

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

CHARLOTTE, NORTH CAROLINA

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

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



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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, The University of North Carolina at Charlotte

We have completed a financial statement audit of The University of North Carolina at Charlotte for the year ended June 30, 2015, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Charlotte, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., which represent 4.60 percent, 6.33 percent, and 0.83 percent, respectively, of the assets, net position, and revenues of the University; nor the financial statements of The University of North Carolina at Charlotte Facilities Development Corporation, Inc., which represent 1.05 percent, 0.32 percent, and 0.22 percent, respectively, of the assets, net position, and revenues of the University. In addition, we did not audit the financial statements of The Foundation of The University of North Carolina at Charlotte, Inc., the University's discretely presented component unit. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance

about whether the financial statements are free from material misstatement. The financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and The Foundation of The University of North Carolina at Charlotte, Inc., were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Charlotte, and its discretely presented component unit, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, during the year ended June 30, 2015, The University of North Carolina at Charlotte adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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

information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2015 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 4, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The University of North Carolina at Charlotte (UNC Charlotte or University) provides the following discussion and analysis as an overview of the University's financial position and activities for the year ended June 30, 2015, and to provide assistance in understanding the accompanying financial statements and notes. Comparative information for the year ended June 30, 2014 is included, emphasizing current year data and material changes between the two fiscal years, as well as information on currently known facts, decisions, and conditions affecting the financial affairs of the University.

Using the Financial Statements

The University's financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting 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.

UNC Charlotte 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*. Note that while the Foundation of the University of North Carolina at Charlotte, Inc. ("Foundation") is reported as a discretely presented component unit of the University due to the nature and significance of its relationship to the University, this discussion and analysis excludes it except where specifically noted.

The University's financial report includes three UNC Charlotte financial statements to evaluate financial position as of June 30th and the results of operations for the fiscal year then ended:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows (identifies sources and uses of cash during the fiscal year)

It also includes two financial statements from the University's Foundation:

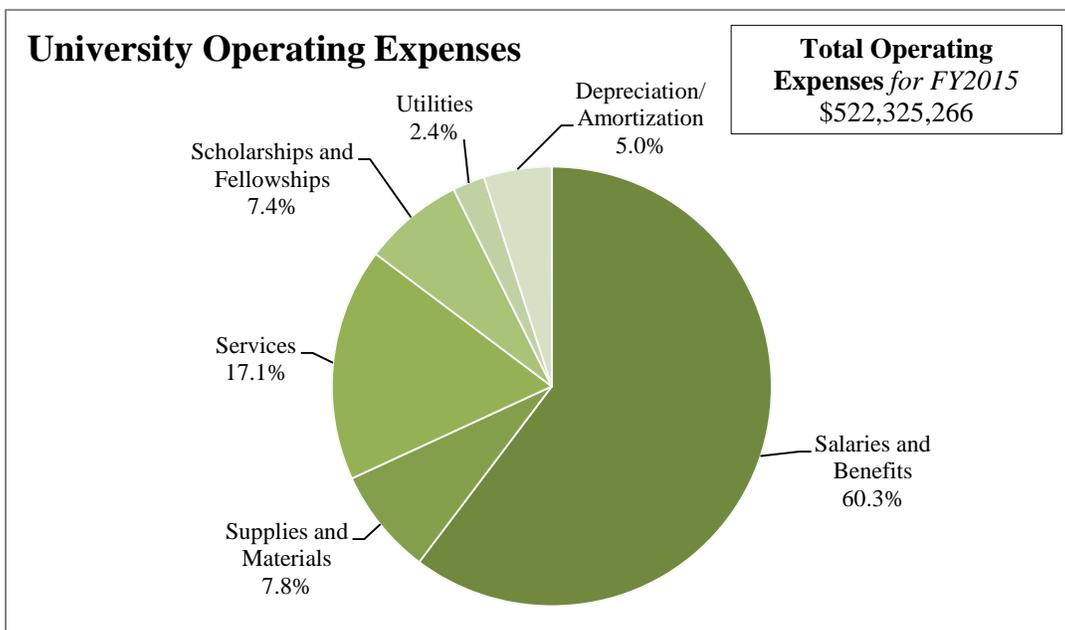
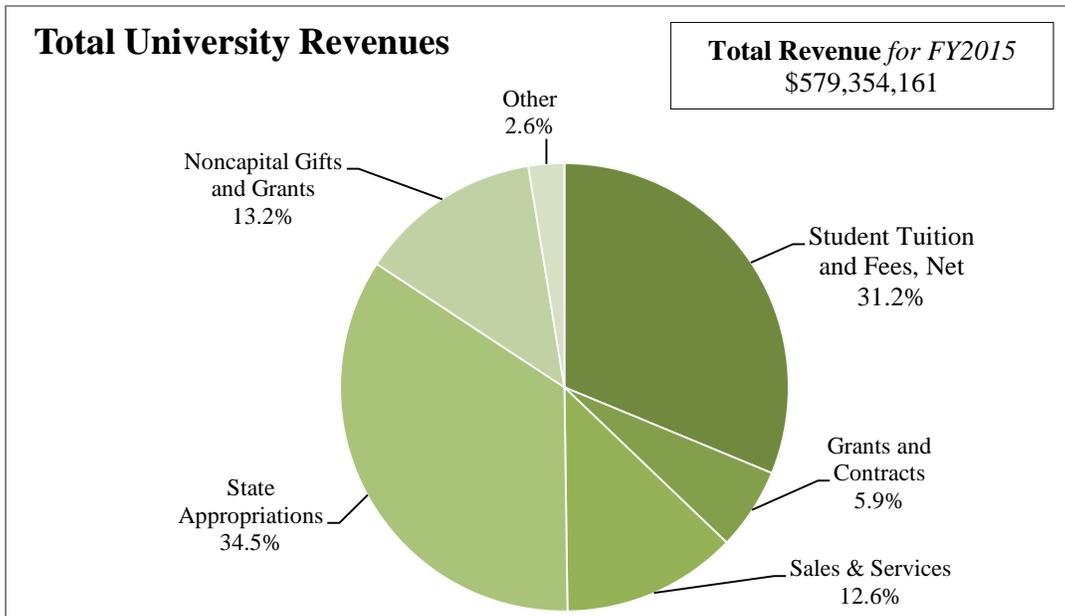
- Statement of Financial Position
- Statement of Activities

Management's discussion and analysis will concentrate on the University's Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

The accompanying Notes to the Financial Statements should be read in conjunction with the financial statements to ascertain a full understanding of the data presented in this report. These disclosures provide information to better understand details, risk, and underlying assumptions associated with amounts reported in the financial statements.

Financial Highlights

The University's total assets increased by 6.6%, or almost \$100 million, this fiscal year to \$1.6 billion at June 30, 2015. Net position increased by \$39 million during the year, to \$964.6 million, reflecting continued growth and overall financial strength. The change in net position is a key measure of the sum effect of the University's fiscal year activities on its financial health. More than a half-billion dollars were spent to operate the University this year (\$522.3 million), and revenues of \$579.4 million were recognized. Revenues and operating expenses as percentages of totals are shown below.

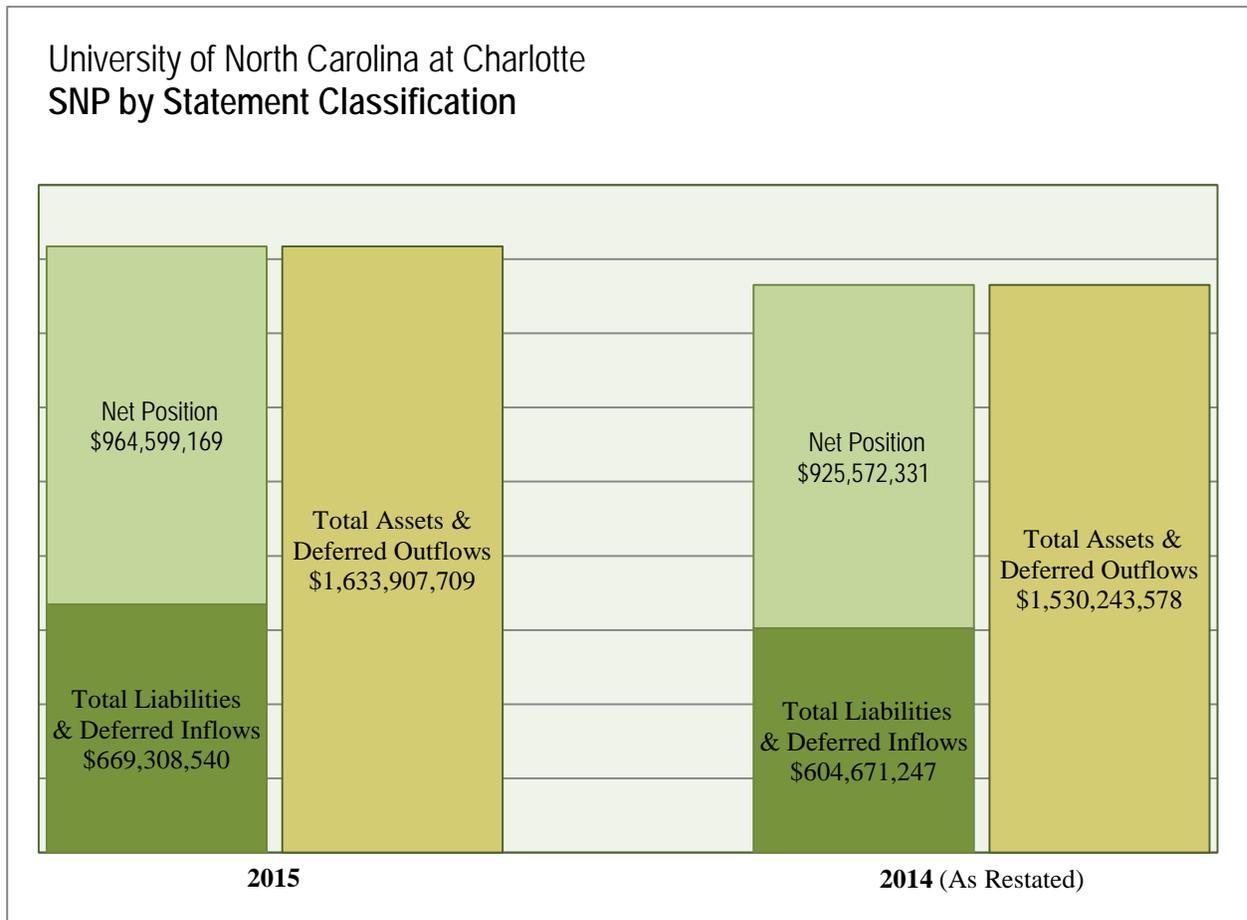


Comparative Condensed Financial Statement Information

Statement of Net Position

The Statement of Net Position (SNP) summarizes the financial position of the University by presenting its assets, deferred outflows, liabilities, deferred inflows, and net position as of the end of the fiscal year. The SNP is a point-in-time financial statement and presents a fiscal snapshot of the University.

