. Nonoperating expenses are expenses not directly related to the normal operations of the University (e.g., interest expense and other fees on capital asset related debt) and are netted against nonoperating revenues on the Statement of Revenues, Expenses, and Changes in Net Position. Other revenues include capital contributions and additions to the principal of permanent and term endowments.

A condensed Statement of Revenues, Expenses, and Changes in Net Position is reflected in the following table.

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Years Ended			
	6/30/2017		6/30/2016
Operating Revenues			
Student Tuition and Fees, Net	\$ 106,878,472	\$	99,590,112
Grants and Contracts	14,756,698		8,197,443
Sales and Services, Net	53,480,365		51,404,528
Interest Earnings on Loans	123,169		117,121
Other Operating Revenues	1,596,540		1,589,544
Total Operating Revenues	<u>176,835,244</u>		<u>160,898,748</u>
Operating Expenses			
Salaries and Benefits	248,319,869		226,075,680
Supplies and Materials	21,970,726		19,567,230
Services	62,507,081		56,816,731
Scholarships and Fellowships	29,302,389		29,343,741
Utilities	8,540,438		7,969,781
Depreciation	21,001,359		19,757,741
Total Operating Expenses	<u>391,641,862</u>		<u>359,530,904</u>
Operating Loss	<u>(214,806,618)</u>		<u>(198,632,156)</u>
Nonoperating Revenues (Expenses)			
State Appropriations	153,781,139		148,838,492
Noncapital Grants and Gifts	72,401,684		79,099,370
Investment Income (Loss)	34,641,444		(8,929,314)
Interest and Fees on Debt	(11,869,043)		(9,007,077)
Other Nonoperating Expenses	(1,846,478)		(4,268,833)
Net Nonoperating Revenues	<u>247,108,746</u>		<u>205,732,638</u>
Income Before Other Revenues	<u>32,302,128</u>		<u>7,100,482</u>
Other Revenues			
Capital Appropriations	2,472,004		3,292,800
Capital Grants and Gifts	2,430,484		994,934
Total Other Revenues	<u>4,902,488</u>		<u>4,287,734</u>
Income Before Additions to Endowments	<u>37,204,616</u>		<u>11,388,216</u>
Additions to Endowments	<u>10,869,629</u>		<u>6,118,549</u>
Increase in Net Position	<u>48,074,245</u>		<u>17,506,765</u>
Net Position - July 1	<u>728,816,487</u>		<u>711,309,722</u>
Net Position - June 30	<u>\$ 776,890,732</u>	<u>\$</u>	<u>728,816,487</u>

The Statement of Revenues, Expenses, and Changes in Net Position reflect an increase in the net position at the end of the year and an increase of \$54.3 million (13.6%) in total revenues of

\$453.5 million. Total expenses were \$405.4 million. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

- Operating revenues increased by \$15.9 million (9.9%), whereas operating expenses increased by \$32.1 million (8.9%), for a combined net increase in operating loss of \$16.2 million. The largest increase within operating revenues was in student tuition and fees, net, which increased \$7.3 million (7.3%). This increase is due to enrollment and tuition rate increases. Grants and contracts (federal, state, and nongovernmental) increased by \$6.6 million (80.0%) reflecting increased research activity at the University.

The increase in operating expenses is the result of a \$22.3 million (9.8%) increase in salaries and benefits, a \$5.7 million (10.0%) increase in services, a \$2.4 million (12.3%) increase in supplies and materials, a \$1.2 million (6.3%) increase in depreciation, and a \$.5 million (1.4%) increase in all other operating expense categories. The increase in salaries and benefits is due to increases in salaries and increases in personnel consistent with enrollment growth. The University's proportionate share of the State's increased pension expense also grew significantly in this fiscal year. The increases in services and supplies and materials are correlated with the increase in state appropriations providing additional funds for University departments to expend on academic services type activities and noncapitalized equipment. The increase in depreciation is due to newly capitalized buildings in fiscal year 2016, including the Kaplan Center for Wellness and the Moran Commons Dining Hall, being subject to a full year of depreciation for the first time.

- State appropriations increased by \$4.9 million (3.3%) due to increases in enrollment. Investment income increased by \$43.6 million, to an investment gain of \$34.6 million compared to an investment loss of \$8.9 million in the prior year. This increase is the result of significant increases in net realized gains on investment transactions compared to the prior fiscal year and an increase in the market value of investments being held. The University's external investment pool's total return increased from a loss of 4.8% for the prior fiscal year to a gain of 13.7% for the current fiscal year. The caption other nonoperating expenses consists of surplus property sales (a revenue), bond issue costs, and the loss on the disposal of capitalized assets. The loss on the disposal of capitalized assets was \$1.8 million.
- Other revenues for fiscal year 2017 consist of capital appropriations, capital grants, capital gifts, and additions to endowments. The University received \$2.5 million in capital appropriations from the State during fiscal year 2017 for various repair and renovation projects across the campus. Additions to endowments increased by \$4.8 million (77.7%) due to an overall increase in giving to the University during the fiscal year.

