

A constituent institution of the University of North Carolina system,
a component unit of the State of North Carolina.

2017

Comprehensive Annual Financial Report

Fiscal year ended
JUNE 30, 2017

The University of North Carolina at Chapel Hill
Chapel Hill, North Carolina

Prepared by THE CONTROLLER'S OFFICE



THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL



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at
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Introductory Section

2017 Comprehensive Annual Financial Report
The University of North Carolina at Chapel Hill





November 27, 2017

A MESSAGE FROM

The Chancellor

By every measure, 2017 was once again a remarkably successful year. As chancellor of our nation's first public university, I am honored to share our *Comprehensive Annual Financial Report* that details the innovative and impactful ways the state's investment in Carolina is opening the minds of our students, supporting our wonderful faculty and helping citizens throughout our state, across our nation and around the world.

Carolina's story over the past 12 months reads, in many ways, more like a new report about the latest start-up enterprise than the storied history of a 224-year-old great public university. Carolina remains one of the most highly ranked research institutions in the country in racial, ethnic and socio-economic diversity and is the last public university in America to be both need-blind in its admissions and able to meet the full financial needs of all students. *The New York Times* ranked Carolina third nationally on their College Access Index of America's most economically diverse top colleges and we were honored as a national leader and role model for providing equal education opportunity to students based on academic merit, regardless of family income, by the *Jack Kent Cooke Foundation*.

In this report, I will focus on several key areas that speak to Carolina's future and the dedication of our entire community to excellence, work to tackle challenging issues that face higher education today, emphasis on creating paths for student, faculty and staff success and dedication to the state and citizens of North Carolina.

A significant highlight over the past 12 months was the launch of *The Blueprint for Next* – the university's strategic framework that outlines priorities that will guide our decision-making and investments during the next decade. Shaped over the past three years by hundreds of people who shared their thoughts and ideas about what Carolina is today and their dreams of what it can

become, this overarching vision of what can be spans across all university schools and departments. Standing on two pillars – Of the Public, For the Public; and Innovation Made Fundamental – the framework is brought to life by an exciting array of pan-University initiatives, grouped around five themes. With the help of our new provost, Bob Blouin, we are moving decisively to execute our plans.

Following our third-straight fundraising record year of \$543.3 million raised during fiscal year 2017, which eclipsed the previous record by nearly \$50 million, we launched "For All Kind: the Campaign for Carolina." This is the most ambitious fundraising campaign in Carolina's history, with a goal to raise \$4.25 billion by Dec. 31, 2022. This bold effort carries enormous opportunity and responsibility, with every single dollar to be used for the public good. In this campaign, we are investing in student potential, faculty excellence, innovative teaching, experience-based learning and pioneering research to prepare our graduates for success. As Chancellor, I am grateful for the generosity of today's donors that are committed to helping us achieve a future for Carolina that is worthy of all the efforts, dreams and hopes of all the people who preceded us.

In April, we celebrated *Arts Everywhere Day*, which marked the kick-off of this initiative to integrate arts into the culture at Carolina across all academic disciplines. I have witnessed the power of the arts to unleash creativity, open minds and excite

“

Thanks to the entire Carolina Community, fiscal year 2017 was once again a year when we accomplished our historic mission ‘to foster the success and prosperity of each rising generation’ and ‘to enhance the quality of life for all people’ in North Carolina.

”

Chancellor Carol L. Folt

our senses. This initiative will take our existing strengths in the arts at Carolina to an even higher level. I can’t wait to share updates in future reports as we see how the *Arts Everywhere* initiative continues to develop as the entire Carolina community gets more involved.

At last year’s University Day ceremony, we named 21 scholarships for Noteworthy Firsts – courageous people who helped break down barriers and pave the way for others at Carolina. We took the next step forward during ceremonies commemorating Carolina’s 224th birthday. For this new round of named scholarships, we asked all of our Carolina family to nominate *Bridge Builders* – people whose work, advocacy and personal example helped forge a more inclusive, unified and aspirational Carolina community. We believe scholarships bearing the names of *Bridge Builders* will motivate our students to succeed in their own personal journeys at Carolina.

We continue to play a leading role in shaping North Carolina’s talented workforce, its vibrant quality of life, and, most importantly, the collaborative, creative and innovative business environment that creates opportunities across our state. We believe North Carolina is the face of America’s future workforce, educating and training a diverse, bright and talented future for our state, nation and world and we are proud of our leading role in this endeavor.

As you will see in this report, combined with our dedication to serve the greater society with forward-thinking ideas, the first public university to open its doors in the nation is living up to its founding principles of lux, libertas – light and liberty. Thanks to the entire Carolina Community, fiscal year 2017 was once again a year when we accomplished our historic mission “to foster the success and prosperity of each rising generation” and “to enhance the quality of life for all people” in North Carolina. We demonstrated that the same Carolina DNA that carried the genetic instructions that led to past successes is now taking us forward to create the world of tomorrow.



Carol L. Folt



November 27, 2017

LETTER OF Transmittal

To Chancellor Folt, Members of the Board of Trustees and Friends of the University of North Carolina at Chapel Hill:

This *Comprehensive Annual Financial Report* (CAFR) includes the financial statements for the year ended June 30, 2017, as well as other useful information that helps ensure the University's accountability to the public. Responsibility for the accuracy of the information and for the completeness and fairness of its presentation, including all disclosures, rests with the University's management. We believe the information is accurate in all material respects and fairly presents the University's financial position, revenues, expenses, and other changes in net position.

We believe our system of internal controls is sound and sufficient to disclose material deficiencies in controls to the auditors and the audit committee and to provide management with reasonable, although not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition. Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The University is a participant in the Business Compliance Program. This program is a collaborative project sponsored by the University of North Carolina System's General Administration that seeks to strengthen internal controls in the finance areas to ensure financial integrity and accountability and meet the requirements of Enhancing Accountability in Government through Leadership and Education (EAGLE). EAGLE is the State's internal control program that was established by the Office of the State Controller to meet the requirements of House Bill 1551, Chapter 143D "State Governmental Accountability and Internal Control Act."

State law, federal guidelines and certain bond covenants require that the University's accounting and financial records be audited by the Office of the State Auditor each year. The University's internal auditors also perform fiscal, compliance and performance audits. The reports resulting from these audits are shared with University management. Internal and external audit reports are provided to the Finance and Infrastructure Committee of the Board of Trustees. The audit of the University's federal financial assistance programs is performed by the Office of the State Auditor in conjunction with the statewide Single Audit.

The CAFR includes Management's Discussion and Analysis and all disclosures necessary for the reader to gain a broad understanding of the University's financial position and results of operations for the fiscal year ended June 30, 2017.

Profile of the University

The University of North Carolina at Chapel Hill was anticipated by the first state constitution drawn up in 1776 directing the establishment of "one or more universities" in which "all useful learning shall be duly encouraged and promoted." The American Revolution intervened and it was not until 1789, the year that George Washington became president of the new nation, that the University was chartered by the General Assembly. On October 12, 1793, the cornerstone was laid for the first campus building.

Now in its third century, UNC-Chapel Hill belongs to the select group of American and Canadian campuses forming the Association of American Universities. The University's academic offerings span more than 100 fields, including bachelor's, master's and doctoral degrees as well as professional

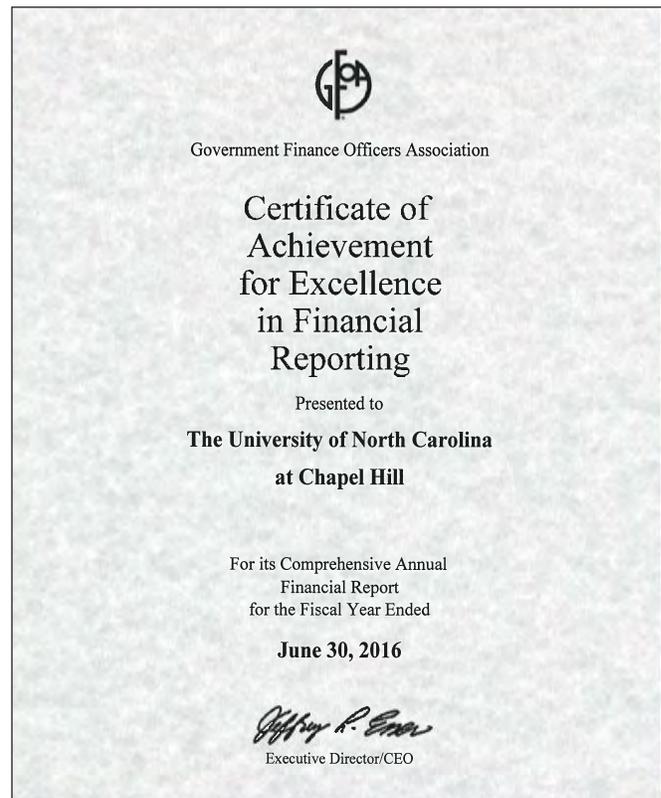
degrees in dentistry, medicine, pharmacy and law. Five health schools which, with UNC Health Care, comprise one of the nation's most complete academic medical centers are integrated with liberal arts, basic sciences and high-tech academic programs.

The accompanying financial statements present all funds belonging to the University and its component units. While the multi-campus University of North Carolina System's Board of Governors has ultimate responsibility, the chancellor, the University's Board of Trustees, and the Board of Trustees of the Endowment Fund have both delegated and statutory responsibilities for financial accountability of the University's funds. The University prepares its financial statements and related disclosures in accordance with standards set by the Governmental Accounting Standards Board (GASB) and implements new GASB statements as they are required.

The financial reporting entity for the financial statements is comprised of the University and 14 component units. Eleven of these, although legally separate, are reported as if they were part of the University. These include The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund), UNC Investment Fund, LLC (UNC Investment Fund), UNC Intermediate Pool, LLC (UNC Intermediate Fund), UNC Management Company, Inc. (Management Company), The University of North Carolina at Chapel Hill Foundation, Inc. (UNC-Chapel Hill Foundation), The Kenan-Flagler Business School Foundation (Business School Foundation), UNC Law Foundation, Inc. (Law Foundation), The University of North Carolina at Chapel Hill School of Education Foundation, Inc. (School of Education Foundation), WUNC Public Radio, LLC (WUNC), Carolina Research Ventures, LLC (Research Ventures) and HVPV Holdings, LLC (HVPV).