The following graph presents a comparison of net position and the categories that comprise net position at June 30, 2015, and June 30, 2014:



The SNP presents a summary of all assets available to continue the operations of the University. The statement also presents a summary of all liabilities, or amounts owed to vendors, investors, and lending institutions. Deferred outflows and inflows of resources represent the consumption or acquisition of net assets, respectively, that are applicable to future periods but do not meet the definition of assets or liabilities. Finally, the SNP provides a picture of the net position, which represents the residual interest in the University's assets and deferred outflows of resources, net of its liabilities and deferred inflows of resources.

The following table summarizes and compares condensed balances as reported on the University's SNP as of June 30, 2015, and June 30, 2014.

Condensed Statement of Net Position	2015	2014 (As Restated)	Increase/(Decrease)	
			Amount	Percent
Assets:				
Current Assets	\$ 253,619,584	\$ 244,882,780	\$ 8,736,804	3.6%
Noncurrent Assets:				
Endowment and Other Investments	88,274,447	83,925,475	4,348,972	5.2%
Capital Assets, Net	1,179,544,135	1,094,621,704	84,922,431	7.8%
Other Noncurrent Assets	98,188,917	96,340,807	1,848,110	1.9%
Total Assets	1,619,627,083	1,519,770,766	99,856,317	6.6%
Deferred Outflows of Resources:				
Deferred Loss on Refunding	4,129,964	2,102,121	2,027,843	96.5%
Deferred Outflows Related to Pensions	10,150,662	8,370,691	1,779,971	21.3%
Total Deferred Outflows of Resources	14,280,626	10,472,812	3,807,814	36.4%
Liabilities:				
Current Liabilities	40,530,780	41,008,605	(477,825)	(1.2%)
Noncurrent Liabilities:				
Funds Held in Trust	13,375,793	12,543,793	832,000	6.6%
Long-Term Liabilities	573,828,313	538,416,743	35,411,570	6.6%
Other Noncurrent Liabilities	12,828,482	12,702,106	126,376	1.0%
Total Liabilities	640,563,368	604,671,247	35,892,121	5.9%
Deferred Inflows of Resources:				
Deferred Gain on Refunding	31,675		31,675	
Deferred Inflows Related To Pensions	28,713,497		28,713,497	
Total Deferred Inflows of Resources	28,745,172		28,745,172	
Net Position:				
Net Investment in Capital Assets	715,223,176	692,328,641	22,894,535	3.3%
Restricted:				
Nonexpendable	41,839,893	40,537,091	1,302,802	3.2%
Expendable	46,295,365	43,232,066	3,063,299	7.1%
Unrestricted	161,240,735	149,474,533	11,766,202	7.9%
Total Net Position	\$ 964,599,169	\$ 925,572,331	\$ 39,026,838	4.2%

Net position increased to almost \$1 billion as of June 30, 2015, reflecting continued growth of the University. Other highlights of the information presented on the SNP:

- Current assets are those that are available to pay for current liabilities or current year expenditures. Current assets increased by \$8.7 million in fiscal year 2015, primarily due to an \$11 million increase in current cash and cash equivalents (unrestricted and restricted) for future projects, mainly those capital in nature. This was offset by a decrease in receivables of \$2.5 million related to federal financial aid drawdowns at year end.
- Total noncurrent assets increased by \$91.1 million, or 7.2%, during the fiscal year, primarily due to an increase in net capital assets of \$84.9 million (discussed in detail in the Capital Assets and Debt Administration section). Total endowment and other

investments increased by \$4.3 million, mainly due to endowed professorship gifts totaling \$1.5 million and a return on pooled investments of 7.4%.

- Total deferred outflows of resources increased by \$3.8 million during the fiscal year. Approximately \$2.0 million of the increase is attributable to bond refunding activity. The \$4.1 million deferred loss on refunding balance at year end represents the difference between the net carrying amount of refunded debt less the cost of acquiring new debt to liquidate the refunded debt, net of annual amortization. The remaining \$1.8 million of the increase relates to the increase in UNC Charlotte's participation base in the Teachers' and State Employees' Retirement System (TSERS), which increases deferred outflows related to pensions.
- Total liabilities increased by \$35.9 million, or 5.9%, to \$640.6 million at June 30, 2015. Current liabilities, those that are due and payable in the next fiscal year, decreased slightly, while noncurrent liabilities increased by \$36.4 million. Within the current liabilities category, accounts payable for construction projects decreased by about \$2.3 million while unearned revenue, interest payable, and the current portions of long-term liabilities increased. The increase in noncurrent liabilities was mainly due to \$72 million in new debt issuances, net of debt refunded, and offset by \$13.6 million in bond principal payments made throughout the year. In addition, the University recognized a \$2.7 million note payable related to its participation in the UNC System Lighting Contract energy savings project. See the Capital Assets and Debt Administration section for more details. The University's total compensated absences liability increased by almost \$1 million due to overall salary increases and 40 hours of additional bonus leave given to employees in fiscal year 2015 that can be carried over indefinitely. Finally, the newly recognized pension liability related to GASB Statement No. 68 resulted in a restated long-term pension liability for June 30, 2014 of \$40.1 million, which decreased to \$7.95 million as of June 30, 2015, due mainly to better actual earnings on plan investments. This decrease in the pension liability is recognized as deferred inflows related to pensions on the SNP and will be amortized as a reduction of pension expense over the next four fiscal years.
- Net Position is divided into three major categories, all in which the University saw gains this fiscal year:
 - Net Investment in Capital Assets: Represents the University's net equity in material property, plant, and equipment owned by the University. Most of the University's dollar-value growth in net position is due to growth of \$22.9 million in this category to \$715.2 million at year end. Please reference the Capital Assets and Debt Administration section for further details.
 - Restricted Net Position
 - Nonexpendable: The corpus of nonexpendable restricted resources (e.g., endowments) that is available for investment purposes. The University's nonexpendable net position increased by \$1.3 million, mainly due to \$1.5 million in new professorship gifts.
 - Expendable: Restricted resources that must be spent for purposes as determined by donors and external entities that have placed time or purpose restrictions on the use of the assets. The University's expendable restricted net position increased by \$3.1 million, mainly due to investment returns.
 - Unrestricted Net Position: Represents net equity available for any lawful purpose of the University. The University's unrestricted net position increased by \$11.8 million,

or 7.9%, the largest percentage increase of the three net position classifications. The increase mainly relates to increased savings of institutional trust funds reserved for future projects. This increase is separate from any prior period adjustments related to GASB Statement No. 68.

- The University's liquidity remains strong with a current ratio of 6.26. This current ratio, defined as current assets divided by current liabilities, indicates that the University, if needed, could satisfy payment of its current liabilities more than six times before current assets were exhausted. Total working capital, defined as current assets less current liabilities, of \$213.1 million at June 30, 2015, increased by \$9.2 million, or 4.5%, from the prior year, due to the increase in current assets and decrease in current liabilities discussed above.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position, as presented in the SNP, are based on activity presented in the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). The purpose of the SRECNP is to present revenues and expenses earned and incurred, respectively, by the University.

GASB accounting principles determine the categorization of revenues and expenses as either operating or nonoperating activities. Because GASB Statement No. 34 requires that revenues from state appropriations, Pell grants, and gifts be considered nonoperating while the expenses funded from these revenues are categorized as operating, the University will nearly always demonstrate an operating loss on its SRECNP.

Other revenues, expenses, gains, and losses recognized by the University, as applicable, and not classified as operating or nonoperating, are presented separately on the statement below the Income Before Other Revenues line.

The following table summarizes and compares the University's results of operations for the fiscal years ended June 30, 2015, and June 30, 2014. Note that the prior period SRECNP is not restated for pension expense due to the fact that the total restatement of \$31.8 million relates to both fiscal year 2014 and prior fiscal years, of which the break out was not calculated due to complexity of the elements of the total expense and liability.

Condensed Statement of Revenues, Expenses, and Changes in Net Position	2015	2014	Increase/(Decrease)	
			Amount	Percent
Operating Revenues:				
Student Tuition and Fees, Net	\$ 181,029,353	\$ 167,870,221	\$ 13,159,132	7.8%
Grants and Contracts	34,268,008	31,750,638	2,517,370	7.9%
Sales and Services, Net	73,080,843	65,909,024	7,171,819	10.9%
Other	3,911,966	4,113,357	(201,391)	(4.9%)
Total Operating Revenues	292,290,170	269,643,240	22,646,930	8.4%
Operating Expenses:				
Salaries and Benefits	314,898,563	303,264,946	11,633,617	3.8%
Supplies and Materials	40,924,904	45,418,344	(4,493,440)	(9.9%)
Services	89,576,506	86,956,541	2,619,965	3.0%
Scholarships and Fellowships	38,521,024	35,229,300	3,291,724	9.3%
Utilities	12,375,750	12,614,725	(238,975)	(1.9%)
Depreciation/Amortization	26,028,519	24,731,108	1,297,411	5.2%
Operating Expenses	522,325,266	508,214,964	14,110,302	2.8%
Operating Loss	(230,035,096)	(238,571,724)	8,536,628	(3.6%)
Nonoperating Revenues / (Expenses):				
State Appropriations	199,788,951	193,145,489	6,643,462	3.4%
Noncapital Gifts and Grants	76,297,167	73,308,222	2,988,945	4.1%
Investment Income, Net	6,099,085	8,882,478	(2,783,393)	(31.3%)
Interest and Fees on Debt	(16,952,908)	(15,289,837)	(1,663,071)	10.9%
Other	869,648	(1,989,565)	2,859,213	(143.7%)
Total Nonoperating Revenues	266,101,943	258,056,787	8,045,156	3.1%
Income Before Other Revenues	36,066,847	19,485,063	16,581,784	85.1%
Capital Appropriations, Gifts, and Grants	1,380,900	6,171,464	(4,790,564)	(77.6%)
Additions to Endowment	1,579,091	1,847,580	(268,489)	(14.5%)
Increase in Net Position	39,026,838	27,504,107	11,522,731	41.9%
Net Position, Beginning of Year	957,337,147	929,833,040		
Restatement for GASB 68	(31,764,816)			
Net Position, End of Year	\$ 964,599,169	\$ 957,337,147	\$ 7,262,022	0.8%