Capital Assets and Debt Administration

Major projects included in construction in progress include Spartan Village Phase II, the Cone Residence Hall renovation project, the 1510 Walker Avenue renovations, and the Nursing and Instructional academic building.

On May 19, 2017, the Capital Facilities Foundation (a blended component unit of the University) issued a \$9,460,000 private placement note payable whose proceeds will be used to renovate existing properties for academic and administrative use.

For additional information concerning Capital Assets and Debt Administration, see Notes 6 and 8 in the notes to the financial statements.

Economic and Strategic Outlook

The University continues to experience strong enrollment growth with a record overall enrollment of 19,922 students for the fall semester of 2017. This represents a 1.4% increase (including a 3.3% increase in graduate students) in the overall student population when compared to the prior fall semester. For the fall semester of 2017 the University welcomed its second-largest new student class ever at 4,657 students.

In an effort to maintain the University's strong financial position in the current challenging and competitive higher education environment, the University has successfully expanded its geographic footprint along the Gate City Boulevard corridor through the completion of several significant building projects. The Spartan Village Phase I project consisted of the construction of four apartment style residence halls with an 800 bed capacity. This project has been a tremendous success with all four buildings being fully occupied since opening in the fall of 2013. The Kaplan Center for Wellness, a 216,000 square foot facility opened in the fall of 2016, houses the Department of Recreation and Wellness and enhances the University's vision of making a difference in the lives of students and the campus community. Construction of Spartan Village Phase II, a 300 bed apartment style residence hall with associated retail space, located between Spartan Phase I and the Kaplan Center for Wellness, was completed for the start of the fall 2017 semester. The demand for this apartment style residence hall space will remain strong in this area due to the related projects, the Railroad Pedestrian Underpass and Campus Police Building, that were completed and fully operational for the fall 2014 semester. These projects provide Spartan Village Phase I and II and the Kaplan Center for Wellness with access to security services and an easy connection to other areas of the campus.

In March of 2016, North Carolina voters approved the Connect NC Bonds, which will provide the University with \$105 million for the construction of a new Nursing and Instructional academic building on the main campus. Construction is expected to begin in the late spring of 2018 and will result in a four-story structure that will house the entire School of Nursing, which is currently located in four separate campus buildings. This facility will also provide teaching and flexible laboratory research space for the Biology, Chemistry, and Health and Human Services departments.

The University's overall financial condition is stable and strengthening due to sustained enrollment growth and new initiatives. The University will continue to be a leader nationally with focused innovative programs to improve student retention and foster student success. The ongoing efforts to contain costs, implement operating efficiencies whenever possible, and diversify revenue sources will continue. Despite the challenging and competitive higher education environment, management strongly believes the University has sufficient resources to grow and provide excellent service to students, the surrounding Piedmont Triad community, and the State of North Carolina.

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

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

Blended Component Units - Although legally separate, the following component units of the University are reported as if they were part of the University: The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated; The University of North Carolina at Greensboro Weatherspoon Arts Foundation; The UNCG Excellence Foundation, Inc.; The University of North Carolina at Greensboro Investment Fund, Inc.; and the Capital Facilities Foundation, Inc.

The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated is governed by a 19-member board consisting of five ex officio directors and 14 appointed directors. The Foundation is organized exclusively for the benefit of the departments and center formerly housed within the School of Human Environmental Sciences at The University of North Carolina at Greensboro prior to July 1, 2011, which consist of the Consumer Apparel and Retail Studies Department, Human Development and Family Studies Department, Interior Architecture Department, Nutrition Department, Social Work Department, and the Center for New North Carolinians. The Foundation's purpose is to aid and promote excellence in higher education, service and research, and the endowment of the five departments and centers listed above. Because the directors of the Foundation are appointed by the members of The University of North

Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The University of North Carolina at Greensboro Weatherspoon Arts Foundation is governed by a 26-member board consisting of three ex officio directors and 23 appointed directors. The Foundation's purpose is to acquire by gift, purchase, lease, loan, or other means of conveyance works of art and to maintain and enhance the arts collection teaching, research, and public services purposes exclusively for the use and benefit of The University of North Carolina at Greensboro. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The UNCG Excellence Foundation, Inc. is governed by a 37-member board consisting of six ex officio directors and 31 appointed directors. The Foundation's purpose is to aid, support and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro as long as The University of North Carolina at Greensboro qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954 (or corresponding provisions of any future United States Internal Revenue law), its financial statements have been blended with those of the University.

The University of North Carolina at Greensboro Investment Fund, Inc. is governed by a 14-member board consisting of seven ex officio directors and seven appointed directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. Because the directors of the Investment Fund are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Investment Fund's primary purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The Capital Facilities Foundation, Inc. is governed by a 10-member board consisting of five ex officio directors and five appointed directors. The Foundation's purpose is to enhance the University's educational mission through assisting with the acquisition,

development, financing, construction, management, and operation of capital assets for the University. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

An electronic version of the separate financial statements for the Foundations and the Investment Fund is available by accessing the UNCG Business Affairs home page (<http://www.uncg.edu/baf>) and clicking on "Foundation Finance", then "Audit Reports", or by calling (336) 334-5200.