Separate financial statements for three other component units are reported based on GASB Statement No. 39. The Medical Foundation of North Carolina, Inc. (Medical Foundation), The Educational Foundation Scholarship Endowment Trust (Educational Foundation Trust), and The University of North Carolina at Chapel Hill Arts & Sciences Foundation, Inc. (Arts & Sciences Foundation) are legally separate, nonprofit, tax-exempt organizations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The accounting and financial records of the Chapel Hill Investment Fund, UNC Investment Fund, UNC Intermediate Fund, Management Company, UNC-Chapel Hill Foundation, Business School Foundation, School of Education Foundation, Law Foundation, WUNC Radio, Research Ventures, HVPV, Arts & Sciences Foundation, Medical Foundation, Educational Foundation Trust, and the Athletic Department are each audited by a public accounting firm. All audit reports are available for public inspection. Other related foundations and similar nonprofit corporations for which the University is not



The University of North Carolina at Chapel Hill has received the award for reporting excellence for the past 22 years from the Government Finance Officers Association.

financially accountable are not part of the accompanying financial statements.

The University is responsible for controlling its budget and using the funds to fulfill its educational, research and public service missions. It is also responsible for planning, developing and controlling budgets and expenditures within authorized allocations in accordance with University, state and federal policies and procedures. The University maintains budgetary controls to ensure compliance with provisions embodied in the annual appropriated budget approved by the North Carolina General Assembly, and as further directed by the Board of Governors.

After the budget has been approved by the chancellor and the Board of Governors, the University follows an established system of budgetary controls. When actual conditions require changes to the budget, revisions are prepared, and these revisions are appropriately approved and communicated to those affected. Changes to the budget are approved at the University level and/or the state level as required. Based on the state's management flexibility legislation, the University has received delegated authority for designated budget changes.

Economic Condition

For the fiscal year ended June 30, 2017, the State of North Carolina reported the highest population in its history, as well as the employment of the largest number of its citizens on record. These dual forces led to significant increases in both sales tax and income revenue for the State – resulting in a budget surplus of more than \$500 million at the end of the fiscal year.

With a July 1, 2016, population count of 10,146,768, North Carolina maintained its place as the ninth most populous state – with fewer inhabitants than Georgia but more than Michigan, according to the Census Bureau.

Over the last fiscal year, civilian employment increased 1.9% to 4,700,760 people, as reported by the Bureau of Labor Statistics (BLS), marking the lowest unemployment rate for the State (4.2%) since November 2000. The total number of nonfarm payroll jobs in June 2017 was a record 4,405,600: an increase of 1.6% from the previous year.

There were other record highs reported by The Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce in the first quarter of fiscal year 2017: the gross domestic product (GDP) of North Carolina was running at a seasonally adjusted annual rate of \$529.6 billion, equal to 2.8% of the total economic output of the entire U.S. Similarly, the BEA reported a 4.4% rise in total personal income, compared to the first quarter of 2016.

The U.S. economic expansion, which began in June 2009, was 96 months old as of June 2017, and has been the third largest expansion since business cycles started being recorded in 1854.

According to economists surveyed by Bloomberg in early August 2017, the median projection for real GDP growth was 2.3% for the year ending June 30, 2018. While still relatively slow, that is still good news for North Carolina. It would be very similar to the 2.1% increase of the year ended June 30, 2017, which was enough for significant increases in employment and personal income.

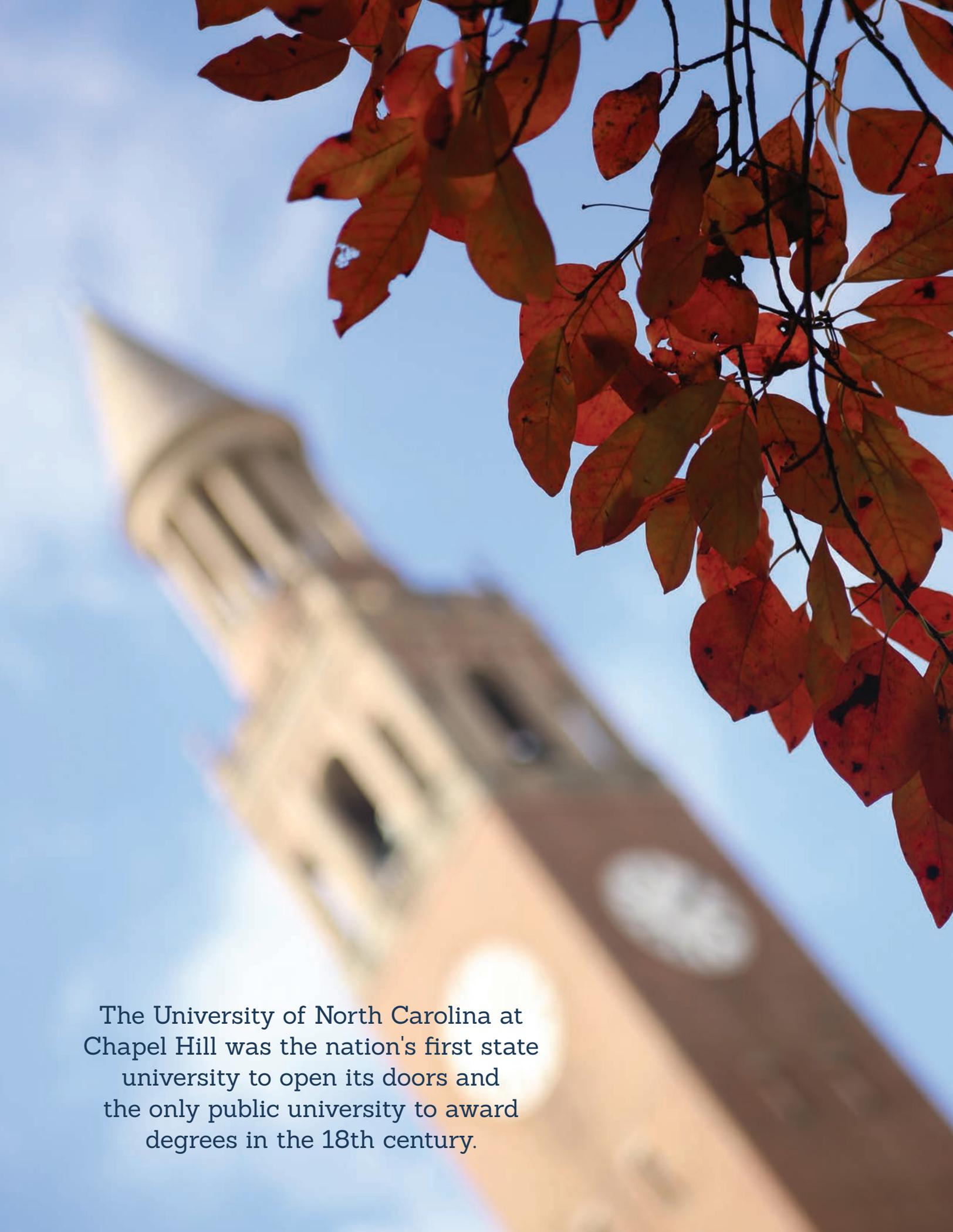
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the University for its CAFR for the fiscal year ended June 30, 2016. This was the 22nd consecutive year that the University has been honored with this prestigious award. To receive a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Preparation of this CAFR in a timely manner would not have been possible without the coordinated efforts of the University community, with special assistance from the Chancellor's Office, the Office of the Executive Vice Chancellor and Provost, the Office of Sponsored Research, Student Affairs, Information Technology Services, University Development, University Communications, Institutional Research and Assessment, the Office of Scholarships and Student Aid, the Department of Athletics, and Dr. James F. Smith, Adjunct Professor of Business Administration in the Kenan-Flagler Business School. In addition, the Office of the State Auditor provided invaluable assistance.



Matthew M. Fajack
Vice Chancellor for Finance and Administration

A photograph of a brick bell tower at the University of North Carolina at Chapel Hill, partially obscured by autumn leaves in the foreground. The tower is a prominent feature of the campus, and the leaves are in shades of orange and red, suggesting a fall setting. The background is a clear blue sky.

The University of North Carolina at Chapel Hill was the nation's first state university to open its doors and the only public university to award degrees in the 18th century.

Progress & Major Initiatives

FISCAL YEAR
2016 - 2017

CAROLINA

By the Numbers

- 1** For the 12th consecutive year, Carolina set a record for total number of applicants – **up 14% over last year to total 40,926 first-year applications for fall 2017 admission**. Forty-four percent of this year's incoming class ranked among the **top 10 students of their high school class**, and 78% ranked in the **top 10%**.
- 2** For the 16th year in a row, **Carolina is the best value in American public higher education**, according to *Kiplinger's Personal Finance*. Recognized for upholding academic quality and affordability, **Carolina ranked No. 1** among public colleges and universities in two categories: best in-state and best out-of-state value.
- 3** **Carolina ranked No. 8 in the United States** for federal research among universities, with approximately **\$585 million dedicated** to research and development in all fields.
- 4** **Carolina ranked 39th among 200 colleges and universities nationwide**, according to the Sierra Club "Cool Schools" annual sustainability report. The "Cool Schools" ranking serves as a guide for prospective students to compare schools' commitment to sustainability.
- 5** Carolina marked its **third-straight fundraising record** for fiscal year 2017, topping \$500 million for the first time. **UNC-Chapel Hill received \$543.3 million in donor commitments**, eclipsing fiscal year 2016's previous record of \$495 million by nearly \$50 million.
- 6** **For the third year in a row, Carolina advanced in rankings** of the Peace Corps' Top Volunteer-Producing Colleges and Universities list. UNC ranks **No. 7** among large schools.
- 7** **More than 600 first-generation students** graduated from Carolina in spring 2017.
- 8** For the 17th consecutive year, **UNC-Chapel Hill placed fifth among national public universities** as reported in *U.S. News and World Report's* 2017 "Best Colleges" guidebook.