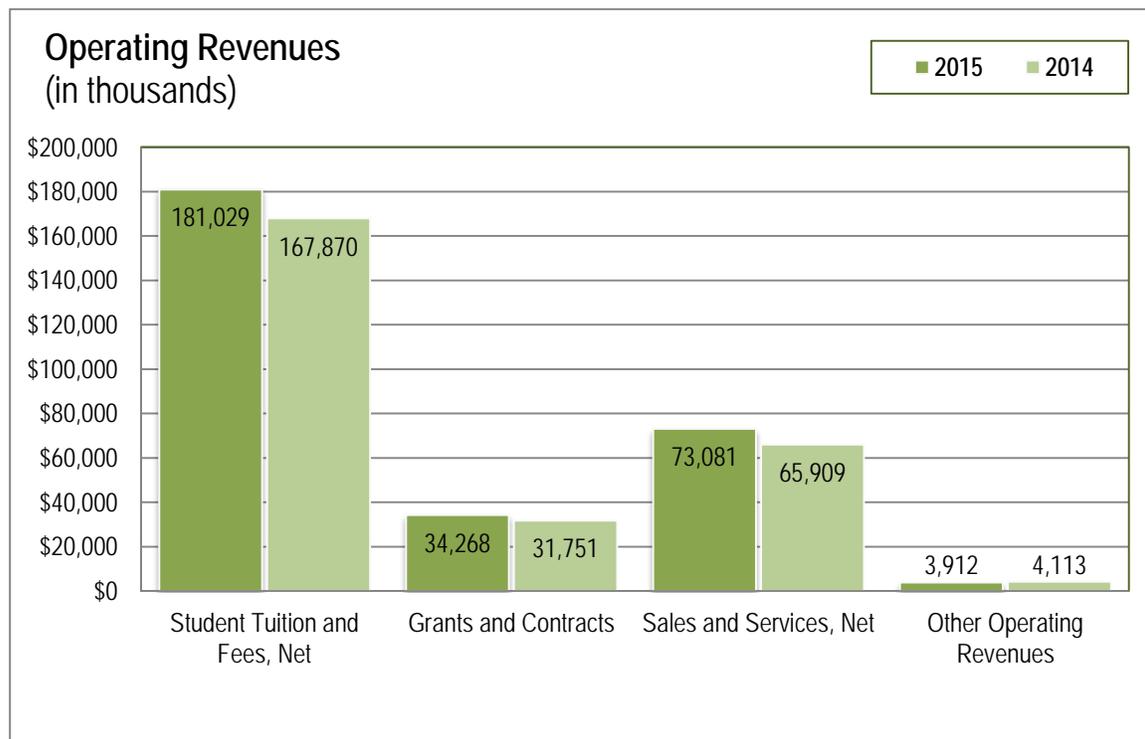
Fiscal year 2014-15 total revenues are \$579,354,161 and total expenses are \$540,327,323

Fiscal year 2013-14 total revenues are \$554,922,242 and total expenses are \$527,418,135

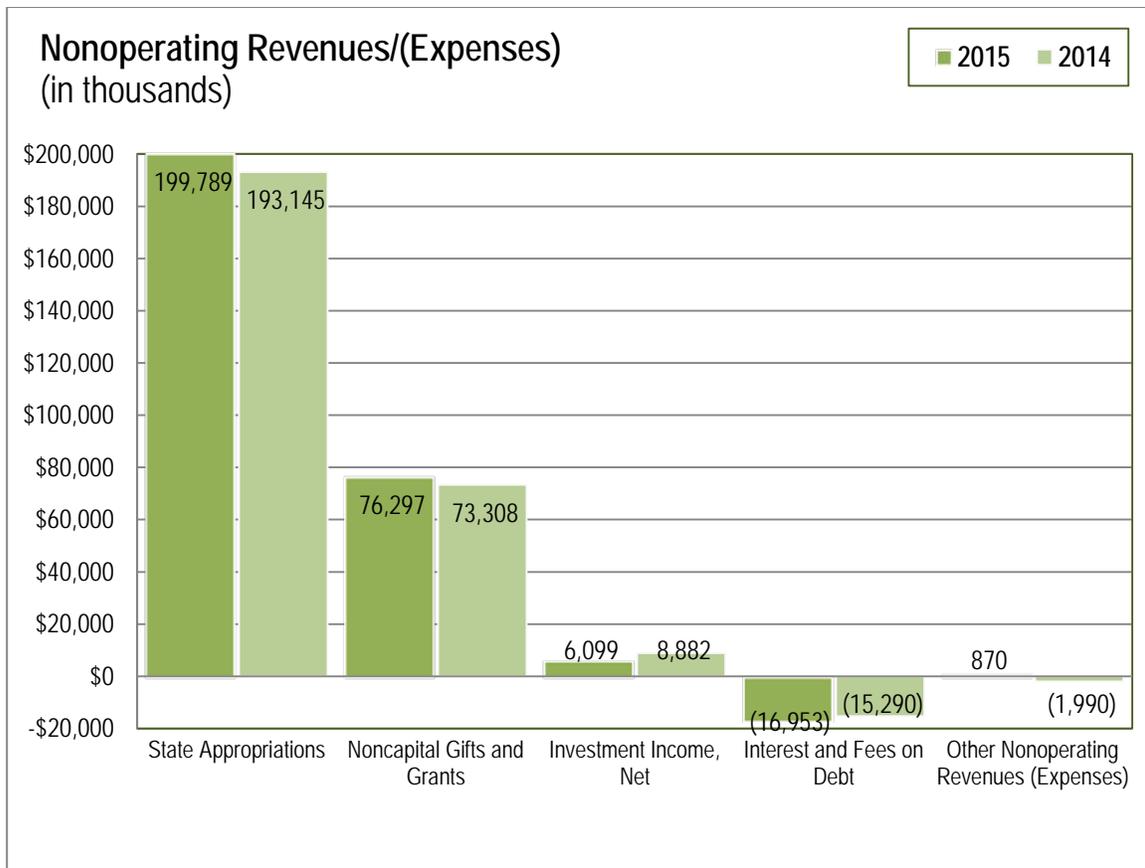
As noted earlier, the change in net position is a key measure of the sum effect of the University's fiscal year activities on its financial health. The overall increase in net position of \$39 million is composed of the following highlighted changes:

- Operating revenues are generated by providing goods and services to the various customers and constituencies of the University. Total operating revenues increased by \$22.6 million, or 8.4%, as compared to the prior fiscal year. Several key financial measures factor into this increase. Student tuition and fees increased by \$13.2 million, or 7.8%, as a result of increases in the undergraduate nonresident tuition rate and several official fee rates, and an approximately 1,700 increase in student full-time equivalents enrolled. Sales and services revenue increased by \$7.2 million, or 10.9%,

attributable mainly to a \$2.7 million net increase in contract revenues from Barnes & Noble and Chartwells (the University's bookstore and dining services providers, respectively), partially for capital investment, a \$3.1 million increase in housing revenues due to increases in some rental rates, and a \$1.4 million increase in athletics revenues from Conference USA. Grant and contract revenue also increased by \$2.5 million, or 7.9%, due to an increase in federal, state, and private awards, including \$562 thousand received from the North Carolina Department of Health and Human Services and \$547 thousand received from the U.S. Department of Education.



- Nonoperating revenues are those received for which goods and services are not provided. Certain significant recurring sources of the University's revenues, including state appropriations, are classified as nonoperating because they are provided to the University without the provider directly receiving commensurate goods and services for those revenues. The University's net nonoperating revenues were \$266.1 million in fiscal year 2015, an \$8.0 million increase compared to the prior year. Appropriations from the state increased by \$6.6 million. The State imposed a permanent budget reduction of \$1.9 million but did allocate state appropriations for enrollment growth and salary increases of \$4.9 million and \$1.8 million, respectively. Noncapital gifts and grants increased by \$3.0 million, mainly as a result of a \$2.1 million increase in federal Pell grants awarded to our students and \$1.0 million more in state grants awarded. Other net nonoperating revenues increased by \$2.9 million, largely due to a loss of \$3.6 million recognized in fiscal year 2014 for the disposal of two residence halls. These increases were offset by a decrease in net investment income of \$2.8 million, primarily the result of a decrease in the return on pooled investments from 15.5% to 7.4% in fiscal year 2015, and an increase in interest and fees on debt of \$1.7 million related to new debt issuances.



- Operating expenses are those incurred to acquire or produce the goods and services provided to fulfill the mission of the University. Total operating expenses increased by \$14.1 million, or 2.8%, from the prior year.
- The increase in operating expenses is largely attributable to a \$12.3 million, or 5.1%, increase in salary expense due to a \$1,000 state-budgeted increase for all permanent employees, salary adjustments for approximately 20% of employees subject to the State Human Resources Act (SHRA) related to changes in job duties and market rates, strategic University-level salary adjustments for some permanent employees exempt from the State Human Resources Act (EHRA), and an increase in graduate assistantships awarded, both in teaching and research, partly from graduate tuition increment fees available as a new or growing departmental funding source. Benefits expenses decreased slightly. A \$4.6 million decrease in recognized retirement contribution expenses as a result of the way pension expense is now recorded under GASB Statement No. 68 was offset by a \$3.9 million increase in other benefits expenses mainly related to the overall increase in salaries, slight increases in state benefit rates for retirement and medical insurance, and an increase in expense related to compensated absences.
- Supplies and materials purchased decreased by \$4.5 million; a \$2.0 million gift-in-kind of software was received in fiscal year 2014 and was not matched in 2015. In addition, more payments related to internal construction projects were identified as services expenses in the current year, as opposed to supplies and materials in the prior year, creating a \$2.9 million swing between the two categories. Scholarship and fellowship expenses

increased by \$3.3 million, or 9.3%, reflecting increases in state and federal grants awarded and recognized as scholarship expense. Depreciation and amortization expense also increased by \$1.3 million due to the increase in depreciable and amortizable capital assets.

- For an explanation of the decrease in capital appropriation, gifts, and grants, see the Capital Asset and Debt Administration section below.

Capital Assets and Debt Administration

The University remains committed to providing quality education, research, residential life, and other services to the community as student enrollment increases, technology advances, and community needs evolve. A critical factor in meeting these commitments is the University's ability to strategically expand and improve its capital assets.

Total capital assets, by major classification and net of accumulated depreciation, are presented below for the fiscal years ended June 30, 2015, and June 30, 2014. Information regarding changes in capital assets is also disclosed in Note 5.

Capital Assets, Net of Accumulated Depreciation	2015	2014	Increase/(Decrease)	
			Amount	Percent
Land and Land Improvements	\$ 11,088,214	\$ 7,452,329	\$ 3,635,885	48.8%
Rare Book, Manuscript, Art and Artifact Collections	31,602,839	30,458,181	1,144,658	3.8%
Construction in Progress	85,982,105	78,254,915	7,727,190	9.9%
Buildings	806,224,680	739,519,001	66,705,679	9.0%
Machinery and Equipment	50,936,551	49,186,079	1,750,472	3.6%
General Infrastructure	187,322,709	182,919,714	4,402,995	2.4%
Computer Software	6,387,037	6,831,485	(444,448)	(6.5%)
Total Capital Assets, Net	\$ 1,179,544,135	\$ 1,094,621,704	\$ 84,922,431	7.8%

Total construction in progress at the end of the year was \$86 million, a \$7.7 million increase from the prior year due to the construction of major building and infrastructure projects, including Phase XIII and XIV residence hall projects, renovation projects for Holshouser Hall, Oak Hall, and Belk Gym, infrastructure projects for Phillips Road and other campus roads, and the UNC System Lighting Contract energy savings project. These additions to construction in progress were offset by the completion of multiple projects, including the two major projects for the South Village Dining Hall and Phase XII residence hall.

The South Village Dining Hall building, also known as South Village Crossing, was completed in November 2014 at a total cost of \$33 million, and serves as the newest dining facility for the campus community. The facility provides over 50,000 square feet of dining and gathering space, and includes features such as an expansive dining hall where all food production is visible and meals are customizable, a take-out counter and market, a seasonal dining porch and outdoor terraces, lounge areas, and a large multi-purpose room with instructional AV technology.