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

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

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

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

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

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

- E. Investments** – To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Investments in partnerships are stated at net asset value based on the fair value of the partnership's assets. Fair value of the partnership investments is based upon the General Partner's best judgment in estimating the fair value of these investments. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

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

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	25-50 years
Machinery and Equipment	4-20 years
General Infrastructure	25-50 years

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

- 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. **Funds Held in Trust for Pool Participants** - Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.
- K. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, net pension liability, notes payable, annuities and life income payable, 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 proportionate-to-stated interest method. Deferred gains and losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are aggregated as deferred outflows of resources or deferred inflows of resources on the Statement of Net Position. Issuance costs are expensed in the reporting period in which they are incurred.

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

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

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

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

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

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The University has the following items that qualify for reporting in this category: deferred inflows related to pensions and deferred revenue, split-interest trust agreements.

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

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

outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

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

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

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

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

P. Revenue and Expense Recognition - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues

include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Cash on hand at June 30, 2017 was \$77,864. The carrying amount of the University's deposits not with the State Treasurer was \$17,178,901, and the bank balance was \$16,502,514. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2017, \$15,492,271 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

- 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.

Additionally, the University has also been delegated authority by the President of the University of North Carolina pursuant to G.S. 116-36.1 and Section 600.2.4.1 of the Policy Manual of the University of North Carolina to invest its trust funds 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 of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, The UNCG Excellence Foundation, Inc., and The University of North Carolina at Greensboro Investment Fund, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act"

(UPMIFA) and any requirements placed on them by contract or donor agreements.

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

Investments are subject to the following risks as defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3*.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the value of investments. The University's formal policy limits some fixed income holdings to those that have a high quality rating (AA/Aa or better) and those with a sufficient duration (four years or more) to provide effective protection in a deflationary environment.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's formal policy limits some fixed income holdings to those that have a high quality rating (AA/Aa or better) and those with a sufficient duration (four years or more) to provide effective protection in a deflationary environment.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The University does not have a formal policy for concentration of credit risk.

Short-Term Investment Fund - At June 30, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$133,199,542, which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

External Investment Pool - The University of North Carolina at Greensboro Investment Fund, Inc., an External Investment Pool sponsored by the University, was established on July 1, 1992. The Pool is utilized to manage the investments for charitable, nonprofit organizations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Endowment funds of the University, as well as those of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, and The UNCG Excellence Foundation, Inc., represent the Pool's internal participants. Other affiliated organizations not included in the University's reporting entity represent the Pool's external participants. Fund ownership of the Pool is measured using the unit market value method. Under this method, each participating fund's investment balance is determined based on the number of units of ownership purchased when joining the Pool. Thereafter, the pooled assets are valued monthly, and a new market value is determined. The external portion of the Pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The External Investment Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. As of September 1, 2013, the Board along with Cambridge Associates Resources, LLC, created a limited partnership, UNCG Endowment Partners, LP. As part of the agreement, Cambridge is the General Partner and The University of North Carolina at Greensboro Investment Fund, Inc. is the Limited Partner. The University of North Carolina at Greensboro Investment Fund, Inc. contributed its investment portfolio in exchange for its interest in UNCG Endowment Partners, LP. The Board's primary role is to adopt investment objectives and policies and monitor the policy implementation and investment performance.

Cambridge Associates Resources, LLC serves as the outsourced chief investment officer for the Pool and provides the University with monthly statements defining income and fair value information, which is then allocated among the fund's participants. There are no involuntary participants in the Pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Pool's investments. The annual financial report for the External Investment Pool may be obtained from the Business Affairs Office, 254 Mossman, Greensboro, NC 27402, or by calling (336) 334-5200.

NOTES TO THE FINANCIAL STATEMENTS

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

External Investment Pool

Investment Type	Amount
Other Securities	
Partnerships:	
UNCG Endowment Partners, LP	<u>\$ 276,120,937</u>

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

Non-Pooled Investments

Investment Type	Amount	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Money Market Funds	\$ 1,701	\$ 1,701	\$ 0	\$ 0
Mutual Bond Funds	<u>2,770,714</u>		<u>658,333</u>	<u>2,112,381</u>
Total Debt Securities	<u>2,772,415</u>	<u>\$ 1,701</u>	<u>\$ 658,333</u>	<u>\$ 2,112,381</u>
Other Securities				
Mutual Funds	7,880,653			
Corporate Securities:				
Common Stocks	2,092,475			
Investments in Real Estate	<u>739,500</u>			
Total Non-Pooled Investments	<u>\$ 13,485,043</u>			

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

	Amount	AAA Aaa	AA Aa	A	BB/Ba and below
Money Market Funds	\$ 1,701	\$ 1,701	\$ 0	\$ 0	\$ 0
Mutual Bond Funds	<u>2,770,714</u>		<u>1,213,981</u>	<u>637,032</u>	<u>919,701</u>
Totals	<u>\$ 2,772,415</u>	<u>\$ 1,701</u>	<u>\$ 1,213,981</u>	<u>\$ 637,032</u>	<u>\$ 919,701</u>