OF THE PUBLIC, For the Public

Arts for Everyone

On April 7, 2017, Carolina celebrated *Arts Everywhere Day*, the first annual campus wide arts celebration, with 50 performances, exhibitions, hands-on activities and installations across campus. The day also marked the official kick-off of the Arts Everywhere initiative, designed to integrate arts into the culture at Carolina – for everyone. Efforts to showcase the arts began weeks earlier with the transformation of ten pianos into works of art, which were then placed throughout campus, along with the “Los Trompos” exhibit of interactive 8-foot-tall spinning fabric tops (trompos). The campus arts saturation was intended to draw attention and engagement and was supported by 40 campus partners and 20 sites. *Arts Everywhere* was established in July 2016 by Chancellor Folt and led by Special Assistant to the Chancellor for the Arts Emil Kang, on the principle that arts are for everyone.



Los Trompos, a large-scale, interactive installation of much-larger-than-life spinning tops, was sited near South Building for Arts Everywhere.



Photo credit: Eric Johnson

Committed to Affordability

In its 14th year, the Carolina Covenant makes it possible for 14% of incoming and economically vulnerable UNC–Chapel Hill students to graduate debt-free. The Covenant is available to students with family income at or below 200% of the federal poverty level, offering a package of grants, scholarships and work-study funding that produces remarkable results. Since its inception, the four-year graduation rate of Covenant Scholars has increased from 23.7 to 80.4%.

OF THE PUBLIC, For the Public



Photo credit: Tom Fuldner

Two hundred and fifty seniors dedicated to public service were honored as Buckley Public Service Scholars.

Commitment to Public Service

The Buckley Public Service Scholars program, part of the Carolina Center for Public Service, supports and strengthens Carolina students' commitment to service by providing a framework to make a positive impact through service. The 2017 graduating class of Buckley Public Service Scholars was comprised of 250 students, who reported more than 109,000 hours of service. Three students completed more than 1,000 hours of service and one student completed more than 2,000 hours of service. These scholars represent 33 North Carolina counties, 22 other states and five other countries. The Buckley Public Service program has graduated 2,418 scholars since 2004.

Curating Humanities

The University's Ackland Art Museum received its largest gift ever, donated from Carolina alumnus and orthodontist Sheldon Peck and his wife, Leena, who committed an \$8 million endowment to support a new curator and future acquisitions, and an art gift of 134 original Dutch and Flemish drawings, including seven Rembrandts, valued at \$17 million. With the Peck Collection gift, the Ackland becomes the first public university art museum in the United States to own a collection of drawings by Rembrandt and only the second university art museum in the nation to do so.



The University of North Carolina at Chapel Hill's Ackland Art Museum received its largest gift ever – valued at \$25 million – from alumnus Sheldon Peck (standing) and his wife Leena (third from left).



Carolina Conversations at the Frank Porter Graham Student Union.

Open Dialogue

Carolina continued efforts to encourage healthy dialogues about diversity on campus, through outlets such as THINKposium and Carolina Conversations. In August 2016, about 400 faculty and staff members attended the fourth annual THINKposium, an event held before the beginning of the academic year that focused on the “lived experience of difference.” Members of local law enforcement and the criminal justice system gave presentations that examined an increased empathy gap and growing polarization in America in terms of diversity. Dr. James Johnson Jr., the William R. Kenan Jr. distinguished professor of strategy and entrepreneurship at Kenan-Flagler Business School, gave a keynote address on “The Browning and Graying of America.” His evaluation of demographic research indicates that the United States is changing significantly demographically, and that its workforce and the number of people it needs to support is becoming a critical economic concern. The talk was followed by group discussions and a session on techniques and methodologies for enhancing effectiveness in multicultural classrooms and work settings.

Throughout the academic year, various aspects of diversity were addressed among staff and students through Carolina Conversations, a series of open forums moderated by Dr. Rumay Alexander, EdD, RN, FAAN, special assistant to the chancellor and interim chief diversity officer. Five forums, with audiences ranging in size from 60 to 120 participants, featured guest speakers presenting on: inclusive classrooms, sexual assault, implicit bias, First Amendment protected speech, and faculty diversity.



Harold O. Levy, executive director of the Jack Kent Cooke Foundation, speaks during the announcement of the Cooke Prize for Equity in Educational Excellence.

Investing in Potential

In June 2017, Carolina was the first public university to receive the Cooke Foundation’s \$1 million Cooke Prize for Equity in Educational Excellence, which recognizes success in enrolling low-income students and supporting them through graduation. The 2017 award, sponsored by the Jack Kent Cooke Foundation, recognized Carolina for “doing an outstanding job of admitting and graduating high-achieving, low-income students.” Shortly after the award announcement, Stephen Farmer, vice provost for enrollment and undergraduate admissions, announced that the University will match the foundation’s award through private funding and will use the \$2 million to expand Carolina’s programs benefitting low-income students.

OF THE PUBLIC, For the Public



Kenan Professor of Sociology Howard Aldrich discusses technology with his students visiting the Murray Hall makerspace.

Creating Scientists

As part of the University's reaffirmation (reaccreditation) process by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC), Carolina has launched a new Quality Enhancement Plan (QEP) focused on undergraduate science. A five-year initiative, "Creating Scientists: Learning by Connecting, Doing and Making," aims to expose undergraduate students to more hands-on research and collaborative opportunities and help them hone their analytical and problem-solving skills to tackle real-world problems. This QEP endeavors to connect the arts and humanities with the sciences and implement educational innovations that align more closely with contemporary models of teaching and learning science. It features four main components: integrating arts and humanities with science courses; utilizing a Course-Based Undergraduate Research Experience (CURE) that presents research by engaging a class in a hypothesis-driven research problem; utilizing Makerspace, a campus outlet for the design and crafting of physical objects; and creating proper infrastructure so research experiences are available for all students.

A Music Showcase

A ribbon-cutting and celebration were held in February to dedicate the renovated Hill Hall, a former Carnegie library that is now functioning as a music center. The building, which turns 100 this year, was refurbished with a dramatic lobby and reception area, 450-seat modernized auditorium and many behind-the-scenes changes. The \$15 million transformation, funded with private gifts, has given new life to the space, which the UNC Department of Music calls home. While not originally designated as a performance hall, the arena became the concert hall for the campus in its early years before Memorial Hall was opened. In 2014, the William R. Kenan Jr. Charitable Trust contributed \$5 million to kickstart a campaign to renovate Hill Hall. Tom Kenan, executive director of the Thomas S. Kenan III Foundation, later donated money for a nine-foot Steinway concert grand piano, which was onstage for the dedication. The auditorium has been renamed the James and Susan Moeser Auditorium to honor the former chancellor and his wife, both UNC Department of Music faculty members, who have advanced and championed the arts at Carolina.



A ribbon cutting ceremony in the newly built Moeser Auditorium of Hill Hall featured Chancellor Carol Folt, Susan and James Moeser, and Dean Kevin Guskiewicz.



The newly remodeled rotunda and reception area of Hill Hall.

Opening Paths to Diversity and Inclusion

In April, 13 recipients were recognized for their significant contributions to the enhancement, support and furtherance of diversity and inclusion on the Carolina campus and the community with the 2017 University Diversity Awards. Recipients included seven individuals and two campus organizations, the UNC Center for Civil Rights and the Black Alumni Reunion. Pictured below at the awards ceremony are:

Front Row, Left to Right: Executive Vice Chancellor and Provost James W. Dean Jr.; Vice Chancellor for Workforce Strategy, Equity and Engagement Felicia Washington; and Special Assistant to the Chancellor & Interim Chief Diversity Officer Rumay Alexander.

Second Row, Left to Right: UNC Staff member Dexter Robinson, who serves as an academic adviser and co-founder of Carolina United; Ted Shaw, Jennifer Watson Marsh, and Elizabeth Haddix of the UNC Center for Civil Rights; and student Johnny Vang, a Carolina Covenant scholar and son of refugees who leads outreach efforts in the Student Government Association for both low-income and historically disadvantaged minorities.

Third Row, Left to Right: Faculty award winner, Professor Mark Katz, who directs the Institute for the Arts and Humanities; Mark Dorosin of the UNC Center for Civil Rights; Regina Newell Stephens of the Black Alumni Reunion; and Brent J. Ducharme of the UNC Center for Civil Rights.

Back Row, Left to Right: Community Award Recipient Ryan Spurrier, the minister of Wesley Campus Ministry; Special Recognition recipient Christopher Wallace who serves as manager of the Communiversy Youth Program; UNC Alumnus Kenneth Ward, executive director of College Bound in Washington, D.C.; and School of Information and Library Science's graduate student Stephen Krueger, leader of Checked Out, the school's diversity group.



Photo credit: Brianna Ladd

INNOVATION

Made Fundamental



Twenty undergraduates participated in the inaugural maker-in-residence project in 2016. The students, from diverse backgrounds and majors, used the BeAM (Be a Maker) network to build and give artistic flair to a functioning telescope.

Planning to Succeed

In May, the Office of Vice Chancellor for Innovation, Entrepreneurship and Economic Development released The Innovative Carolina Roadmap report, which revealed unprecedented growth of innovations, entrepreneurs and ventures within the Carolina Community since the Innovate Carolina network's inception in 2010. Since that time, Innovate Carolina has brought together key groups from across the University and community to support a "cohesive innovation ecosystem," which works with innovators to help advance ideas and use them for the public good. Innovation is a cornerstone of the University's strategic framework. The May report highlights Carolina's results and next steps of this strategy, including applying research to real-world problems, preparing students with a skillset and mindset to enhance their career success and creating social and commercial startups.

National Impact

Norman E. "Ned" Sharpless was officially sworn in as the director of the National Cancer Institute on Oct. 17. Sharpless, who had served as the director of the UNC Lineberger Comprehensive Cancer Center since 2014, was the Wellcome Distinguished Professor in Cancer Research and had been at UNC Lineberger since 2002. He is internationally recognized for his research on how normal cells age and undergo malignant conversion.