The Phase XII residence hall project, also known as Martin Hall, was completed in August 2014 at a total cost of \$38.3 million and is located in the East Village section of campus. The building, which accommodates more than 400 students, features two

residential wings connected by an expansive two-story lobby, and offers apartment-style units with four single bedrooms available in a variety of configurations.

The University continues to demonstrate commitment to the construction of green buildings that improve the efficiency of operations, protect the environment, reduce operating costs, and transform the living and learning experience for our students. The recently-completed South Village Dining Hall and Phase XII residence hall projects were both awarded with a rating of three Green Globes® from the Green Building Initiative, and the Phase XIV residence hall is being built using LEED elements to be environmentally friendly and energy efficient. In addition, the University has devoted more than \$11 million to energy savings projects since fiscal year 2014.

The University also had \$67.0 million in outstanding commitments on construction contracts for capital expenditures at June 30, 2015. The bulk of these commitments relate to the following construction projects: Phase XIV Residence Hall (\$38.2 million), Phase XIII Residence Hall (\$6.8 million), Belk Gym Renovations (\$5 million), Holshouser Renovations (\$4.3 million), Phillips Road and Campus Wide Roads (\$3.5 million), and Oak Hall Renovations (\$2.3 million).

No capital appropriations were received in fiscal year 2015, down from \$4.1 million received in fiscal year 2014 for approved repair and renovation projects. Capital grants provided by the State decreased \$0.2 million to \$0.3 million as a result of the completion of capital projects funded by these grants. Capital gifts of equipment, sculptures, art, rare books, and manuscript collections of approximately \$1.0 million were made to the University during the fiscal year.

The University's long-term debt is primarily issued for specific capital needs with a designated revenue stream. In 2015, the University issued \$116.15 million of tax-exempt General Revenue Bonds, Series 2015. Approximately \$39 million from the Series 2015 bonds will finance the construction and equipping of the Phase XIV residence hall, and \$32.1 million will be used for campus infrastructure improvements needed to support enrollment growth, student success and retention, and research functions at the University. The improvements include renovations of aging infrastructure in the University's chemistry and physics building, modernization of infrastructure in several aging buildings in the core of the University campus, continued improvement to the information technology network capacity, and infrastructure additions in the East Student Village section of campus.

A total of \$45 million of the Series 2015 bond issue was used to refund in advance a portion of outstanding General Revenue Bonds, Series 2006-A and 2007-B. In addition, the University of North Carolina Facilities Development Corporation, Inc., a blended component unit of the University, issued \$13.7 million of taxable limited obligation bonds to refinance all outstanding tax-exempt Certificates of Participation, Series 2005. The economic gain of these refinancing transactions totaled \$3.8 million.

In February 2015, on its issuance of Series 2015 General Revenue Bonds, the University received an affirmed credit rating of 'Aa3' with a stable outlook from Moody's Investors Service and a revised rating with Standard & Poor's of 'A+' from 'AA-'. Moody's determined its rating based on UNC Charlotte's growing enrollment, steady demand, healthy operations, above-average operating and capital support from Aaa-rated State of North Carolina, and oversight by a strong management team. Standard & Poor's lowered its rating based on the University's increase in borrowing during the past few years, which has caused dilution in

financial resources as compared to debt. However, Standard & Poor's attested that it believes the University can comfortably absorb this debt and future debt plans and revised its outlook from negative to stable based on the strong enterprise profile of the University, including consistent state support, growing demand and enrollment trends, and consistently positive financial operations.

Economic Outlook

Management remains prudent, conservative, and strategic in managing institutional financial affairs to achieve the University's goals of providing educational services to the Charlotte region. Continued success will rely on enrollment demand and state support, as two of the most significant drivers of the University's revenue base, along with effective institutional planning. The overall outlook for the four-year U.S. Higher Education sector, per Moody's Investors Services, had been negative since January 2013 but was revised to stable in July 2015, citing growth in state funding and stabilizing operating revenue growth. UNC Charlotte continues to realize strong enrollment and overall growth with tuition and fee rates that remain in the bottom quartile of its public peers. The University also benefits from its membership in the University of North Carolina (UNC) system through economies of scale, and has a diverse tuition base to draw from.

The State of North Carolina's revenues grew by an estimated 6.1% in fiscal year 2015 over the prior year. The state's unemployment rate was 5.9% as of July 2015, which is slightly above the national average of 5.3%. North Carolina added 89,900 jobs in 2015, a 2.1% increase from the prior year, and the North Carolina's gross state product is expected to increase in 2015 by 3.0% over the 2014 level. North Carolina's Fiscal Research Division forecasts solid employment gains that will improve prospects for better income growth over the 2015-17 biennium.

North Carolina's 2015-16 Appropriation Bill increased the UNC System's appropriated funds by \$99.3 million and included a recurring management flexibility reduction of \$17.9 million that will be allocated to each university by the UNC Board of Governors. The Appropriation Bill also included recurring state operating funds of \$49.3 million for anticipated enrollment increases. UNC Charlotte continues to be the fastest growing school in the 17-campus UNC system, representing 46% of overall enrollment growth in the system from fall 2008 to 2014 based on student headcount. UNC Charlotte's enrollment grew to nearly 28,000 students for the fall 2015 semester, the highest enrollment in the University's history and an almost 35% increase over the past ten years. Admission applications for 2015 reached 23,700, a 13% increase from the previous year, and selectivity increased as well. Strong growth in student demand for higher education and for enrollment at UNC Charlotte is expected to continue. UNC Charlotte remains the only urban research university in the UNC system and has the highest transfer student population. UNC Charlotte is also the largest university in the continuously growing Charlotte region. A study commissioned by the UNC system on its economic impact found that UNC Charlotte contributed \$2.1 billion to the Charlotte region in terms of payroll, operation, construction, and start-up companies in fiscal year 2013. In February 2015, the Board of Governors approved a 3% tuition increase for UNC Charlotte, which will be applied fully to undergraduate resident and graduate rates (a small 0.63% increase will be applied to the undergraduate nonresident rate). The combination of a larger student population, incremental tuition increases, and enrollment growth funds will more than offset the state's management flexibility reduction. UNC Charlotte is mindful of controlling expenses and has one of the lowest state spending rates per full time equivalent student of the 17 UNC schools.

Finally, the University expects positive increases in research funding in the coming fiscal year. Total sponsored projects awarded during fiscal year 2015 were \$47.1 million, a \$10.9 million, or 30.2%, increase from fiscal year 2014. The office of Research and Economic Development will continue to strategically target research-rich fields, including advanced manufacturing, data science and business analytics, energy production and infrastructure, and cybersecurity. The majority of the University's research funding is from federal grants. This, in addition to our students' reliance on federally funded student grants and loans, causes the federal budget to remain a key consideration of our financial outlook. Focus on higher education has been elevated at the national level, specifically in terms of access, affordability, and student outcomes. While many proposals have been put forth in the public sphere, including federally subsidizing community college and student loan reform, it is not expected that substantive reform or changes will affect the University in 2016.

Management is fully committed to making sound fiscal decisions to withstand future economic uncertainties, and remains dedicated to UNC's mission to discover, create, transmit, and apply knowledge to address the needs of individuals and society.

Contacting the University's Financial Management

This financial report is designed to provide our citizens, investors, and creditors with a general overview of the University's finances and show accountability for all funds received. Additional financial information may be obtained by accessing the Financial Services webpage (finance.uncc.edu) or contacting the Controller (704-687-5759) or Associate Vice Chancellor for Finance (704-687-5813).



FINANCIAL STATEMENTS

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

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 201,320,278
Restricted Cash and Cash Equivalents	33,800,876
Receivables, Net (Note 4)	14,205,923
Inventories	318,661
Notes Receivable, Net (Note 4)	1,310,585
Prepaid Items	2,663,261
	<hr/>
Total Current Assets	253,619,584

Noncurrent Assets:

Restricted Cash and Cash Equivalents	93,231,085
Endowment Investments	70,475,470
Restricted Investments	17,761,005
Other Investments	37,972
Notes Receivable, Net (Note 4)	4,957,832
Capital Assets - Nondepreciable (Note 5)	128,673,158
Capital Assets - Depreciable, Net (Note 5)	1,050,870,977
	<hr/>
Total Noncurrent Assets	1,366,007,499
	<hr/>
Total Assets	1,619,627,083

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	4,129,964
Deferred Outflows Related to Pensions	10,150,662
	<hr/>
Total Deferred Outflows of Resources	14,280,626

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	7,120,907
Deposits Payable	1,465,821
Funds Held for Others	14,793
Unearned Revenue	8,251,904
Interest Payable	6,092,535
Long-Term Liabilities - Current Portion (Note 7)	17,584,820
	<hr/>
Total Current Liabilities	40,530,780

Noncurrent Liabilities:

Funds Held for Others	7,319,619
U. S. Government Grants Refundable	5,508,863
Funds Held in Trust for Pool Participants	13,375,793
Long-Term Liabilities, Net (Note 7)	573,828,313
	<hr/>
Total Noncurrent Liabilities	600,032,588
	<hr/>
Total Liabilities	640,563,368

DEFERRED INFLOWS OF RESOURCES

Deferred Gain on Refunding	31,675
Deferred Inflows Related to Pensions	28,713,497
	<hr/>
Total Deferred Inflows of Resources	28,745,172

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

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	715,223,176
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,163,361
Endowed Professorships	30,615,654
Departmental Uses	3,999,735
Loans	1,845,146
Other	215,997
Expendable:	
Scholarships and Fellowships	5,538,986
Research	4,206,562
Endowed Professorships	13,898,785
Departmental Uses	4,348,281
Capital Projects	17,745,568
Debt Service	23,470
Other	533,713
Unrestricted	<u>161,240,735</u>
Total Net Position	<u><u>\$ 964,599,169</u></u>

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

The University of North Carolina at Charlotte
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2015

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 181,029,353
Federal Grants and Contracts	26,577,802
State and Local Grants and Contracts	2,366,254
Nongovernmental Grants and Contracts	5,323,952
Sales and Services, Net (Note 9)	73,080,843
Interest Earnings on Loans	105,081
Other Operating Revenues	3,806,885

Total Operating Revenues	292,290,170
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EXPENSES

Operating Expenses:

Salaries and Benefits	314,898,563
Supplies and Materials	40,924,904
Services	89,576,506
Scholarships and Fellowships	38,521,024
Utilities	12,375,750
Depreciation/Amortization	26,028,519

Total Operating Expenses	522,325,266
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Operating Loss	(230,035,096)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	199,788,951
Noncapital Grants - Student Financial Aid	65,893,020
Noncapital Gifts	10,404,147
Investment Income (Net of Investment Expense of \$352,218)	6,099,085
Interest and Fees on Debt	(16,952,908)
Federal Interest Subsidy on Debt	1,918,797
Other Nonoperating Expenses	(1,049,149)

Net Nonoperating Revenues	266,101,943
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Income Before Other Revenues	36,066,847
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Capital Grants	348,804
Capital Gifts	1,032,096
Additions to Endowments	1,579,091

Increase in Net Position	39,026,838
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NET POSITION

Net Position - July 1, 2014, as Restated (Note 17)	925,572,331
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Net Position - June 30, 2015	\$ 964,599,169
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The accompanying notes to the financial statements are an integral part of this statement.