Rating Agency: Standard & Poor's and Moody's Rating Services

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

Investment Type	Amount
Debt Securities	
Money Market Funds	\$ 1,701
Mutual Bond Funds	2,770,714
Other Securities	
Mutual Funds	7,880,653
Corporate Securities:	
Common Stocks	2,092,475
Investments in Real Estate	739,500
Partnerships:	
UNCG Endowment Partners, LP	276,120,937
Total Investments	\$ 289,605,980

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2017, is as follows:

Cash on Hand	\$ 77,864
Amount of Deposits with Private Financial Institutions	17,178,901
Deposits in the Short-Term Investment Fund	133,199,542
External Investment Pool	276,120,937
Non-Pooled Investments	13,485,043
Total Deposits and Investments	\$ 440,062,287
Deposits	
Current	
Cash and Cash Equivalents	\$ 112,961,417
Restricted Cash and Cash Equivalents	25,530,259
Noncurrent	
Restricted Cash and Cash Equivalents	11,964,631
Total Deposits	150,456,307
Investments	
Current	
Short-Term Investments	909,422
Restricted Short-Term Investments	9,254,902
Noncurrent	
Endowment Investments	274,989,297
Other Investments	4,452,359
Total Investments	289,605,980
Total Deposits and Investments	\$ 440,062,287

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments are recorded at fair value as of June 30, 2017. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

- | | |
|---------|---|
| Level 1 | Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date. |
| Level 2 | Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly. |
| Level 3 | Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment. |

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

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Money Market Funds	\$ 1,701	\$ 1,701	\$ 0	\$ 0
Mutual Bond Funds	2,770,714	2,770,714		
Total Debt Securities	2,772,415	2,772,415		
Other Securities				
Short-Term Investment Fund	133,199,542		133,199,542	
Mutual Funds	7,880,653	7,880,653		
Corporate Securities:				
Common Stocks	2,092,475	2,092,475		
Investments in Real Estate	739,500			739,500
Total Investments by Fair Value Level	146,684,585	\$ 12,745,543	\$ 133,199,542	\$ 739,500
Investments Measured at the Net Asset Value (NAV)				
Partnerships:				
UNCG Endowment Partners, LP	276,120,937			
Total Investments Measured at Fair Value	\$ 422,805,522			

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.

Investments in Real Estate - The UNCG Excellence Foundation, Inc. currently holds four parcels of land that were gifted to the Foundation. Three parcels are life estates which were appraised at the time of gift and recorded at a value of \$739,000. These properties will be sold at the time the donor no longer lives on the property. The fourth parcel was gifted as part of an estate and is valued at the tax value of \$500.

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

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Partnerships:				
UNCG Endowment Partners, LP	\$ 276,120,937	N/A	N/A	N/A

UNCG Endowment Partners, LP – The UNCG Endowment Partners, LP (the “Partnership”) will generally seek to achieve long-term equity-like returns through broadly diversifying by asset class, investment manager, geography, economic sector, and security. The Partnership seeks to achieve its objective by allocating its assets among unaffiliated limited partnerships, unaffiliated limited liability companies, unaffiliated private equity and/or venture capital funds, including offshore funds, other investment entities and/or separate accounts managed pursuant to investment management agreements (collectively, the “Underlying Funds”), as well as publicly-traded stocks, exchange-traded funds, mutual funds, bonds, and derivative contracts.

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 pooled endowment funds for 2017 and 2016 are equal to 4.25 and 4.25 percent respectively of the average market value of the Investment Pool at December 31 for the past three years. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted,

expendable net position endowment balances to make up the difference. At June 30, 2017, net appreciation of \$30,418,001 was available to be spent, of which \$28,402,828 was classified in net position as restricted expendable for scholarships and fellowships, endowed professorships, departmental uses, loans, art, and other, as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2017 the amount of investment losses reported against the nonexpendable endowment balances was \$2,202.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,288,496	\$ 780,613	\$ 1,507,883
Student Sponsors	1,692,686		1,692,686
Intergovernmental	3,100,844		3,100,844
Pledges	497,676	8,883	488,793
Investment Earnings	114,198		114,198
Interest on Loans	189,041		189,041
Other	1,985,244		1,985,244
Total Current Receivables	<u>\$ 9,868,185</u>	<u>\$ 789,496</u>	<u>\$ 9,078,689</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 1,362,724	\$ 110,627	\$ 1,252,097
Institutional Student Loan Programs	332,700	180,031	152,669
Total Notes Receivable - Current	<u>\$ 1,695,424</u>	<u>\$ 290,658</u>	<u>\$ 1,404,766</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 3,905,981</u>	<u>\$ 453,802</u>	<u>\$ 3,452,179</u>