Visionary Leadership

Nancy Allbritton, a Kenan Distinguished Professor and chair of the joint Department of Biomedical Engineering at UNC–Chapel Hill and N.C. State University, was honored in June as the 2017 Inventor of the Year at Carolina. In addition to founding four startup companies and holding 11 patents and eight pending patents, her research has resulted in technological advances that address unmet needs in biomedical applications such as cell sorting, cell cloning, organ-on-a-chip platforms and cell-signaling evaluation. Her latest pursuit involves stem cell technology efforts that have the potential to make drug discovery faster, cheaper and safer and reduce the need for animal testing.



Nancy Allbritton speaks during the 2017 Distinguished Alumnus and Alumna Award breakfast and recognition event.



Photo credit: Brian Strickland



Students in the Silicon Revolution class visited tech giants like Cisco, Apple and Google.

Starting Revolutions

For the third year in a row, James Leloudis, history professor and director of the James M. Johnston Center for Undergraduate Excellence, guided students through a week-long tour of Silicon Valley in a contemporary course he developed called Silicon Revolution. The class, held during a compressed three-week Maymester, attracts some of the University's best and brightest and teaches students about the history and importance of this high-tech dominated area of San Francisco Bay through books, articles and writing assignments. While in California, students toured technology giants such as Apple, Google and Cisco, as well as connected with Carolina alumni who have specialized in technological fields.

Photo credit: James L. Leloudis

INNOVATION

Made Fundamental



Photo credit: Keith Isaacs

Students, faculty and staff can take classes to be a part of the maker community in the design and making of physical objects for education, research, entrepreneurship and recreation.

BeAM (Be a Maker)

BeAM@CAROLINA is a network of four campus collaborative workspace (Makerspace) locations open to students, faculty members and staff members to enable exploration of emerging technologies and foster a creative community of makers and making. After completing orientation and a series of BeAM area training sessions, UNC–Chapel Hill participants can gain access to all BeAM Makerspaces and their tools to make physical objects for education, research, entrepreneurship and recreation. In addition to training, makers can take part in workshops, open studios, classes and group activities. Makerspaces are fully equipped with laser cutters, sewing machines, and digital fabrication machines (such as 3D printers). Makers may also take advantage of wood and metal shops in these collaborative spaces.



Students Empowering Students

Student teams worked with senior leadership from the Department of Information Technology Services to take the University's mobile app, CarolinaGO, to the next level by contemporizing the design and incorporating requested content. Originally launched in October 2014, the app enables students, faculty and staff to easily access resources such as: dining options, campus maps, bus routes and campus events. CarolinaGO is now used by some 10,000 members of the campus community.

Championing Entrepreneurship

Three alumni siblings from Hickory, N.C., gifted Carolina's undergraduate entrepreneurship program with \$18 million in May 2017. The Shuford family gift is the largest single one-time donation by a living individual or family to the College of Arts & Sciences, where the nationally-ranked program is based. The gift helps meet the demand of students who want to enroll in entrepreneurship courses through the addition of faculty. The Shuford Program in Entrepreneurship will also support twice the number of student internships than previously held in this minor.



The University of North Carolina at Chapel Hill celebrated an \$18 million gift from the Shuford family to the College of Arts & Sciences that will more than double the size of Carolina's nationally recognized undergraduate entrepreneurship program. The minor in entrepreneurship will be named the Shuford Program in Entrepreneurship in the family's honor. Pictured left to right at the celebration are: Dean Kevin Guskiewicz, Chancellor Carol L. Folt, and fifth-generation Carolina alumni siblings Jim Shuford, Dorothy Shuford Lanier and Stephen Shuford.

“

You've become part of a special community – a community that expresses gratitude and the desire to do good, one that seeks to live life with compassion and humility, and expects to be judged by the content of your character.

”

Chancellor Carol L. Folt, May 14, 2017,
commencement address





MEMORIAL
HALL



Board of Trustees

JUNE 30, 2017



Dwight D. Stone
Chair
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Winston-Salem, N.C.



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Donald Williams Curtis
Raleigh, N.C.



Julia Sprunt Grumbles
Chapel Hill, N.C.



Kelly Matthews Hopkins
Charlotte, N.C.



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McLean, Va.



Allie Ray McCullen
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Charlotte, N.C.



Hari H. Nath
Cary, N.C.



Bradley C. Opere
Ex-Officio
Chapel Hill, N.C.

Chancellor's Cabinet

JUNE 30, 2017

Carol L. Folt *Chancellor*

G. Rumay Alexander
*Special Assistant to the Chancellor
& Interim Chief Diversity Officer*

Joseph Canady
Senior Advisor for University Initiatives

Judith Cone
*Vice Chancellor for Innovation,
Entrepreneurship & Economic Development*

Winston Crisp
Vice Chancellor for Student Affairs

Lawrence "Bubba" Cunningham
Director of Athletics

Joel Curran
Vice Chancellor for Communications

James W. Dean, Jr.
Executive Vice Chancellor and Provost

Debbie Dibbert
Chief of Staff

Douglas S. Dibbert
President, General Alumni Association

Matthew M. Fajack
*Vice Chancellor for Finance
& Administration*

Stephen Farmer
*Vice Provost, Enrollment
& Undergraduate Admissions*

Kevin Guskiewicz
Dean, College of Arts & Sciences

Emil Kang
*Special Assistant to the
Chancellor for the Arts Initiative
& Director of the Arts*

Chris Kielt
*Vice Chancellor for Information Technology
& Chief Information Officer*

Terry Magnuson
Vice Chancellor for Research

Mark W. Merritt
Vice Chancellor & General Counsel

William Roper
*Vice Chancellor for Medical Affairs,
CEO, UNC Health Care System,
& Dean, UNC School of Medicine*

David Routh
Vice Chancellor for University Development

Ron Strauss
*Executive Vice Provost
& Chief International Officer*

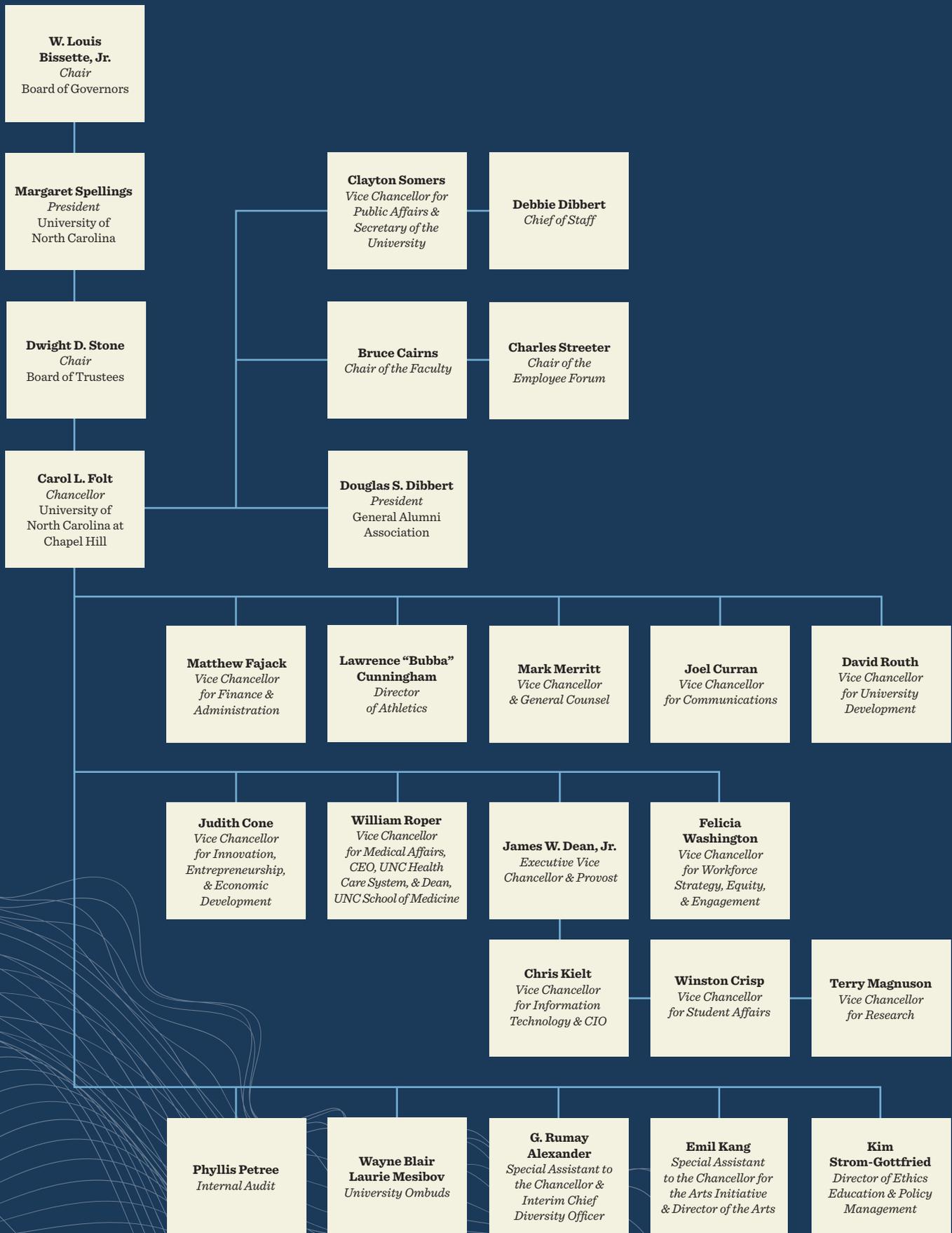
Kim Strom-Gottfried
*Director of Ethics Education
& Policy Management*

Clayton Somers
*Vice Chancellor for Public Affairs
& Secretary of the University*

Felicia Washington
*Vice Chancellor for Workforce Strategy,
Equity & Engagement*

Organization Chart

JUNE 30, 2017





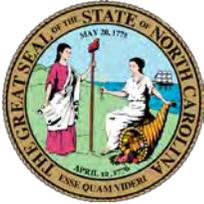


Financial Section

2017 Comprehensive Annual Financial Report
The University of North Carolina at Chapel Hill



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

Board of Trustees
The University of North Carolina at Chapel Hill
Chapel Hill, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Chapel Hill (University), 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 units, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following:

- The financial statements of the UNC Investment Fund, LLC, which represent 49.69 percent, 58.95 percent, and 6.84 percent, respectively, of the assets, net position, and revenues of the University.
- The financial statements of the UNC Intermediate Pool, LLC, which represent 6.04 percent, 7.99 percent, and 0.92 percent, respectively, of the assets, net position, and revenues of the University.
- The financial statements of the UNC Management Company, Inc., which represent 0.21 percent, 0.30 percent, and 0.03 percent, respectively, of the assets, net position, and revenues of the University.