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

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 291,560,290
Payments to Employees and Fringe Benefits	(319,490,186)
Payments to Vendors and Suppliers	(142,198,004)
Payments for Scholarships and Fellowships	(38,521,024)
Loans Issued	(2,083,577)
Collection of Loans	953,118
Interest Earned on Loans	97,369
Student Deposits Received	909,300
Student Deposits Returned	(881,100)
Other Receipts	2,867,840
	<hr/>
Net Cash Used by Operating Activities	(206,785,974)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	199,788,951
Noncapital Grants - Student Financial Aid	65,939,829
Noncapital Gifts	10,404,147
Additions to Endowments	1,579,091
William D. Ford Direct Lending Receipts	132,891,975
William D. Ford Direct Lending Disbursements	(132,894,007)
Related Activity Agency Receipts	14,508,440
Related Activity Agency Disbursements	(14,557,789)
External Participation in Investment Fund Receipts	130,765
External Participation in Investment Fund Disbursements	(405,784)
Other Receipts	91,035
	<hr/>
Net Cash Provided by Noncapital Financing Activities	277,476,653

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt Refundings	61,811,599
Proceeds from Other Capital Debt	80,793,142
Capital Grants	348,804
Proceeds from Sale of Capital Assets	58,160
Acquisition and Construction of Capital Assets	(112,634,520)
Principal Paid on Refunded Capital Debt	(57,860,000)
Principal Paid on Other Capital Debt and Leases	(14,270,773)
Interest and Fees Paid on Capital Debt and Leases	(20,549,251)
Federal Interest Subsidy on Debt Received	1,918,797
Other Payments	(845,967)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(61,230,009)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	15,163,895
Investment Income	1,526,701
Purchase of Investments and Related Fees	(13,854,604)
	<hr/>
Net Cash Provided by Investing Activities	2,835,992
	<hr/>
Net Increase in Cash and Cash Equivalents	12,296,662
Cash and Cash Equivalents - July 1, 2014	316,055,577
	<hr/>
Cash and Cash Equivalents - June 30, 2015	\$ 328,352,239

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

Exhibit A-3

Page 2 of 2

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

Operating Loss	\$ (230,035,096)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	26,028,519
Allowances, Write-Offs, and Amortizations	2,055,360
Pension Expense	3,715,293
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	495,197
Inventories	(3,010)
Notes Receivable, Net	(964,583)
Prepaid Items	201,306
Accounts Payable and Accrued Liabilities	(749,432)
Unearned Revenue	514,371
Deferred Outflows for Contributions Subsequent to the Measurement Date	(8,967,204)
Compensated Absences	938,773
Workers' Compensation	(63,311)
Deposits Payable	47,843
	<u>47,843</u>
Net Cash Used by Operating Activities	<u>\$ (206,785,974)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 201,320,278
Restricted Cash and Cash Equivalents	33,800,876
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>93,231,085</u>
Total Cash and Cash Equivalents - June 30, 2015	<u>\$ 328,352,239</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 1,032,096
Change in Fair Value of Investments	5,749,658
Loss on Disposal of Capital Assets	(247,436)
Amortization of Bond Premiums/Discounts	(2,145,284)

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

The Foundation of the University of North Carolina at Charlotte, Inc.
Consolidated Statement of Financial Position
June 30, 2015

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	12,934,134
Accounts Receivable		55,835
Prepaid Expenses		13,537
Pledges Receivable, Net		17,653,071
Beneficial Interests in Lead Trusts		810,222
Investments		100,686,893
Assets Held Under Split-Interest Agreements		836,202
Cash Surrender Value of Life Insurance		881,750
Note Receivable		75,000
Property Held for Investment		8,445,913
		<hr/>
Total Assets	\$	<u>142,392,557</u>

LIABILITIES

Accounts Payable and Accrued Expenses	\$	24,179
Unearned Revenue		500,000
Liability Under Split-Interest Agreements		387,697
Funds Held for Others		46,487
Notes Payable		205,921
		<hr/>
Total Liabilities		<u>1,164,284</u>

NET ASSETS

Unrestricted	21,701,113
Temporarily Restricted	74,075,976
Permanently Restricted	45,451,184
	<hr/>
Total Net Assets	<u>141,228,273</u>
	<hr/>
Total Liabilities and Net Assets	<u>\$ 142,392,557</u>

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

The Foundation of the University of North Carolina at Charlotte, Inc.
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2015

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE, GAINS, AND OTHER SUPPORT:				
Public Contributions	\$ 585,816	\$ 10,658,842	\$ 1,093,012	\$ 12,337,670
Support from Affiliate	2,041,325	313,839		2,355,164
Interest and Dividend Income	47,243	151,512		198,755
Net Gain on Investments	2,535,376	5,231,624		7,767,000
Other Revenue and Support	<u>108,345</u>	<u>14,546</u>		<u>122,891</u>
	5,318,105	16,370,363	1,093,012	22,781,480
Net Assets Released from Restrictions	<u>9,337,843</u>	<u>(9,337,843)</u>		
Total Revenue, Gains and Other Support	<u>14,655,948</u>	<u>7,032,520</u>	<u>1,093,012</u>	<u>22,781,480</u>
EXPENSES:				
Program Services:				
Contributions to UNC Charlotte	9,751,827			9,751,827
Grants and Research	352,949			352,949
Other Program Services	<u>162,508</u>			<u>162,508</u>
Total Program Services	<u>10,267,284</u>			<u>10,267,284</u>
Support Services:				
Fundraising Support	857,229			857,229
Professional Fees	42,085			42,085
Investment Expenses	609,798			609,798
Interest Expense	103,611			103,611
Other General and Administrative	<u>1,282,964</u>			<u>1,282,964</u>
Total Support Services	<u>2,895,687</u>			<u>2,895,687</u>
Total Expenses	<u>13,162,971</u>			<u>13,162,971</u>
Change in Net Assets Before Transfers	1,492,977	7,032,520	1,093,012	9,618,509
Transfers Between Net Asset Classes	<u>(266,356)</u>	<u>221,061</u>	<u>45,295</u>	
Change in Net Assets	1,226,621	7,253,581	1,138,307	9,618,509
NET ASSETS:				
Beginning of Year	<u>20,474,492</u>	<u>66,822,395</u>	<u>44,312,877</u>	<u>131,609,764</u>
Ending of Year	<u>\$ 21,701,113</u>	<u>\$ 74,075,976</u>	<u>\$ 45,451,184</u>	<u>\$ 141,228,273</u>

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Charlotte (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 either blended or discretely presented in the University's financial statements. See below for further discussion of the University's component units.

Blended Component Units - Although legally separate, The University of North Carolina at Charlotte Facilities Development Corporation, Inc. (FDC) and the University of North Carolina at Charlotte Investment Fund, Inc. (Investment Fund), component units of the University, are reported as if they were part of the University.

The FDC is governed by a seven-member board consisting of three ex officio directors and four elected directors. The sole purpose is to assist the University in financing, constructing, and equipping a student housing project on campus. The University operates and manages the project under the terms of agreement between the University and the FDC. Because the elected directors of the FDC are appointed by the members of The University of North Carolina at Charlotte Board of Trustees and because the FDC's primary purpose is to benefit The University of North Carolina at Charlotte, its financial statements have been blended with those of the University.

The Investment Fund is governed by a board consisting of three ex officio directors and four elected directors. The Investment Fund's purpose is to support the University by operating an investment fund for nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Its participant investors include the University, the Foundation, and the Athletic Foundation (see Note 15). The Investment Fund is a governmental external investment pool. Because two of the seven directors of the

Investment Fund are administrators of the University and the elected directors are appointed by the member investors' Board of Trustees, and because the Investment Fund's primary purpose is to benefit The University of North Carolina at Charlotte, the University's and the Athletic Foundation's shares of the Investment Fund have been blended with the University's financial statements.

Separate financial statements for the FDC and the Investment Fund may be obtained from the University Controller's Office, at controller@uncc.edu, or by calling (704) 687-5759. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Condensed combining information regarding blended component units is provided in Note 16.

Discretely Presented Component Unit – The Foundation of the University of North Carolina at Charlotte, Inc. (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 44 officers and directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2015, the Foundation distributed \$9,751,827 to the University for both restricted and unrestricted purposes. The University provided professional services to the Foundation of \$2,355,164 for the year ended June 30, 2015. Complete financial statements for the Foundation can be obtained from the Controller's Office at controller@uncc.edu, or by calling (704) 687-5759.

- 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** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. The fair value for investments in the University of North Carolina at Charlotte Investment Fund, Inc. was based on amounts reported to the University by UNC Management Company, Inc. and Global Endowment Management. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Real estate not held by a governmental external investment pool and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, postage, fuel held for consumption, and other 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 fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of two or more years except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-75 years
Machinery & Equipment	5-20 years
General Infrastructure	10-75 years
Computer Software	10-20 years

The University's rare book, manuscript, art, and artifact collections are capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. **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, special indebtedness, net pension liability, notes payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Deferred charges on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are included as Deferred Outflows or Deferred Inflows of Resources on the Statement of Net Position. Issuance costs are expensed.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows and inflows 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. Net Position - The University's net position is classified as follows:

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

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

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

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

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

N. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the

University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the

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

At June 30, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$322,605,266 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2015 was \$53,465. The carrying amount of the University's deposits not with the State Treasurer was \$5,693,508 and the bank balance was \$6,333,562. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2015, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ 896,327
Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	<u>4,714,572</u>
Total	<u><u>\$ 5,610,899</u></u>

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. At June 30, 2015, \$32,572 of the total bank balance was denominated in Euros, and was therefore exposed to foreign currency risk.

B. Investments

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

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

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

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

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

Risk

The University directly owns investments (non-pooled investments) and participates in a long term external investment pool (pooled investments).

The pooled and non-pooled investments are subject to a variety of risks as described below.