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	\$ 49,290,589	\$ 381,050	\$ 0	\$ 49,671,639
Art, Literature, and Artifacts	23,282,168	290,322		23,572,490
Construction in Progress	6,227,432	46,768,242	4,965,535	48,030,139
Total Capital Assets, Nondepreciable	78,800,189	47,439,614	4,965,535	121,274,268
Capital Assets, Depreciable:				
Buildings	715,120,099	5,613,801		720,733,900
Machinery and Equipment	58,651,700	7,858,793	4,905,709	61,604,784
General Infrastructure	82,865,130	188,269		83,053,399
Total Capital Assets, Depreciable	856,636,929	13,660,863	4,905,709	865,392,083
Less Accumulated Depreciation for:				
Buildings	147,040,106	14,871,394		161,911,500
Machinery and Equipment	32,497,825	3,128,223	3,051,986	32,574,062
General Infrastructure	38,863,205	3,001,742		41,864,947
Total Accumulated Depreciation	218,401,136	21,001,359	3,051,986	236,350,509
Total Capital Assets, Depreciable, Net	638,235,793	(7,340,496)	1,853,723	629,041,574
Capital Assets, Net	\$ 717,035,982	\$ 40,099,118	\$ 6,819,258	\$ 750,315,842

During the year ended June 30, 2017, the University incurred \$12,085,598 in interest costs related to the acquisition and construction of capital assets. Of this total, \$11,791,004 was charged in interest expense, and \$294,594 was capitalized.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 8,365,662
Accrued Payroll	6,508,786
Other	1,350,834
Total Current Accounts Payable and Accrued Liabilities	\$ 16,225,282
Noncurrent Accounts Payable and Accrued Liabilities	
Contract Retainage	\$ 2,030,358

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

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Revenue Bonds Payable	\$ 295,786,000	\$ 0	\$ 11,895,000	\$ 283,891,000	\$ 11,520,000
Plus: Unamortized Premium	23,446,506		2,007,662	21,438,844	
Total Revenue Bonds Payable, Net	319,232,506		13,902,662	305,329,844	11,520,000
Net Pension Liability	18,352,655	25,540,961		43,893,616	
Notes Payable	14,583,677	41,382,381	598,748	55,367,310	884,374
Compensated Absences	11,329,595	11,424,416	10,671,055	12,082,956	571,096
Annuities and Life Income Payable	6,736,187		291,490	6,444,697	
Total Long-Term Liabilities, Net	\$ 370,234,620	\$ 78,347,758	\$ 25,463,955	\$ 423,118,423	\$ 12,975,470

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017
Revenue Bonds Payable						
General Revenue Bonds						
Housing and Parking	2009A	3.50%-5.00%	04/01/2034	\$ 29,525,000	\$ 27,620,000	\$ 1,905,000
Refund Series 2002A - Dining and Housing	2011	3.50%-5.00%	04/01/2036	77,505,000	3,495,000	74,010,000
Refund Series 2002A and 2004C - Housing, Athletics, Police Building, and Dining	2012A	2.00%-5.00%	04/01/2037	52,360,000	8,345,000	44,015,000
Student Recreation Center and Housing	2014	4.00%-5.00%	04/01/2039	125,685,000	8,255,000	117,430,000
Refund Series 2005A and 2012B - Housing, Parking, and Athletics	2015	1.75%	04/01/2026	10,109,000	1,643,000	8,466,000
Refund Series 2009A - Housing and Parking	2016	2.50%-5.00%	04/01/2034	21,575,000		21,575,000
Total General Revenue Bonds				316,759,000	49,358,000	267,401,000
The University of North Carolina System Pool Revenue Bonds						
Refund Series 1997B, 1997C, 1997D, and 2000G - Housing, Parking, and Athletics	(A)	5.25%	04/01/2026	22,235,000	19,085,000	3,150,000
Elliott University Center and Various Construction Projects	(B)	3.25%-5.25%	04/01/2026	23,780,000	10,440,000	13,340,000
Total The University of North Carolina System Pool Revenue Bonds				46,015,000	29,525,000	16,490,000
Total Revenue Bonds Payable (principal only)				\$ 362,774,000	\$ 78,883,000	283,891,000
Plus: Unamortized Premium						21,438,844
Total Revenue Bonds Payable, Net						\$ 305,329,844

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

(B) The University of North Carolina System Pool Revenue Bonds, Series 2010B-2

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

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2018	\$ 11,520,000	\$ 13,105,718	\$ 884,374	\$ 880,040
2019	11,691,000	12,652,343	45,489,736	357,896
2020	12,211,000	12,140,425	226,286	223,031
2021	12,785,000	11,571,045	231,898	217,420
2022	13,339,000	11,010,132	237,649	211,668
2023-2027	68,035,000	45,533,825	8,297,367	966,958
2028-2032	67,720,000	29,688,337		
2033-2037	70,295,000	13,067,275		
2038-2039	16,295,000	1,133,850		
Total Requirements	\$ 283,891,000	\$ 149,902,950	\$ 55,367,310	\$ 2,857,013

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017
Energy Savings Performance Contract	Sun Trust Equipment Finance Corp.	3.61%	03/01/2019	\$ 5,808,994	\$ 4,490,674	\$ 1,318,320
Spartan Village Phase II	PNC	1.41% *	09/01/2018	44,588,990		44,588,990
Improvement Advance	PNC	2.48%	04/01/2027	9,460,000		9,460,000
Total Notes Payable				\$ 59,857,984	\$ 4,490,674	\$ 55,367,310

* For variable rate debt, the interest rate in effect at June 30, 2017 is reflected in the table above.