- The financial statements of The University of North Carolina at Chapel Hill Foundation, Inc., which represent 4.95 percent, 7.53 percent, and 1.05 percent, respectively, of the assets, net position, and revenues of the University.
- The financial statements of The Kenan-Flagler Business School Foundation, which represent 1.26 percent, 2.49 percent, and 0.29 percent, respectively, of the assets, net position, and revenues of the University.
- The financial statements of The Medical Foundation of North Carolina, Inc., The Educational Foundation Scholarship Endowment Trust, or The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc., the University's discretely presented component units.

The financial statements listed above 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's blended and discretely presented component units 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 Chapel Hill, and its discretely presented component units, as of June 30, 2017, 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.

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 Information

The introductory and supplementary sections are presented for the purposes of additional analysis and are not required parts of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The introductory and supplementary sections have not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance. The report on internal control and compliance has been issued under a separate cover in the Financial Statement Audit Report of The University of North Carolina at Chapel Hill published by this office.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 27, 2017

“

Higher education is the longest and most inspiring and most important industry in all of America that leads from dream to opportunity.

”

Chancellor Folt to the
UNC-Chapel Hill Board of Trustees
January 25, 2017



Management's Discussion & Analysis

UNAUDITED

Management's Discussion and Analysis provides an overview of the financial position and activities of The University of North Carolina at Chapel Hill (the University) for the fiscal year ended June 30, 2017, with comparative information for the fiscal year ended June 30, 2016. Management has prepared the discussion and analysis to be read in conjunction with the financial statements and accompanying notes to the financial statements.

The University is a constituent institution of the 17-campus University of North Carolina System (UNC System), a component unit of the State of North Carolina, and an integral part of the State's *Comprehensive Annual Financial Report* (CAFR). The University is a global higher education leader known for innovative teaching, research and public service. Now in its third century, the University offers 78 bachelor's, 112 master's, 68 doctorate, and seven professional degree programs through 14 schools and the College of Arts & Sciences. More than 29,000 undergraduate, graduate and professional students learn from a faculty of 3,600.

The financial reporting entity for the financial statements is comprised of the University and its component units. Certain component units are reported as if they were part of the University, and others are reported as discretely presented component units based on the nature and significance of their relationship to the University. Note 1A (page 50) in the notes to the financial statements provides detailed information on the financial reporting entity.

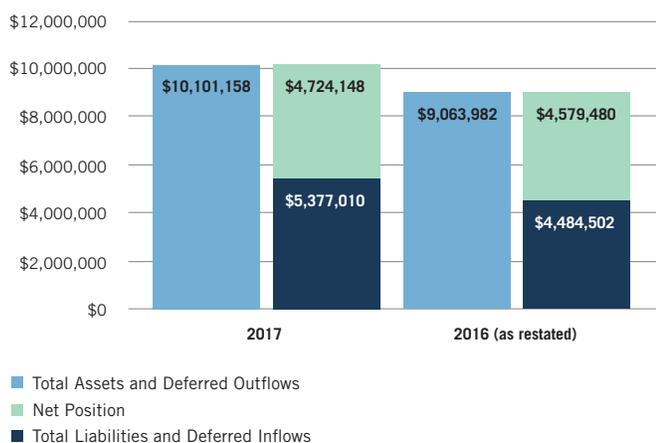
Financial Overview

The University maintained its solid financial position at June 30, 2017. The current ratio at June 30, 2017, was 2.9 times, as compared with 3.2 times at June 30, 2016, reflecting a decrease in current assets. Net position, which represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources, was \$4.7 billion at June 30, 2017. The University's total assets and deferred outflows of resources were \$10.1 billion at June 30, 2017.

A comparison of the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position at June 30, 2017, and June 30, 2016, respectively, along with the major components of the changes in net position for the two fiscal years is presented below:

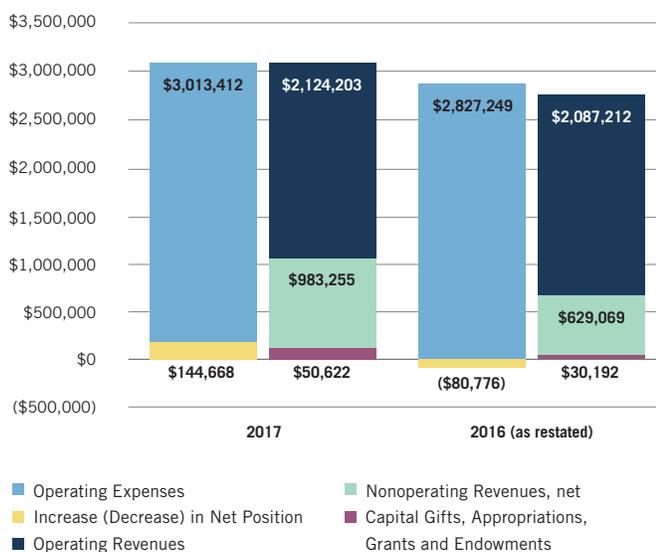
Statement of Net Position

(dollars in thousands)



Statement of Revenues, Expenses and Changes in Net Position

(dollars in thousands)



Net position increased 3.2% at June 30, 2017, from the prior year's restated balance. The major factor for the increase was a growth in endowment and other investments as a result of strong investment results.

Total assets increased by 10.5% from the prior year, and total liabilities increased 20.3% for the same period. These increases were largely due to the increase in endowment, restricted and other investments and the associated increase in funds held in trust for pool participants as a result of strong investment results. Operating revenues increased 1.8% as compared to the prior year due to increases in net student tuition and fees and net patient services revenues, while operating expenses increased 6.6%, due in large part to increases in salaries and benefits. Net nonoperating revenues increased 56.3% over the prior year, reflecting the significant increase in investment income and gifts received.

State appropriations, tuition and fees, and sales and services from clinical services for patients and campus auxiliary operations continue to provide important resources to the University. As a major research university, funding from contracts and grants is also of key importance to the University's success in fulfilling its mission.

Using the Financial Statements

The University's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. These statements are presented on a consolidated basis to focus on the University as a whole. The full scope of the University's activities is a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

The University's financial statements include the following financial statements with related note disclosures and financial schedules with required supplementary information:

- *Statement of Net Position for the University*
- *Statement of Revenues, Expenses, and Changes in Net Position for the University*
- *Statement of Cash Flows for the University*
- *Statement of Financial Position for Component Units of the University*
- *Statement of Activities and Changes in Net Assets for Component Units of the University*
- *Schedule of the Proportionate Net Pension Liability Teachers' and State Employees' Retirement System*
- *Schedule of University Contributions Teachers' and State Employees' Retirement System*

Management's Discussion and Analysis provides information regarding the Statement of Net Position for the University and the Statement of Revenues, Expenses and Changes in Net Position for the University.

New Accounting Pronouncements

For the fiscal year ended June 30, 2017, the University implemented the following pronouncement issued by the GASB, which is further described in Note 22:

GASB Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73

Condensed Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year, and includes all assets and deferred outflows of resources, liabilities and deferred inflows of resources, and segregates the assets and liabilities into current and noncurrent components. The following table summarizes the University's assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position on June 30, 2017, and June 30, 2016:

Condensed Statement of Net Position

(dollars in thousands)

	2017	2016 (as restated)	Percent Change
<i>Assets:</i>			
Current assets	\$1,462,839	\$1,586,297	(7.8)
<i>Noncurrent assets:</i>			
Endowment, restricted and other investments	5,009,673	3,951,286	26.8
Capital assets, net	3,090,857	3,092,930	(0.1)
Other noncurrent assets	229,345	230,129	(0.3)
Total Assets	9,792,714	8,860,642	10.5
Total Deferred Outflows of Resources	308,444	203,340	51.7
<i>Liabilities:</i>			
Current portion of long-term liabilities	127,585	140,514	(9.2)
Other current liabilities	374,766	363,235	3.2
<i>Noncurrent liabilities:</i>			
Funds held in trust for pool participants	3,020,492	2,246,757	34.4
Long-term liabilities, net	1,702,569	1,527,450	11.5
Other noncurrent liabilities	136,128	178,187	(23.6)
Total Liabilities	5,361,540	4,456,143	20.3
Total Deferred Inflows of Resources	15,470	28,359	(45.4)
<i>Net Position:</i>			
Net investment in capital assets	1,655,225	1,655,895	(0.0)
Restricted	2,384,447	2,160,215	10.4
Unrestricted	684,476	763,370	(10.3)
Total Net Position	\$4,724,148	\$4,579,480	3.2

Current Assets and Liabilities

As derived from the Statement of Net Position, working capital was \$960.5 million at June 30, 2017, compared to \$1.1 billion at June 30, 2016. Working capital is defined as current assets less current liabilities.

Endowment, Restricted and Other Investments

Investment Assets – Total endowment, restricted, and other investments were \$5.0 billion at June 30, 2017. Of the \$5.0 billion invested, approximately \$3.0 billion are not assets owned by the University, but rather are owned by other UNC System campuses and their affiliates who have elected to pool their assets with the University's through the UNC Investment Fund, LLC. These funds are classified as funds held in trust for pool participants in the University's financial statements. These entities that choose to invest in the pool are not part of the University's reporting entity.