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

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

Interest Rate and Credit Quality Risks are as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa
U.S. Agencies	\$ 449,502	\$ 0	\$ 449,502	\$ 0	\$ 0
Collateralized Mortgage Obligations	51,584		51,584		
Money Market Mutual Funds	10,011,633	10,011,633			
Domestic Corporate Bonds	1,089,484	52,104	590,687	403,921	42,772
Totals	<u>\$ 11,602,203</u>	<u>\$ 10,063,737</u>	<u>\$ 1,091,773</u>	<u>\$ 403,921</u>	<u>\$ 42,772</u>

Rating Agency: Moody's / Standard & Poor's

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 911,514	\$ 137,350	\$ 357,809	\$ 416,355	\$ 0
U.S. Agencies	449,502	115,431	282,897	51,174	
Collateralized Mortgage Obligations	51,584	86	3,807	3,163	44,528
Money Market Mutual Funds	10,011,633	10,011,633			
Domestic Corporate Bonds	1,089,484	81,800	580,378	427,306	
Total Debt Securities	<u>\$ 12,513,717</u>	<u>\$ 10,346,300</u>	<u>\$ 1,224,891</u>	<u>\$ 897,998</u>	<u>\$ 44,528</u>

The pooled investments are invested in an external investment pool managed by the Investment Fund which is not registered with the Securities and Exchange Commission. The external investment pool's internal participants include the University and the Foundation. The only external participant is the Athletic Foundation of the University of North Carolina at Charlotte, Inc. There are no involuntary participants in the external investment pool. Fund ownership is measured using the pro rata share method. Under this method, each participating fund's investment balance is determined based on its pro rata share of the fair market value of the investment pool at the beginning of each monthly period. The external participant's share of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The primary investment objective of the Investment Fund's external investment pool is to attain a minimum annualized real total return (net of management fees) of at least 5% over the long term. The Investment Fund's Board of Directors approves investment policies, objectives and the hiring of investment managers, consultants and advisors. The Investment Fund's Board of Directors monitors investment performance and implementation of investment policies and has chosen not to make

individual security selections. The management of individual securities is made by the two external investment firms and advisors chosen by the Investment Fund's Board of Directors for their individual strength in investment approach, methodology and research, correlation of strategies, quantitative stock selection models and distinct manager specialists as well as a risk controlled framework. This diversification provides reasonable assurance that no single security, class of securities or investment manager has a disproportionate impact on the results of the external investment pool.

The two external investment firms include a limited partnership interest, Global Endowment Fund II, LP, and another external investment pool, UNC Investment Fund, LLC. These two external investment firms invest in a variety of asset classes, including common stocks, fixed income, foreign investment, derivatives, private equity and hedge funds. These assets are subject to a variety of risks. Common stocks are subject to the risk the value may fall (market risk), while fixed income investments are subject to interest rate risk and credit risk. Foreign investments are subject to currency exchange rates (foreign exchange risk), political and economic developments, and limited legal recourse and market risks. Derivatives such as futures, options, warrants and swap contracts involve risks that may result in losses. The prices of derivatives may move in unexpected ways due to the use of leverage or other factors, especially in unusual market conditions and may result in increased volatility. Hedge funds are subject to the risks contained in the underlying investment and can limit liquidity.

The limited partnership investment (Global Endowment Fund II, LP) is subject to the terms and conditions of the limited partnership agreement. The agreement allows annual redemptions on December 31 of each year with 180 days advance notice. All redemptions are subject to the general partner's approval and can be limited or suspended. The sale of the Investment Fund's limited partnership interest to a third party is not permitted.

The investment in the UNC Investment Fund, LLC is subject to an operating agreement. Ownership in the UNC Investment Fund, LLC is based on the per unit market value method whereby the total market value of the underlying assets is divided by the number of units to determine the market value per unit. The number of units times the rate per unit determines the ownership in the UNC Investment Fund, LLC. The operating agreement permits monthly contributions and withdrawal. Monthly withdrawals are limited to the greater of: 10% of the market value of ownership, or \$2,000,000. Entire withdrawals are permitted and are paid over twelve calendar months.

A summary of investments is as follows:

	<u>Valuation</u>	<u>Total</u>
Non-pooled Investments		
Money Market Mutual Fund	Fair Value	\$ 4,439,316
U.S. Treasuries	Fair Value	911,514
U.S. Agencies	Fair Value	449,502
Collateralized Mortgage Obligations	Fair Value	51,584
Domestic Corporate Bonds	Fair Value	1,089,484
Domestic Stocks	Fair Value	1,938,798
Real Estate	Cost or Fair Value if Donated	4,942,073
Cash Surrender Value of Life Insurance		<u>37,972</u>
Total Non-pooled Investments		<u>13,860,243</u>
Pooled Investments		
Money Market Mutual Fund	Fair Value	5,572,317
UNC Investment Fund, LLC	Fair Value	78,688,640
Global Endowment Fund II, LP	Fair Value	<u>85,591,905</u>
Total Pooled Investments		169,852,862
Less Amounts Invested by the Foundation		<u>(95,438,658)</u>
Pooled Investments for the University		<u>74,414,204</u>
Total Investments		<u>\$ 88,274,447</u>

Separate financial statements for the Investment Fund external investment pool may be obtained from the University Controller's Office at controller@uncc.edu, or by calling (704) 687-5759.

Component Unit - Investments of the University's discretely presented component unit, The Foundation of the University of North Carolina at Charlotte, 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. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

<u>Investment Type</u>	<u>Carrying Value</u>
Money Market and Short-Term Investments	\$ 556,534
Fixed Income Mutual Funds	4,728,386
Equity Securities and Other Investments	799,517
UNCCIF External Investment Pool	<u>95,438,658</u>
Total Investments	<u>\$ 101,523,095</u>

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

Cash on Hand	\$	53,465
Amount of Deposits with Private Financial Institutions		5,693,508
Deposits in the Short-Term Investment Fund		322,605,266
External Investment Pool		74,414,204
Non-Pooled Investments		<u>13,860,243</u>
Total Deposits and Investments	\$	<u>416,626,686</u>
Deposits		
Current:		
Cash and Cash Equivalents	\$	201,320,278
Restricted Cash and Cash Equivalents		33,800,876
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>93,231,085</u>
Total Deposits		<u>328,352,239</u>
Investments		
Noncurrent:		
Endowment Investments		70,475,470
Restricted Investments		17,761,005
Other Investments		<u>37,972</u>
Total Investments		<u>88,274,447</u>
Total Deposits and Investments	\$	<u>416,626,686</u>

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are real property held for investment of \$4,942,073, pooled investments invested with UNCCIF of \$74,414,204 (includes \$13,375,793 of Athletic Foundation restricted investments), and investments held outside the pool of \$4,494,986. Non-real property investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy,

which limits spending to 80% of the prior year's spending adjusted for inflation, plus 20% of 4.5% of the average of the prior three years' market values as of December 31 each year. 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, 2015, accumulated income and appreciation of \$24,130,324 was available to be spent, of which \$16,397,389 was classified in net position as restricted expendable for scholarships and fellowships and endowed professorships as it is restricted for specific purposes. The remaining \$7,732,935 is classified as unrestricted net position.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 7,236,269	\$ 2,171,924	\$ 5,064,345
Accounts	3,992,679		3,992,679
Intergovernmental	4,355,550		4,355,550
Investment Earnings	21,183		21,183
Interest on Loans	149,547		149,547
Federal Interest Subsidy on Debt	489,812		489,812
Other	132,807		132,807
Total Current Receivables	\$ 16,377,847	\$ 2,171,924	\$ 14,205,923
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 1,306,953	\$ 26,451	\$ 1,280,502
Institutional Student Loan Programs	36,205	6,122	30,083
Total Notes Receivable - Current	\$ 1,343,158	\$ 32,573	\$ 1,310,585
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 4,851,317	\$ 210,095	\$ 4,641,222
Institutional Student Loan Programs	490,991	174,381	316,610
Total Notes Receivable - Noncurrent	\$ 5,342,308	\$ 384,476	\$ 4,957,832

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land and Land Improvements	\$ 7,452,329	\$ 3,635,885	\$ 0	\$ 11,088,214
Art, Literature, and Artifacts	30,458,181	1,144,658		31,602,839
Construction in Progress	78,254,915	100,091,907	92,364,717	85,982,105
Total Capital Assets, Nondepreciable	116,165,425	104,872,450	92,364,717	128,673,158
Capital Assets, Depreciable:				
Buildings	871,360,351	82,221,769		953,582,120
Machinery and Equipment	105,328,197	7,817,855	2,030,207	111,115,845
General Infrastructure	212,059,470	8,709,189		220,768,659
Computer Software	7,489,059			7,489,059
Total Capital Assets, Depreciable	1,196,237,077	98,748,813	2,030,207	1,292,955,683
Less Accumulated Depreciation/Amortization for:				
Buildings	131,841,350	15,516,090		147,357,440
Machinery and Equipment	56,142,118	5,761,787	1,724,611	60,179,294
General Infrastructure	29,139,756	4,306,194		33,445,950
Computer Software	657,574	444,448		1,102,022
Total Accumulated Depreciation/Amortization	217,780,798	26,028,519	1,724,611	242,084,706
Total Capital Assets, Depreciable, Net	978,456,279	72,720,294	305,596	1,050,870,977
Capital Assets, Net	\$ 1,094,621,704	\$ 177,592,744	\$ 92,670,313	\$ 1,179,544,135

During the year ended June 30, 2015, the University incurred \$21,777,652 in interest costs related to the acquisition and construction of capital assets. Of this total, \$16,952,908 was charged in interest expense, and \$4,824,744 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014. The value of the energy savings improvement assets associated with the agreement is \$2,613,190 and is subject to security provisions in the agreement to ensure timely debt service payments. The value of the energy savings improvement assets includes \$2,396,917 that has been completed as of June 30, 2015 and \$216,273 that is remaining to be completed by the energy savings company (ESCO) provider. Additional information regarding the UNC System Energy Savings Installment Financing Agreement can be found in Note 7.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 2,735,001
Accounts Payable - Construction	2,436,664
Accrued Payroll	946,803
Contract Retainage	997,996
Other	4,443
	<hr/>
Total Current Accounts Payable and Accrued Liabilities	\$ 7,120,907

NOTE 7 - LONG-TERM LIABILITIES

UNIVERSITY

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

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Revenue Bonds Payable	\$ 463,986,329	\$ 116,150,000	\$ 57,541,157	\$ 522,595,172	\$ 14,677,397
Special Indebtedness	13,920,000	13,730,000	13,920,000	13,730,000	555,000
Plus: Unamortized Premium	21,272,841	10,039,015	2,237,658	29,074,198	
Less: Unamortized Discount	(597,670)		(92,374)	(505,296)	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenue Bonds Payable and Special Indebtedness, Net	498,581,500	139,919,015	73,606,441	564,894,074	15,232,397
Net Pension Liability	40,135,507		32,185,437	7,950,070	
Notes Payable		2,685,726		2,685,726	84,639
Capital Leases Payable	726,447		669,616	56,831	56,831
Compensated Absences	14,887,659	13,491,524	12,552,751	15,826,432	2,210,953
Worker's Compensation Obligation	63,311		63,311		
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Long-Term Liabilities, Net	\$ 554,394,424	\$ 156,096,265	\$ 119,077,556	\$ 591,413,133	\$ 17,584,820