The interest rate on the PNC Construction Advance is set on the first day of the month and can be reset on the first day of the following month. The interest rate is calculated as the sum of (1) 68.5% of the monthly LIBOR Rate and (2) 57.5 basis points (0.575%), calculated on the basis of a 365 day year for the actual number of days elapsed.

The University plans to refinance the notes maturing on September 1, 2018 with other long-term financing.

E. Annuities Payable – The Annuity and Life Income Payable balance consists of 146 Charitable Annuity agreements and 12 Charitable Remainder Unitrusts with a market value of \$10.3 million. The \$6.445 million Annuity and Life Income Payable liability is the expected present value payable to donors based upon their age, the agreed on payment rate, and the applicable federal rate.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for real property and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2017:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 1,003,854
2019	950,294
2020	914,808
2021	898,534
2022	792,330
2023-2026	3,102,000
Total Minimum Lease Payments	\$ 7,661,820

Rental expense for all operating leases during the year was \$1,008,920.

NOTE 10 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees, Net	\$ 148,524,897	\$ 0	\$ 41,123,760	\$ 522,665	\$ 106,878,472
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 31,662,643	\$ 351,837	\$ 8,356,717	\$ 110,363	\$ 22,843,726
Dining	19,699,904	12,446	4,681,507	62,480	14,943,471
Student Union Services	178,869				178,869
Health, Physical Education, and Recreation Services	1,352,486	36,461			1,316,025
Parking	3,996,173	173,432		50,025	3,772,716
Athletic	919,617	18,370			901,247
Other	5,399,119	3,207,313		3,091	2,188,715
Sales and Services of Education and Related Activities	7,526,467	190,871			7,335,596
Total Sales and Services, Net	\$ 70,735,278	\$ 3,990,730	\$ 13,038,224	\$ 225,959	\$ 53,480,365

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 130,979,910	\$ 4,619,304	\$ 10,102,395	\$ 5,090	\$ 7,071	\$ 0	\$ 145,713,770
Research	10,748,555	632,471	5,080,649	1,214,059			17,675,734
Public Service	6,488,743	109,231	1,710,673	17,045	2,869		8,328,561
Academic Support	27,624,107	6,198,093	7,469,607	802,272	1,569		42,095,648
Student Services	15,892,291	1,590,186	4,307,226	5,000			21,794,703
Institutional Support	16,718,251	4,462,695	6,216,988	5,500	897		27,404,331
Operations and Maintenance of Plant	20,454,476	1,641,850	4,964,341		5,688,113		32,748,780
Student Financial Aid				27,225,923			27,225,923
Auxiliary Enterprises	19,413,536	2,716,896	22,655,202	27,500	2,839,919		47,653,053
Depreciation						21,001,359	21,001,359
Total Operating Expenses	\$ 248,319,869	\$ 21,970,726	\$ 62,507,081	\$ 29,302,389	\$ 8,540,438	\$ 21,001,359	\$ 391,641,862

NOTE 12 - PENSION PLANS

A. Defined Benefit Plan

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

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

of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were \$4,665,064, and the University's contributions were \$7,759,557 for the year ended June 30, 2017.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-Term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and

significant assumptions regarding investments of the State Treasurer are provided in the 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the University reported a liability of \$43,893,616 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2016, the University's proportion was 0.47757%, which was a decrease of 0.02044 from its proportion measured as of June 30, 2015.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

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

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

The actuarial assumptions used in the December 31, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve

and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a

discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 82,555,410	\$ 43,893,616	\$ 11,384,347

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the University recognized pension expense of \$7,889,370. At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0	\$ 2,074,473
Changes of Assumptions	6,473,242	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	15,653,870	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		1,237,001
Contributions Subsequent to the Measurement Date	7,759,557	
Total	\$ 29,886,669	\$ 3,311,474

The amount of \$7,759,557 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

<u>Year Ended June 30:</u>	<u>Amount</u>
2018	\$ 2,816,336
2019	2,929,967
2020	8,307,050
2021	<u>4,762,285</u>
Total	<u><u>\$ 18,815,638</u></u>

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2017, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$195,292,417, of which \$86,816,541 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$5,938,251 and \$5,208,992, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of \$241,627 recognized during the reporting period.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health

insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS) or the Optional Retirement Program (ORP). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

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

For the period July 1, 2016 through December 31, 2016, the University contributed 5.60% of the covered payroll under TSERS and ORP to the Fund, and for the period January 1, 2017 through June 30, 2017, the University contributed 6.02% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were \$9,561,378, \$8,725,869, and \$8,421,927, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

- B. Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS and ORP. Benefit and contribution provisions are established by Chapter 135, Article 6, of the

General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2017, the University made a statutory contribution of .38% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were \$625,357, \$638,858, and \$628,960, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 14 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible and cost is based on the declared value of each structure. However, some agencies have chosen a higher deductible for a reduction in premium. The General Property Coverage Policy is the Fund's basic policy and is used to provide insurance against losses caused by Fire and Lightning, Extended Coverage, Broad Form Coverage, and Special Form Coverage. However, the University is covered only for those named perils for which the University has paid a premium and for which the named peril is indicated in the Declarations. Extended coverage for buildings and contents has been purchased for the following buildings: Chemical Storage Facility, the Baseball Complex, the Softball Complex, the Sullivan Science Building, and the Graphics and Printing Services Building. Broad Form Coverage has been purchased for the building and contents for the L.J. Kaplan Center for Wellness. All Risk Coverage has been purchased for the Baseball Locker Room & Training Facility and the Elliott University Center. Vandalism and Malicious Mischief insurance (VMM) has been purchased for the Elliott University Center. The University must fund the additional cost of the above stated insurance.