The total invested assets of \$5.0 billion represents an increase of 26.8% from June 30, 2016. This increase is the net result of funds added to investments, realized and unrealized investment earnings, scheduled payouts and fund withdrawals.

Endowment Management – The endowment assets are invested with The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund or CHIF), further detailed in Note 1A. It is expected that all or substantially all of the assets of the Chapel Hill Investment Fund will be invested in the UNC Investment Fund, LLC (UNC Investment Fund or UNCIF), an investment pool organized by the Chapel Hill Investment Fund to allow the University, along with other constituent institutions of the UNC System and affiliated organizations, to pool investment resources.

Endowment Distribution – The CHIF investment objective is to earn a long-term real (i.e. inflation-adjusted) rate of return of approximately 5.5% per year. This objective is intended to support the Chapel Hill Investment Fund's distribution policy providing a stable source of spending support that is sustainable over the long-term while preserving the purchasing power of the invested funds. The distribution rate is determined annually by its Board of Directors, and the distribution rate generally has ranged between 5.0% and 6.0% based on the beginning market value of the Chapel Hill Investment Fund. For the fiscal year ended June 30, 2017, the distribution rate was 5.3%.

Recognizing that severe market declines periodically occur, a University Statutory Endowment policy (established pursuant to NC General Statute 116-36) addresses the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The policy indicates that campus departments shall examine the endowment-supported activity for the upcoming fiscal year for possible deferment of program expenses, and if appropriate, pursue alternative funding for essential activities and consult with donors regarding other funding options for program support. Invasion of endowment principal is an option

of last resort and will only be done consistent with approved limitations to preserve the endowment principal's value.

Endowment Performance – For fiscal year 2017, the UNC Investment Fund recorded a 12.1% return, representing a reversal of the previous year's return of -2.0%. The return exceeded both the Strategic Investment Policy Portfolio (SIPP) return of 11.8% and achieved the University's primary objective of earning a long-term real rate of return of at least 5.5%, plus inflation. For the fiscal year 2017, six of the seven primary asset classes generated positive returns with four out of seven classes outperforming their respective benchmarks.

Over a longer-term horizon, UNCIF's five-year annualized performance of 9.3% has exceeded the primary objective of providing an average annual real rate of return of at least 5.5% plus inflation. The Fund's 10-year annualized return of 5.4% fell short of achieving this objective with inflation per the Consumer Price Index plus 5.5% representing 7.1% during the period. However, on a relative basis, UNCIF's 10-year return outperformed the Global 70/30 Index (comprised of 70% invested in the MSCI All Country World Index and 30% in the Barclay's U.S. Aggregate Bond Index) which returned 4.3%. During this time period, the Fund's performance continues to rank in the top half of the BNY Mellon Endowment & Foundation universe.

Capital Assets and Debt Management

Construction Activity – Major projects under construction include the comprehensive renovation of the Mary Ellen Jones Building, a 1978 medical research building; and campus infrastructure projects including: open space improvements to Porthole Alley, energy services utilities improvements and Davis Library sprinklers. In addition, new facilities for Athletics including: an indoor practice facility for football, Fetzer Stadium improvements for women and men's soccer and lacrosse, a new women's field hockey facility and track and practice fields.

Current projects in design include: the new Medical Education Building, a \$90 million facility to replace Berryhill Hall, and numerous roof and elevator replacement projects. Advance planning for a new addition to the Kenan-Flagler Business School and a feasibility study for Phase 3 of the science complex is also underway.

Facilities Planning – The University is currently engaged in a comprehensive master planning effort to guide future development of University and endowment properties. This process is anticipated to conclude at the end of 2018. The plan will reflect priorities identified by the University's Strategic Framework and integrate the campus' strategic plan for sustainability.

A summary of changes in capital assets is disclosed in Note 6. Capital assets, net of accumulated depreciation and amortization, at June 30, 2017, and June 30, 2016, were as follows:

Capital Assets, Net

(dollars in thousands)

	2017	2016 (as restated)	Percent Change
<i>Capital Assets:</i>			
Construction in progress	\$81,307	\$51,961	56.5
Land and other nondepreciable assets	214,533	194,829	10.1
Buildings, net	1,936,751	1,958,573	(1.1)
General infrastructure, net	579,911	600,875	(3.5)
Machinery, equipment, and computer software, net	278,355	286,692	(2.9)
Total	\$3,090,857	\$3,092,930	(0.1)

Completed construction projects of \$61.9 million were moved from construction in progress (CIP) to other asset categories during fiscal year 2017, and \$91.3 million was added to CIP. Net additions to buildings and general infrastructure were \$67.0 million during fiscal year 2017, offset by annual depreciation of \$110.7 million. Other nondepreciable assets increased by \$19.7 million, primarily due to a donation of artwork.

Capital Financing – During fiscal year 2017, the University continued to use its commercial paper program to provide low-cost bridge financing for capital projects with the intent to refinance all, or a portion of the funding, through the issuance of long-term bonds. The balance of commercial paper debt was \$63.0 million at June 30, 2017, and \$33.0 million at June 30, 2016.

During the fiscal year 2017, the University issued \$30 million in commercial paper debt to fund the purchase of real property improvements to the Rizzo Conference Center from the Kenan-Flagler Business School Foundation, a blended component unit of the University. The Kenan-Flagler Business School Foundation used these proceeds to repay in full the balance of a bank note on May 24, 2017, in advance of its June 30, 2017 maturity date.

On November 10, 2016, The University of North Carolina at Chapel Hill Foundation, Inc. (Foundation), another blended component unit of the University, increased the commitment amount of its line of credit from \$4.0 million to \$7.0 million. The balance outstanding against the line of credit totaled \$3.9 million at June 30, 2016. In fiscal year 2017, the Foundation drew \$1.6 million and \$2.3 million on June 19, 2017, and June 30, 2017, respectively. On June 30, 2017, the Foundation paid down \$3.9 million on the line. The outstanding balance remaining at June 30, 2017, was therefore \$3.9 million and is reflected in the current portion of long-term liabilities. This line of credit commitment has a maturity date of April 30, 2018.

On January 30, 2017, Granville Towers, LLC, a component unit of Chapel Hill Foundation Real Estate Holdings, Inc., obtained a loan in the amount of \$55.3 million. Chapel Hill Foundation Real Estate Holdings, Inc. is a component unit of The University of North Carolina at Chapel Hill Foundation, Inc. The proceeds were used to pay off the balance in full of a prior note in the original notional amount of \$36.5 million. The

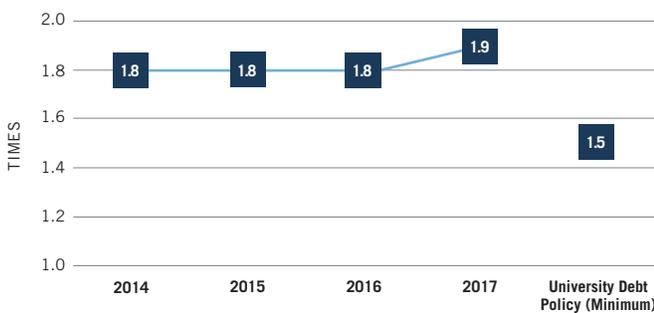
remainder of the proceeds will be used to fund strategic projects approved by the Board of Chapel Hill Foundation Real Estate Holdings, Inc.

Debt Management – The University maintains a combination of variable and fixed-rate debt, consistent with its debt management policy. The interest rate on the commercial paper program for fiscal year 2017 ranged from 0.42% to 1.05% and for fiscal year 2016 ranged from 0.02% to 0.48%. Interest rates on the University’s variable-rate, long-term bonds ranged from 0.38% to 1.45% for fiscal year 2017 and ranged from 0.01% to 1.06% for fiscal year 2016. Interest rates on fixed-rate, long-term bonds are disclosed in Note 10 of the financial statements. These rates reflect direct interest rates and do not reflect any impact from the interest rate swaps as referenced in Note 11.

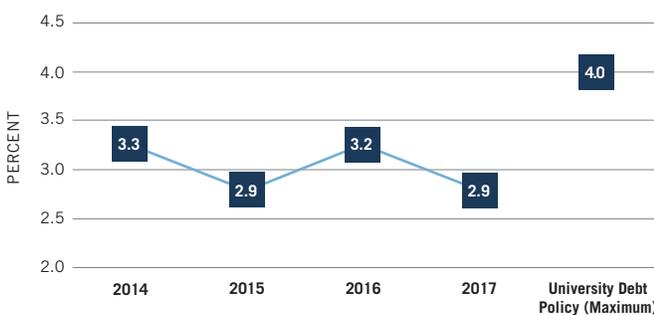
The University’s debt policy uses two key ratios to measure debt capacity: financial health, and credit quality. The debt service to operations ratio provides an indicator of the University’s ability to repay annual principal and interest relative to its overall operating expenses. The expendable resources to debt ratio measures unrestricted, expendable restricted and temporarily restricted net position to funded debt and serves as a relative indicator of financial health or cushion. Each ratio is compared to the University’s debt policy standard. At June 30, 2017, the expendable resources to debt ratio was 1.9 times, and the debt service to operations ratio was 2.9%. Results of both ratios comply with the University’s debt policy and indicate healthy coverage of debt requirements.

The University continues to maintain its long-term bond ratings of Aaa/AAA/AAA from Moody’s Investor Services, Standard & Poor’s Global Ratings and Fitch Ratings, respectively.

Expendable Resources to Debt



Debt Service to Operations



Other Noncurrent Assets and Liabilities

Excluding investments and capital assets discussed above, other noncurrent assets were \$229.3 million at June 30, 2017, and \$230.1 million at June 30, 2016, reflecting a 0.3% decrease. Other noncurrent assets include restricted cash and cash equivalents, receivables, notes receivable, and investments in joint ventures.