Additional information regarding capital lease obligations is included in Note 8.
Additional information regarding the net pension liability is included in Note 11.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015
Revenue Bonds Payable						
General Revenue Bonds Payable						
Parking Deck G	2006 A	4.00%-5.00%	2036	\$ 10,545,000	\$ 10,030,000	\$ 515,000
Student Union Taxable	2007-A	5.25%-5.68%	2023	18,140,000	7,630,000	10,510,000
Student Union Non-Taxable	2007-B	4.25%-5.00%	2037	36,260,000	36,260,000	
Parking Deck H BABs	2009-B	4.43%-6.25%	2039 *	16,280,000		16,280,000
Housing Phase 9 BABs	2009-B	4.43%-6.25%	2039 *	33,490,000		33,490,000
Parking Deck H-Tax Exempt	2009-A	3.00%	2017	2,720,000	1,770,000	950,000
Housing Phase 9-Tax Exempt	2009-A	3.00%	2017	5,610,000	3,665,000	1,945,000
Football Stadium BABs	2010	2.745%-6.52%	2040 *	40,895,000	3,885,000	37,010,000
Portal Building	2012-A	3.00%-5.00%	2041	2,615,000	110,000	2,505,000
South Village Dining	2012-A	3.00%-5.00%	2041	3,470,000	140,000	3,330,000
Regional Utility Plant	2012-A	3.00%-5.00%	2041	4,140,000	70,000	4,070,000
Refi-Sprinkler Loan	2012-A	3.00%-4.00%	2022	3,645,000	925,000	2,720,000
Parking Deck I	2012-A	3.00%-5.00%	2041	5,345,000		5,345,000
Parking Deck J	2012-A	3.00%-5.00%	2041	14,685,000	310,000	14,375,000
Residence Hall Phase 10	2012-A	3.00%-5.00%	2041	30,290,000	1,230,000	29,060,000
Residence Hall Phase 11	2012-A	3.00%-5.00%	2041	28,890,000	1,180,000	27,710,000
2012 Sprinkler Project	2012-A	3.00%-5.00%	2041	3,260,000	135,000	3,125,000
Final Refi of Phase 8 2002-A Bonds	2012-A	5.00%	2027	3,320,000	760,000	2,560,000
Portal Building-Taxable	2012-B	0.971%-4.55%	2041	25,575,000	1,210,000	24,365,000
South Village Dining-Taxable	2012-B	0.971%-4.451%	2041	8,655,000	410,000	8,245,000
Regional Utility Plant-Taxable	2012-B	0.971%-4.251%	2032	2,710,000	230,000	2,480,000
Residence Hall Phase 12	2013-A	3.00%-5.00%	2043	39,560,000	765,000	38,795,000
Refinancing of 2003-A Pooled Bonds	2013-A	4.125%-5.25%	2028	8,640,000	4,105,000	4,535,000
Campus Infrastructure	2013-B	0.526%-4.123%	2043	35,240,000	1,685,000	33,555,000
Refinancing 2004-A Parking Bonds	2013-B	3.75%-4.00%	2021	2,545,000	620,000	1,925,000
Energy Savings Bonds	2013	4.41%	2029	8,443,099	477,927	7,965,172
Residence Hall Phase 13	2014	3.00%-5.00%	2044	34,220,000		34,220,000
Oak Hall Renovations	2014	3.00%-5.00%	2044	8,765,000		8,765,000
Holshouser Hall Renovations	2014	3.00%-5.00%	2044	15,760,000		15,760,000
Residence Hall Phase 14	2015	3.00%-5.00%	2045	39,045,000		39,045,000
Campus Infrastructure Phase 2	2015	3.00%-5.00%	2045	32,075,000		32,075,000
Refi-2006 Parking Bonds	2015	3.00%-5.00%	2036	7,970,000		7,970,000
Refi-2007-B Student Union Bonds	2015	3.00%-5.00%	2037	37,060,000		37,060,000
Total General Revenue Bonds				569,863,099	77,602,927	492,260,172
The University of North Carolina System Pool Revenue Bonds						
Refinance Balance of SAC 1995 Bonds	2005 A	5.00%-5.25%	2021	11,855,000	3,670,000	8,185,000
2nd Partial Refund of Housing Phase 7	2009-B	3.75%-5.00%	2021	6,185,000	1,305,000	4,880,000
Final Refinance of Housing Phase 7	2010-B1	5.25%	2024	2,665,000		2,665,000
Partial Refund of Housing Phase 8	2010-B1	3.00%-5.25%	2025	13,770,000	2,650,000	11,120,000
Refund of Parking Series 2002 Bonds	2010-B1	3.00%-5.25%	2027	6,300,000	2,815,000	3,485,000
Total The University of North Carolina System Pool Revenue Bonds				40,775,000	10,440,000	30,335,000
Special Indebtedness						
Greek Village COPs	2005	4.00%-4.75%	2035	16,745,000	16,745,000	
Refi Greek Village COPs via LOBs	2015	0.962%-4.373%	2035	13,730,000		13,730,000
Total Special Indebtedness				30,475,000	16,745,000	13,730,000
Total Revenue Bonds Payable and Special Indebtedness (principal only)				\$ 641,113,099	\$ 104,787,927	536,325,172
Less: Unamortized Discount						(505,296)
Plus: Unamortized Premium						29,074,198
Total Revenue Bonds Payable and Special Indebtedness, Net						\$ 564,894,074

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

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

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Special Indebtedness		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 14,677,397	\$ 23,917,490	\$ 555,000	\$ 449,797	\$ 84,639	\$ 12,368
2017	15,226,912	23,389,644	525,000	485,349	343,759	45,555
2018	15,966,799	22,848,385	530,000	478,151	356,073	39,144
2019	16,566,801	22,184,029	540,000	468,362	370,945	32,483
2020	17,206,918	21,503,758	550,000	455,812	386,258	25,545
2021-2025	86,523,539	95,772,322	3,000,000	2,032,496	1,144,052	32,114
2026-2030	88,696,806	75,880,816	3,595,000	1,434,729		
2031-2035	103,715,000	54,348,410	4,435,000	598,664		
2036-2040	111,385,000	28,127,390				
2041-2045	52,630,000	5,914,792				
Total Requirements	\$ 522,595,172	\$ 373,887,036	\$ 13,730,000	\$ 6,403,360	\$ 2,685,726	\$ 187,209

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

On March 12, 2015, the University issued \$13,730,000 in Taxable Refunding Limited Obligation Bonds (The University of North Carolina at Charlotte Student Housing Project), Series 2015 refunding bonds with an average interest rate of 4.0426%. The bonds were issued for a current refunding of \$13,505,000 of outstanding Certificates of Participation (The University of North Carolina Student Housing Project), Series 2005 bonds with an average interest rate of 4.723%. The refunding was undertaken to reduce total debt service payments by \$1,023,047 over the next 20 years and resulted in an economic gain of \$707,181.

On March 11, 2015 the University issued \$7,970,000 in The University of North Carolina at Charlotte General Revenue Bonds, Series 2015 refunding bonds with an average interest rate of 4.135%. The bonds were issued to advance refund \$8,095,000 of outstanding The University of North Carolina at Charlotte General Revenue Bonds, Series 2006-A bonds with an average interest rate of 4.7016%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$667,028 over the next 21 years and resulted in an economic gain of \$559,589. At June 30, 2015, the outstanding balance was \$8,095,000 for the defeased The University of North Carolina at Charlotte General Revenue Bonds, Series 2006-A bonds.

On March 11, 2015, the University issued \$37,060,000 in The University of North Carolina at Charlotte General Revenue Bonds, Series 2015 refunding bonds with an average interest rate of 4.0611%. The bonds were issued to advance refund \$36,260,000 of outstanding The University of North Carolina at Charlotte General Revenue Bonds, Series 2007-B bonds with an average interest rate of 4.835%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$3,584,423 over the next 22 years and resulted in an economic gain of \$2,511,765. At June 30, 2015, the outstanding balance was \$36,260,000 for the defeased The University of North Carolina at Charlotte General Revenue Bonds, Series 2007-B bonds.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp	1.84%	02/14/2023	\$ 2,685,726	\$ 0	\$ 2,685,726

COMPONENT UNIT

As of June 30, 2015, the Foundation had an unsecured loan payable in the amount of \$205,921 for the purpose of constructing the Alumni Center Facility. The loan accrues interest at a fixed rate of 5.66% and shall be paid in consecutive principal and interest payments on a quarterly basis in the amount of \$72,665 through February 21, 2016. Such note is secured with a collateral account totaling \$475,056 at June 30, 2015. Under the terms of the loan, the Foundation is required to maintain \$7,500,000 in unrestricted net assets.

As of June 30, 2014, the Foundation has an unsecured term loan payable in the amount of \$2,500,000 to purchase land in Uptown Charlotte. The loan was an interest-only loan payable monthly at a fixed rate of 4.95%. The outstanding principal and interest was repaid in 2015.

The Foundation has entered into a line of credit agreement allowing it to borrow up to \$5,000,000. As of June 30, 2015, there were no outstanding draws on this line of credit. The line of credit carries a variable rate of interest equal to the One-Month LIBOR plus 1.10% (1.29% as of June 30, 2015). The loan agreement contains a liquidity covenant and also requires that the Foundation maintain a minimum average deposit account balance of \$200,000 with the lender. Subsequent to

June 30, 2015, the line of credit was extended to September 5, 2017, under the same terms and conditions.

Interest expense during 2015 was \$123,534.

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to network and server equipment as well as the related software are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2015:

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 56,992
Amount Representing Interest (3.39% Rate of Interest)	<u>161</u>
Present Value of Future Lease Payments	<u><u>\$ 56,831</u></u>

Machinery and equipment acquired under capital lease amounted to \$2,743,230 and related software acquired under capital lease amounted to \$247,538 at June 30, 2015.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$1,433,499 at June 30, 2015.

B. Operating Lease Obligations - The University entered into operating leases for noncapital network and server equipment and related software; classroom and warehouse space; parking spaces; vehicles, heavy equipment, copiers, and fiber optic cable. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 323,770
2017	84,341
2018	41,484
2019	11,400
2020	11,400
2021-2025	<u>8,550</u>
Total Minimum Lease Payments	<u><u>\$ 480,945</u></u>

Rental expense for all operating leases during the year was \$1,837,609.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 229,014,188	\$ 84,880	\$ 46,417,885	\$ 1,482,070	\$ 181,029,353
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 35,119,555	\$ 366,579	\$ 7,789,021	\$ 232,443	\$ 26,731,512
Dining	22,389,674	157,378	3,847,842	130,637	18,253,817
Student Union Services	5,284,935	1,388,708			3,896,227
Health Services	2,980,444	28,056		162,587	2,789,801
Parking	10,054,483	344,566		26,506	9,683,411
Athletics	5,777,683	48,485			5,729,198
Facilities	20,590,554	19,875,743			714,811
Telecommunications	2,678,223	2,641,030			37,193
Other	4,545,854	893,393			3,652,461
Sales and Services of Education and Related Activities	2,387,718	795,306			1,592,412
Total Sales and Services	\$ 111,809,123	\$ 26,539,244	\$ 11,636,863	\$ 552,173	\$ 73,080,843

NOTE 10 - 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/ Amortization	Total
Instruction	\$ 175,193,774	\$ 5,923,888	\$ 14,970,115	\$ 0	\$ 6,938	\$ 0	\$ 196,094,715
Research	14,086,736	1,840,477	5,521,183				21,448,396
Public Service	2,238,653	64,557	332,996				2,636,206
Academic Support	21,689,463	10,732,198	12,416,259		74,304		44,912,224
Student Services	16,031,101	1,740,044	3,657,502		773		21,429,420
Institutional Support	26,240,189	1,463,879	8,623,258		74,725		36,402,051
Operations and Maintenance of Plant	22,501,552	6,783,646	9,958,434		7,968,179		47,211,811
Student Financial Aid				38,521,024			38,521,024
Auxiliary Enterprises	36,917,095	12,376,215	34,096,759		4,250,831		87,640,900
Depreciation/ Amortization						26,028,519	26,028,519
Total Operating Expenses	\$ 314,898,563	\$ 40,924,904	\$ 89,576,506	\$ 38,521,024	\$ 12,375,750	\$ 26,028,519	\$ 522,325,266

NOTE 11 - PENSION PLANS

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan

established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The University's contributions to the pension plan were \$8,967,204, and employee contributions were \$5,880,134 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

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

Net Pension Liability: At June 30, 2015, the University reported a liability of \$7,950,070 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the University's proportion was 0.67809%, which was an increase of 0.01699% from its proportion measured as of June 30, 2013.