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. These purchased coverages are: "all-risk" for computers and miscellaneous equipment covering all perils including fire (replacement cost on listed computers and miscellaneous equipment, \$5,000 deductible per event); study abroad accident and health (\$250,000 per injury or sickness medical expenses, \$10,000 accidental death and dismemberment, \$50,000 repatriation of remains, \$200,000 evacuation benefit limit, \$1,500 bedside visit); international students accident and sickness (\$150,000 maximum limit for medical expenses, \$10,000 accidental death and dismemberment, \$15,000 for repatriation of remains and \$50,000 lifetime benefit for medical evacuation); robbery and safe burglary (\$1.0 million per event, \$25,000 deductible); musical instruments (stated value cash replacement value with \$500 deductible); fine art (property coverage – museum collection and temporary loan, Limits of Liability: \$250.0 million limit at insured premises, \$25.0 million at any other location, \$25.0 million limit in transit on any one conveyance, exhibition, and location, \$70.0 million for TRIA (Terrorism Risk Insurance Act), and \$250.0 million aggregate limit in any one loss or disaster; Deductibles: \$2,500); University Intern liability (\$2.0 million per incident / \$4.0 million per year; business travel (\$100,000 maximum medical expense, \$10,000 maximum accidental death and dismemberment maximum benefit, \$100,000 medical evacuation maximum benefit); boiler and machinery (\$50.0 million equipment breakdown limit, \$5,000 deductible); leased computer equipment (stated value with \$10,000 deductible for medical

equipment and \$500 deductible for all other); athletic accident (maximum medical coverage limit \$75,000, with \$0 deductible, maximum death specific loss \$50,000); physicians professional medical liability (\$1.0 million per person, \$3.0 million total); postal bond (coverage limit \$30,000); non-physicians professional medical liability (individual policies) (\$1.0 million per person, \$3.0 million total); student health; camp accident (\$250,000 accidental death and dismemberment maximum annual limit); club sports travel (\$10,000 accidental death and dismemberment); volunteer liability (\$1.0 million per incident / \$3.0 million per year); Railroad Underpass general liability coverage \$2.0 million per year and aggregate limit; Railroad Underpass excess liability \$1.0 million limit; Campus Recreation Adventure Program accident & health insurance (\$15,000 accidental death, up to \$15,000 dismemberment, \$10,000 accidental medical expenses); boat \$1.0 million liability and property damage; fiber optics bond \$50,000.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$23,990,997 and on other purchases were \$4,062,625 at June 30, 2017.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end are as follows:

Purpose	Amount
Pledges to the UNCG Excellence Foundation Endowment Fund	\$ 1,155,626
Pledges to the UNCG Endowment Fund	1,169,164

NOTE 16 - RELATED PARTIES

The University and North Carolina Agricultural and Technical State University have formed a jointly governed nonprofit organization, Gateway University Research Park, Inc., which is also a component unit of the State of North Carolina. The purpose of this organization is to provide a collaborative research environment that fosters academic enrichment, research growth, technology transfer, commercialization, and discovery while encouraging and promoting regional economic development.

During the fiscal year, the University made payments totaling \$1,820,593 to Gateway University Research Park, Inc. These payments consisted of: \$1,270,828 for the construction, maintenance, acquisition, movement, installation, and upgrades of offices, classrooms, and laboratories for the Joint School of Nanoscience and Nanoengineering; \$474,039 for the operation and maintenance of University facilities at the Gateway University Research Park; \$75,000 for the annual management fee for the Gateway University Research Park; and \$726 for other facility use fees and maintenance expenses.