Total noncurrent liabilities were \$4.9 billion at June 30, 2017, and \$4.0 billion at June 30, 2016. These include funds held in trust for the University’s affiliated foundations and other campuses in the UNC System and their affiliates of \$3.0 billion at June 30, 2017, and \$2.2 billion at June 30, 2016. The increase is due to additions to endowments by these entities, as well as an increase due to investment performance.

Net Position

Net position represents the value of the University’s assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The University’s net position was \$4.7 billion at June 30, 2017, and \$4.6 billion at June 30, 2016.

Net Investment in Capital Assets – This category of net position represents the University’s total investment in capital assets, net of outstanding liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets such amounts are not included.

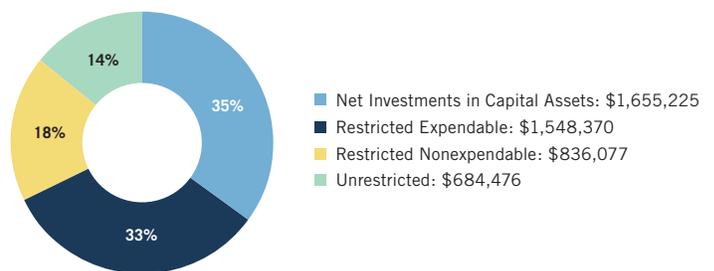
Nonexpendable Restricted – This category of net position includes endowment and similar assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity.

Expendable Restricted – This category of net position includes resources which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted – This category of net position is not subject to externally imposed stipulations; however, most of these resources have been designated for particular academic, research, or other programs, as well as capital projects.

2017 Net Position: \$4,724,148

(dollars in thousands)



Condensed Statement of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position presents the University's results of operations. The statements for the fiscal year ended June 30, 2017, and the prior year are summarized as follows:

Condensed Statement of Revenues, Expenses and Changes in Net Position (dollars in thousands)

	2017	2016 (as restated)	Percent Change
<i>Operating Revenues:</i>			
Student tuition and fees, net	\$426,856	\$405,808	5.2
Grants and contracts	811,223	829,498	(2.2)
Sales and services, net	869,730	832,824	4.4
Other operating revenues	16,394	19,082	(14.1)
Total Operating Revenues	2,124,203	2,087,212	1.8
Operating Expenses	3,013,412	2,827,249	6.6
Operating Loss	(889,209)	(740,037)	20.2
<i>Nonoperating Revenues (Expenses):</i>			
State appropriations	500,212	493,923	1.3
Non-capital gifts and grants	313,746	219,019	43.3
Investment income (loss), net	267,070	(50,950)	624.2
Interest and fees on debt	(56,960)	(62,561)	(9.0)
Federal interest subsidy on debt	2,116	2,118	(0.1)
Other nonoperating revenues (expenses)	(42,929)	27,520	(256.0)
Net Nonoperating Revenues	983,255	629,069	56.3
Income (Loss) Before Other Revenues	94,046	(110,968)	184.8
Capital appropriations	12,869	8,767	46.8
Capital grants	3,790	8,997	(57.9)
Capital gifts	16,996		n/a
Additions to permanent endowments	16,967	12,428	36.5
Increase (Decrease) in Net Position	144,668	(80,776)	279.1
Net Position – July 1	4,579,480	4,666,912	(1.9)
Restatements		(6,656)	n/a
Net Position – June 30	\$4,724,148	\$4,579,480	3.2

Fiscal year 2016-2017 revenues and other changes total \$3,257,969 and expenses total \$3,113,301. Fiscal year 2015-2016 revenues and other changes total \$2,859,984 and expenses total \$2,940,760.

Operating Revenues

Operating revenues represent resources generated by the University in fulfilling its instruction, research, and public service missions. Student tuition and fees, net for fiscal year 2017 increased 5.2% over the prior year. Student tuition and fees are reported net of scholarship discounts, which totaled \$109.2 million for fiscal year 2017 and \$102.9 million for the prior year. Tuition rates for fiscal year 2017 increased 3.5% for undergraduate residents, 0.7% for undergraduate nonresidents, 5.5% for graduate residents and 1.9% for graduate nonresidents.

Revenues from sponsored grants and contracts are close to the same level as the prior year. In terms of the pipeline for future research funding, faculty secured \$897.8 million in research funding during fiscal year 2017, as compared to \$846.7 million the previous year reflecting a continuing strong success rate. This funding comes in contracts and grants awarded by federal and state agencies, foundations, nonprofit organizations, corporations, and associations, with the federal government providing the majority of the awards. Securing research funding has become an increasingly competitive endeavor, particularly as the portion of the federal government budget allocable to research is constrained. A key factor in dealing with such competitive pressures is diversifying funding sources and bringing in more awards from foundations and private industry.

The National Institutes of Health (NIH) remained the University's largest funding source, with awards exceeding \$410.0 million. NIH's strong and ongoing support reflects positively on the University's health-related professional schools (dentistry, medicine, nursing, pharmacy and public health), UNC Health Care and its teaching hospitals, and basic and social science units in the College of Arts & Sciences.

The University's other top funders were the National Science Foundation at \$39.9 million; the Department of Health and Human Services (excluding NIH), \$40.1 million; and U.S. Agency for International Development, \$85.2 million. The University's multidisciplinary research centers and institutes continue to play a growing role in bringing research funding to North Carolina, accounting for approximately \$207.3 million, or over 20%, of total funding in fiscal year 2017.

New, innovative research facilities and infrastructure have made ground breaking interdisciplinary scientific research possible and contribute to obtaining research awards. Noteworthy among such opportunities is the partnership between the University and GlaxoSmithKline (GSK), a global pharmaceutical healthcare company, through which GSK is investing \$20.0 million over a five-year period ending fiscal year 2020 in pursuit of a cure for HIV. With this investment, a research team from GSK moved to Chapel Hill to be co-located with University researchers. The University is matching this investment by providing world-class laboratory space on its medical campus for the HIV Cure Center and the new company, QURA Therapeutics. GSK will be contributing its expertise and knowledge in medicines discovery, development, and manufacturing, and the University will bring its research and translational medicine capabilities and talent, as well as access to patients and funding.

Sales and services, net increased 4.4% in fiscal year 2017 and includes the revenues of campus auxiliary operations such as student housing, campus health services, the utilities system, and parking and transportation, as well as revenues from patient services provided by the professional healthcare clinics. The revenue component of sales and services from the professional healthcare clinics rose 6.2% as a result of increased patient receipts and recognition of additional Medicaid reimbursements. UNC Faculty Physicians continued

to expand its clinical mission across the State and to be a leader in providing healthcare to citizens of North Carolina, including affiliation with Area Health Education Centers across the State and the M.D. program expansion to Asheville, Charlotte and Wilmington. Other revenues represent operating resources not separately identified.

Operating Expenses

The University's operating expenses were \$3.0 billion for the fiscal year ended June 30, 2017, an increase of 6.6% from the prior year.

Operating expense categories changed at varying rates between fiscal year 2017 and fiscal year 2016, but experienced an overall increase of 6.6%. The increase was primarily driven by legislative authorized salary increases and bonuses, an increase in the employer contribution rate for certain benefits and growth in employee headcount. Instruction and research have historically represented the largest non-auxiliary functional categories: 43.7% of total operating expenses in fiscal year 2017 and 45.1% in fiscal year 2016. The next largest functional category, auxiliary expenses, represented 24.1% of total operating expenses in fiscal year 2017 and 23.4% in fiscal year 2016. Across all functional categories, salaries and benefits represent the largest component, followed by services.

Nonoperating Revenues and Expenses

State appropriations, non-capital gifts and grants, and investment income, net are considered nonoperating because they were not generated by the University's principal, ongoing operations. State appropriations are provided to help fund operating expenses. State appropriations revenue totaled \$500.2 million for fiscal year 2017, an increase of 1.3% from the \$493.9 million received during the prior year. Increases included \$19.4 million for compensation and benefits, \$3.0 million for UNC School of Medicine Asheville, and \$1.0 million for tuition waivers for nonresident veterans. Decreases included a \$9.9 million management flexibility reduction and \$4.2 million enrollment funding adjustment.

Non-capital gifts and grants increased 43.3% to \$313.7 million and include expendable gifts and federal government and other awards that are not considered to be operating revenues. Investment returns reflected a \$51.0 million loss for fiscal year 2016, but improved to a \$267.1 million income for fiscal year 2017. Refer to the Endowment Performance sub-section in the Endowment, Restricted and Other Investments section for additional discussion and analysis. Investment income includes investment yield and realized and unrealized gains and losses, net of investment management fees.

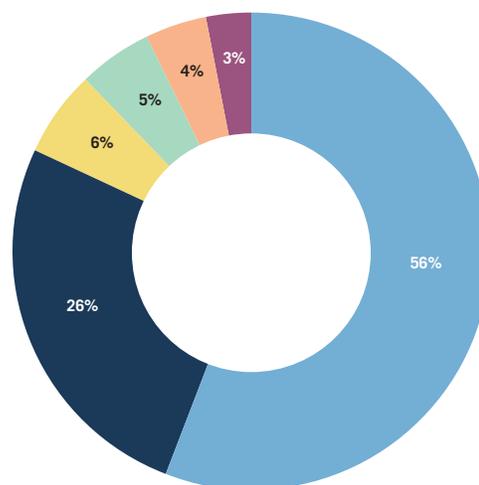
Operating Expenses by Natural Classification

(dollars in thousands)

	2017	2016	Percent Change
Salaries and benefits	\$1,697,183	\$1,544,503	9.9
Supplies and materials	191,162	216,969	(11.9)
Services	782,162	722,677	8.2
Scholarships and fellowships	123,739	122,816	0.8
Utilities	79,081	83,711	(5.5)
Depreciation and amortization	140,085	136,573	2.6
Total Operating Expenses	\$3,013,412	\$2,827,249	6.6

2017 Operating Expenses by Nature: \$3,013,412

(dollars in thousands)



- Salaries and Benefits: \$1,697,183
- Services: \$782,162
- Supplies and Materials: \$191,162
- Depreciation and Amortization: \$140,085
- Scholarships and Fellowships: \$123,739
- Utilities: \$79,081

Total Operating and Nonoperating Revenues

Operating and nonoperating revenues such as state appropriations, non-capital grants, non-capital gifts and investment income are used to fund University operations. The chart on page 42 illustrates the University's operating and nonoperating revenues, which total \$3.2 billion for fiscal year 2017. As seen in this chart, the University has a diversified revenue base.