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

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

* Salary increases include 3.5% inflation and productivity factor.

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

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and

health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

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

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

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

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

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

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be

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

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

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 57,071,113	\$ 7,950,070	\$ (33,525,495)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the University recognized pension expense of \$3,715,293. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0	\$ 1,853,118
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		26,860,379
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	1,183,458	
Contributions Subsequent to the Measurement Date	8,967,204	
Total	<u>\$ 10,150,662</u>	<u>\$ 28,713,497</u>

The amount of \$8,967,204 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension

liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended June 30:	Amount
2016	\$ (6,891,790)
2017	(6,891,790)
2018	(6,891,790)
2019	(6,854,669)
Total	\$ (27,530,039)

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2015, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$253,197,255, of which \$115,814,846 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$7,921,735 and \$6,948,891, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions. A total of \$310,202 in forfeitures was reflected in pension expense for fiscal year 2015. A current payable for employer contributions made of \$735 was reported at June 30, 2015.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the current fiscal year the University contributed 5.49% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.40% and 5.30%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were \$11,738,557, \$10,996,246, and \$10,338,012, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the University made a statutory contribution of .41% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, was .44% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were \$876,650, \$895,990, and \$858,250, 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 13 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

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

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. The University has purchased extended coverage for all buildings and contents within buildings. Extended coverage includes the perils of windstorm, hail, explosion, smoke, aircraft or vehicles, riot or civil commotion.

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 \$75,000 deductible.

4. Statewide Workers' Compensation Program

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

compensation in accordance with the North Carolina Workers' Compensation Act. The University retains the risk for workers' compensation.

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

5. Other Insurance Held by the University

The University mitigated additional risks with the following insurance programs as of June 30, 2015:

A separate professional liability policy underwritten by Medical Mutual Insurance is provided to healthcare professionals. The limit of liability is \$1,000,000 per claim and \$3,000,000 aggregate annually.

NOTE 14 - 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 \$67,029,820 at June 30, 2015.

Additionally, the University committed to contribute \$1,000,000 toward the underground relocation of existing utilities and telecommunication lines as part of the LYNX Blue Line Extension Light Rail Project, managed by the City of Charlotte. At June 30, 2015, \$896,327 of the total contribution was not yet expended and was on deposit with the City of Charlotte to satisfy the outstanding commitment.

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

NOTE 15 - RELATED PARTIES

Foundations - There are two separately incorporated nonprofit foundations associated with the University. These foundations are The Athletic Foundation of the University of North Carolina at Charlotte (Athletic Foundation) and Ventureprise, Inc.

The Athletic Foundation serves as the primary fundraising arm of the University's Athletic Department through which individuals, corporations, and other organizations support University athletic programs by providing

scholarships, salary supplements, and unrestricted funds. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the foundations, except for support from the organization to the University. This support approximated \$1,243,194 for the year ended June 30, 2015.

Ventureprise, Inc. serves as an economic development and business catalyst for emerging businesses in the Charlotte-Mecklenburg area. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of Ventureprise, Inc., except for support from the organization to the University. This support approximated \$109,372 for the year ended June 30, 2015.

NOTE 16 - BLENDED COMPONENT UNITS

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

*Condensed Statement of Net Position
June 30, 2015*

	<u>University</u>	<u>FDC</u>	<u>UNCCIF</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
Current Assets	\$ 252,487,421	\$ 692,704	\$ 5,580,486	\$ (5,141,027)	\$ 253,619,584
Capital Assets	1,163,285,962	16,258,173			1,179,544,135
Other Noncurrent Assets	173,527,030		164,280,544	(151,344,210)	186,463,364
Total Assets	<u>1,589,300,413</u>	<u>16,950,877</u>	<u>169,861,030</u>	<u>(156,485,237)</u>	<u>1,619,627,083</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>14,280,626</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>14,280,626</u>
LIABILITIES					
Current Liabilities	39,848,108	682,672			40,530,780
Noncurrent Liabilities:					
Funds Held in Trust			169,861,030	(156,485,237)	13,375,793
Long-Term Liabilities	560,653,313	13,175,000			573,828,313
Other Noncurrent Liabilities	12,828,482				12,828,482
Total Liabilities	<u>613,329,903</u>	<u>13,857,672</u>	<u>169,861,030</u>	<u>(156,485,237)</u>	<u>640,563,368</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>28,713,496</u>	<u>31,676</u>	<u>0</u>	<u>0</u>	<u>28,745,172</u>
NET POSITION					
Net Investment in Capital Assets	712,718,811	2,504,365			715,223,176
Restricted - Nonexpendable	41,839,893				41,839,893
Restricted - Expendable	46,295,365				46,295,365
Unrestricted	160,683,571	557,164			161,240,735
Total Net Position	<u>\$ 961,537,640</u>	<u>\$ 3,061,529</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 964,599,169</u>

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

	<u>University</u>	<u>FDC</u>	<u>UNCCIF</u>	<u>Eliminations</u>	<u>Total</u>
OPERATING REVENUES					
Student Tuition and Fees, Net	\$ 181,029,353	\$ 0	\$ 0	\$ 0	\$ 181,029,353
Grants and Contracts	34,268,008				34,268,008
Sales and Services, Net	71,818,670	1,262,173			73,080,843
Other Operating Revenues	3,911,966				3,911,966
	<u>291,027,997</u>	<u>1,262,173</u>			<u>292,290,170</u>
OPERATING EXPENSES					
Operating Expenses	496,173,424	123,323			496,296,747
Depreciation	25,787,657	240,862			26,028,519
	<u>521,961,081</u>	<u>364,185</u>			<u>522,325,266</u>
Total Operating Expenses					
Operating Income (Loss)	<u>(230,933,084)</u>	<u>897,988</u>			<u>(230,035,096)</u>
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	199,788,951				199,788,951
Grants and Gifts	76,297,167				76,297,167
Investment Income (Net of Investment Expense)	6,098,742	343	12,040,149	(12,040,149)	6,099,085
Interest and Fees on Debt	(16,203,074)	(749,834)			(16,952,908)
Allocation to Owners					
Other	869,648		(12,040,149)	12,040,149	869,648
	<u>266,851,434</u>	<u>(749,491)</u>			<u>266,101,943</u>
Net Nonoperating Revenues (Expenses)					
Capital Contributions	1,380,900				1,380,900
Additions to Endowments	1,579,091				1,579,091
	<u>38,878,341</u>	<u>148,497</u>			<u>39,026,838</u>
Increase in Net Position					
NET POSITION					
Net Position, July 1, 2014 (As Restated)	<u>922,659,299</u>	<u>2,913,032</u>			<u>925,572,331</u>
Net Position, June 30, 2015	<u>\$ 961,537,640</u>	<u>\$ 3,061,529</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 964,599,169</u>

*Condensed Statement of Cash Flows
June 30, 2015*

	<u>University</u>	<u>FDC</u>	<u>Total</u>
Net Cash Provided (Used) by Operating Activities	\$ (207,924,448)	\$ 1,138,474	\$ (206,785,974)
Net Cash Provided by Noncapital Financing Activities	277,476,653		277,476,653
Net Cash Used by Capital and Related Financing Activities	(60,178,765)	(1,051,244)	(61,230,009)
Net Cash Provided by Investing Activities	<u>2,281,092</u>	<u>554,900</u>	<u>2,835,992</u>
Net Increase in Cash and Cash Equivalents	11,654,532	642,130	12,296,662
Cash and Cash Equivalents, July 1, 2014	<u>316,047,677</u>	<u>7,900</u>	<u>316,055,577</u>
Cash and Cash Equivalents, June 30, 2015	<u>\$ 327,702,209</u>	<u>\$ 650,030</u>	<u>\$ 328,352,239</u>

NOTE 17 - NET POSITION RESTATEMENT

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

	<u>Amount</u>
July 1, 2014 Net Position as Previously Reported	\$ 957,337,147
Restatement:	
Record the University's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB 68 Requirements.	<u>(31,764,816)</u>
July 1, 2014 Net Position as Restated	<u><u>\$ 925,572,331</u></u>

NOTE 18 - SUBSEQUENT EVENTS

In July 2015, The Foundation of the University of North Carolina at Charlotte, Inc. contributed approximately \$2.7 million of real estate to the University's endowments. The real estate consists of two parcels:

1. Day Care Center – appraised value of \$2,580,000
2. Residential rental – tax value of \$113,200

In September 2015, the University was approved to acquire a prepaid license for parking spaces in a structured parking deck near the University's Center City Building. The required \$4.27 million of funds contributed toward the construction of the parking deck were on deposit with an escrow agent as of June 30, 2015, and is reported as restricted cash in the Statement of Net Position.



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.67809%	0.66110%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 7,950,070	\$ 40,135,507
Covered-Employee Payroll	\$ 96,704,555	\$ 95,240,521
Net Pension Liability as a Percentage of Covered-Employee Payroll	8.22%	42.14%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

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

Exhibit C-2

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contribution	\$ 8,967,204	\$ 8,403,626	\$ 7,933,535	\$ 6,735,742	\$ 4,461,891
Contributions in Relation to the Contractually Determined Contribution	<u>8,967,204</u>	<u>8,403,626</u>	<u>7,933,535</u>	<u>6,735,742</u>	<u>4,461,891</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered-Employee Payroll	\$ 98,002,228	\$ 96,704,555	\$ 95,240,521	\$ 90,534,160	\$ 90,504,892
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually Required Contribution	\$ 3,138,757	\$ 2,853,451	\$ 2,299,238	\$ 1,792,093	\$ 1,440,271
Contributions in Relation to the Contractually Determined Contribution	<u>3,138,757</u>	<u>2,853,451</u>	<u>2,299,238</u>	<u>1,792,093</u>	<u>1,440,271</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered-Employee Payroll	\$ 87,920,362	\$ 84,924,137	\$ 75,384,848	\$ 67,371,924	\$ 61,550,034
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

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

Changes of Benefit Terms:

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

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Charlotte, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 4, 2015. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the discretely presented component unit, as described in our report on the University's financial statements. The financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with *those entities*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 4, 2015

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For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513



This audit required 933.5 hours at an approximate cost of \$92,417.