NOTE 17 - BLENDED COMPONENT UNITS

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

Condensed Statement of Net Position
June 30, 2017

	UNCG	UNCG Excellence Foundation	Human Environmental Sciences Foundation	Weatherspoon Arts Foundation	Capital Facilities Foundation	Total
ASSETS						
Current Assets	\$ 140,106,150	\$ 7,049,304	\$ 447,856	\$ 0	\$ 11,936,285	\$ 159,539,595
Capital Assets, Net	678,514,193			23,507,990	48,293,659	750,315,842
Other Noncurrent Assets	164,913,740	121,493,850	9,180,980			295,588,570
Total Assets	983,534,083	128,543,154	9,628,836	23,507,990	60,229,944	1,205,444,007
TOTAL DEFERRED OUTFLOWS OF RESOURCES	34,121,148					34,121,148
LIABILITIES						
Current Liabilities	31,645,163	211,454			4,824,399	36,681,016
Long-Term Liabilities, Net	356,339,954				53,802,999	410,142,953
Other Noncurrent Liabilities	5,938,568	6,444,697				12,383,265
Total Liabilities	393,923,685	6,656,151			58,627,398	459,207,234
TOTAL DEFERRED INFLOWS OF RESOURCES	3,311,474	155,715				3,467,189
NET POSITION						
Net Investment in Capital Assets	369,527,153			23,507,990		393,035,143
Restricted - Nonexpendable	72,384,980	72,272,442	4,693,652			149,351,074
Restricted - Expendable	102,323,251	41,407,825	3,262,537			146,993,613
Unrestricted	76,184,688	8,051,021	1,672,647		1,602,546	87,510,902
Total Net Position	\$ 620,420,072	\$ 121,731,288	\$ 9,628,836	\$ 23,507,990	\$ 1,602,546	\$ 776,890,732

NOTES TO THE FINANCIAL STATEMENTS

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

	UNCG	UNCG Excellence Foundation	Human Environmental Sciences Foundation	Weatherspoon Arts Foundation	Capital Facilities Foundation	Eliminations	Total
OPERATING REVENUES							
Rental Income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 442,344	\$ (426,994)	\$ 15,350
Operating Revenues	176,819,894						176,819,894
Total Operating Revenues	176,819,894				442,344	(426,994)	176,835,244
OPERATING EXPENSES							
Operating Expenses	370,373,768	265,717	1,450		435,194	(435,626)	370,640,503
Depreciation	20,963,187				38,172		21,001,359
Total Operating Expenses	391,336,955	265,717	1,450		473,366	(435,626)	391,641,862
Operating Loss	(214,517,061)	(265,717)	(1,450)		(31,022)	8,632	(214,806,618)
NONOPERATING REVENUES (EXPENSES)							
Investment Income, Net	19,064,652	14,429,763	1,147,029				34,641,444
Noncapital Gifts	2,263,221	758,303	220				3,021,744
Interest and Fees on Debt	(11,869,043)						(11,869,043)
Other Nonoperating Revenues	223,161,079						223,161,079
Other Nonoperating Expenses	(1,846,478)						(1,846,478)
Net Nonoperating Revenues	230,773,431	15,188,066	1,147,249				247,108,746
Transfers		(4,392,708)	(395,821)			4,788,529	
Capital Contributions	4,626,166			276,322			4,902,488
Additions to Endowments	5,313,034	5,322,704	233,891				10,869,629
Increase (Decrease) in Net Position	26,195,570	15,852,345	983,869	276,322	(31,022)	4,797,161	48,074,245
NET POSITION							
Net Position, July 1, 2016	589,427,341	105,878,943	8,644,967	23,231,668	1,633,568		728,816,487
Net Position, June 30, 2017	\$ 615,622,911	\$ 121,731,288	\$ 9,628,836	\$ 23,507,990	\$ 1,602,546	\$ 4,797,161	\$ 776,890,732

Condensed Statement of Cash Flows June 30, 2017

	UNCG	UNCG Excellence Foundation	Human Environmental Sciences Foundation	Capital Facilities Foundation	Eliminations	Total
Net Cash Used by Operating Activities	\$ (190,325,157)	\$ (265,717)	\$ (1,450)	\$ (909,004)	\$ 0	\$ (191,501,328)
Net Cash Provided (Used) by Noncapital Financing Activities	242,841,178	391,822	(161,710)		(4,673,414)	238,397,876
Net Cash Provided (Used) by Capital and Related Financing Activities	(43,820,127)			9,275,486		(34,544,641)
Net Cash Provided (Used) by Investing Activities	(6,659,242)	(341,996)	166,246			(6,834,992)
Net Increase (Decrease) in Cash and Cash Equivalents	2,036,652	(215,891)	3,086	8,366,482	(4,673,414)	5,516,915
Cash and Cash Equivalents, July 1, 2016	140,582,727	1,953,677	59,912	2,343,076		144,939,392
Cash and Cash Equivalents, June 30, 2017	\$ 142,619,379	\$ 1,737,786	\$ 62,998	\$ 10,709,558	\$ (4,673,414)	\$ 150,456,307

The University of North Carolina at Greensboro Investment Fund, Inc. (the Fund) was formed to consolidate the endowment pool investments of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, The UNCG Excellence Foundation, Inc., and The Endowment Fund of The University of North Carolina at Greensboro. Subsequently, The Alumni Association of The University of North Carolina at Greensboro and The Associated Campus Ministries of The University of North Carolina at Greensboro joined the Fund as external participants. The Fund is the fiscal agent for the pool, and all units of the pool are owned by The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, The UNCG Excellence Foundation, Inc., The Endowment Fund of The University of North Carolina at Greensboro, The Alumni Association of The University of North Carolina at Greensboro, and The Associated Campus Ministries of The University of North Carolina at Greensboro (the Participants). Since the balances of the Participants are blended with the University for financial reporting and are included in the condensed combining information shown in the above tables, the entire activity for The University of North Carolina at Greensboro Investment Fund, Inc. is not shown.

NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

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

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

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

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

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

GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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