Other Changes in Net Position

Capital appropriations for fiscal year 2017 were \$12.9 million, as compared with \$8.8 million for the prior year, and were used to fund construction projects that were not receipts supported. Capital grants for capital construction projects were \$3.8 million for fiscal year 2017 and \$9.0 million for fiscal year 2016. There were no capital gifts for fiscal year 2016, as compared with \$17.0 million for fiscal year 2017. Capital gifts include artwork donated to The Ackland Art Museum. Additions to permanent endowments, including funds from the State's program to match gifts for distinguished professorship endowments, were \$17.0 million during fiscal year 2017 and \$12.4 million during fiscal year 2016.

Economic Outlook

The University of North Carolina at Chapel Hill remains financially sound with a robust and diverse revenue base, a healthy endowment, strong tradition of private giving, expense management, highly selective acceptance rate and a commitment to excellence.

Tuition rates for the ensuing fiscal year 2018 increased 2.0% for undergraduate residents not eligible for the Tuition Guarantee Academic Year 2016-17 rate and 2.0% for undergraduate nonresidents. For graduate residents, tuition rates increased 3.1%, and for graduate nonresidents there was an increase of 1.1%. The University continues to return a portion of tuition revenue to students in the form of need-based aid and, combined with other sources, continues to provide financial aid to meet 100% of documented need for undergraduate students.

State appropriations for fiscal year 2018 are budgeted at \$510.4 million. Initiatives funded by the UNC System such as faculty recruitment and retention, campus scholarship awards, department-based research, and other programs may increase the state appropriations budget during the 2018 fiscal year.

Consistency and growth in sponsored awards is a proven and reliable source in support of the University's research mission. The University's research enterprise has doubled in the last decade, reaching over \$800.0 million in extramural support for fiscal year 2017. It directly supports more than 10,000 positions statewide. In a 2015 report titled *The Top American Research Universities*, the University was ranked one of the top eight public universities. The report, produced by the Center for Measuring University Performance, assessed

Operating Expenses by Function

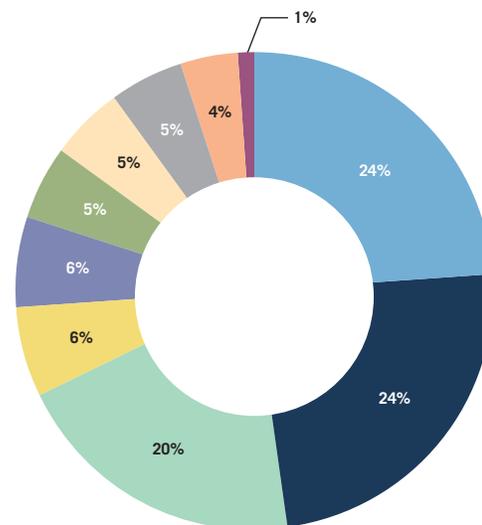
(dollars in thousands)

	2017	2016	Percent Change
Instruction	\$721,569	\$728,243	(0.9)
Research	595,219	546,228	9.0
Public service	142,315	164,235	(13.3)
Academic support	137,947	137,657	0.2
Student services	45,506	39,162	16.2
Institutional support	186,342	139,743	33.3
Operations and maintenance of plant	193,988	152,396	27.3
Student financial aid	123,740	122,816	0.8
Auxiliary enterprises	726,701	660,197	10.1
Depreciation and amortization	140,085	136,572	2.6
Total Operating Expenses	\$3,013,412	\$2,827,249	6.6

* Effective 2016 Pension Expense is not a separate line item but is distributed between functional categories.

Operating Expenses by Function: \$3,013,412

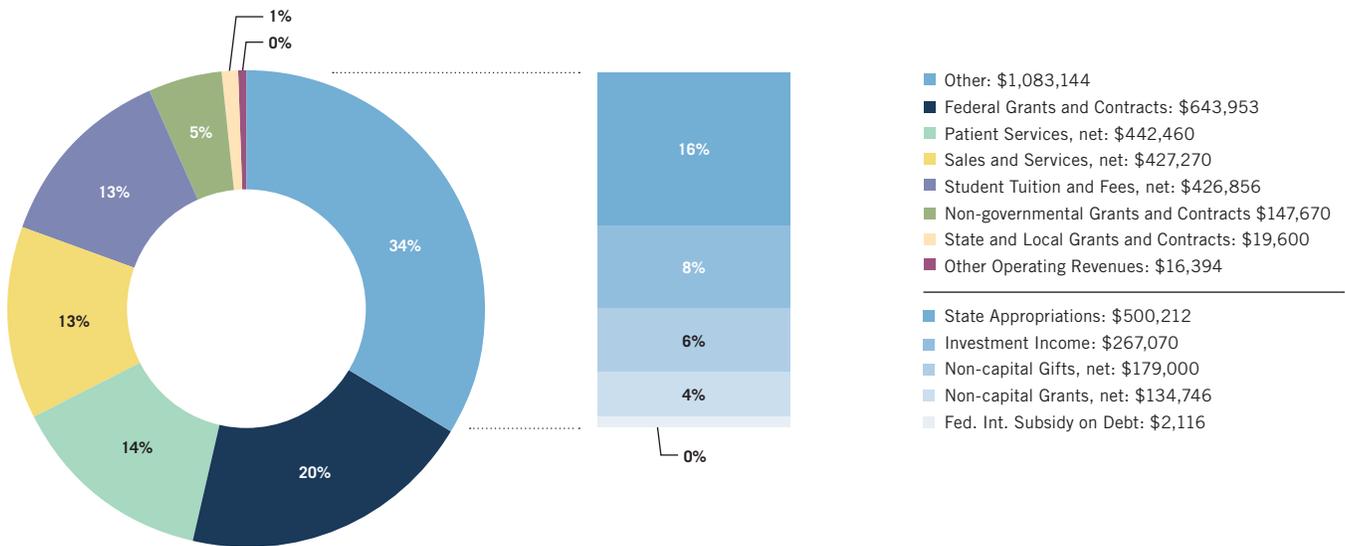
(dollars in thousands)



- Auxiliary Enterprises: \$726,701
- Instruction: \$721,569
- Research: \$595,219
- Operations and Maintenance of Plant: \$193,988
- Institutional Support: \$186,342
- Public Service: \$142,315
- Depreciation and Amortization: \$140,085
- Academic Support: \$137,947
- Student Financial Aid: \$123,740
- Student Services: \$45,506

2017 Total Revenues by Source: \$3,207,347

(dollars in thousands)



areas such as research, private support, faculty strength and advanced training. Among international universities, the University was ranked 56th in the world by the London-based *Times Higher Education* magazine in 2017. Strong financial support from North Carolina's elected officials has helped build the infrastructure that enabled this growth, as have strong collaborative ties to Duke University and N.C. State University in the Research Triangle Park region.

Philanthropic efforts continue to be successful as demonstrated by the recent announcement that fiscal year 2017 was the third consecutive record fundraising year. The University raised \$543.3 million in commitments, eclipsing the prior fiscal year's record by nearly \$50.0 million. This performance is a result of generous contributions by nearly 68,000 donors. Anchored by the "Give for Good" challenge, the University raised more than \$40.0 million in support of financial aid and merit scholarships while assuring its place as the top school in the nation for providing opportunity and access.

Commitments included a \$25.0 million gift to the Ackland Art Museum, its largest gift ever, which will endow a new curator and included 130 pieces of artwork; an \$18.0 million gift for the College of Arts & Sciences to bolster the undergraduate entrepreneurship program; and the prestigious \$1.0 million award from the Jack Kent Cooke Foundation to make higher education accessible and affordable for low-income students.

Endowment funds provide an important distribution of earnings in support of the University's mission. Approximately \$3.05 billion is invested with the UNC Investment Fund. The achievement of investment objectives cannot be realized unless a substantial portion of assets are invested in securities which are subject to market volatility. The UNC Investment Fund does not seek to eliminate risk, but to balance volatility and

expected return. This strategy requires investments in different asset classes with proper diversification in order to minimize the probability of loss while generating investment returns sufficient to meet program objectives. As it relates to the Fund, diversification is primarily achieved through the strategic asset allocation at the aggregate level and then augmented by strategies mandated with individual investment managers.

Since asset allocation is the fundamental driver of risk and return, the framework of the UNC Investment Fund has been designed to optimize risk-adjusted returns in support of achieving long-term objectives. The UNC Investment Fund has established ranges or bands for each respective asset class in order to provide a controlled framework for managing risk. Asset allocations are adjusted periodically, in accordance with policy objectives, to reflect market conditions and align assets with planned performance expectations. Asset allocations represent the best estimate at a given measurement date for supporting long-term expected rate of return objectives.

Given the current risks and uncertainties in financial markets, the strategy focuses on capital preservation and downside protection as the most prudent near-term course of action. On an historical basis, many asset classes are quite expensive while their forward-looking return profiles are often muted. It is due to these factors that the University tends to favor those investment opportunities that provide modest returns with less volatility rather than more aggressive strategies. Current market conditions require flexibility and prudent investing to preserve and protect capital while incrementally generating return in a risk-efficient manner. Actual investment experience and expectations will vary depending upon the current state environment, time horizon and other factors.

In fiscal year 2018, the University will adopt Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions. The provisions of this Statement establish accounting and financial reporting standards for defined benefit other postemployment benefits (OPEB) and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. Implementation of this Statement will require the University to record a liability for its proportionate share of the OPEB liability of plans in which it participates. Actuarial estimates are currently being made to determine the University's liability, the effects of which could have a material impact on the net position from a financial reporting perspective.

In July, 2017, Moody's Investor Service published its sector in-depth report on Higher Education – US, which indicated that public colleges and universities continue to demonstrate overall financial stability. Looking toward 2018, however, revenue and

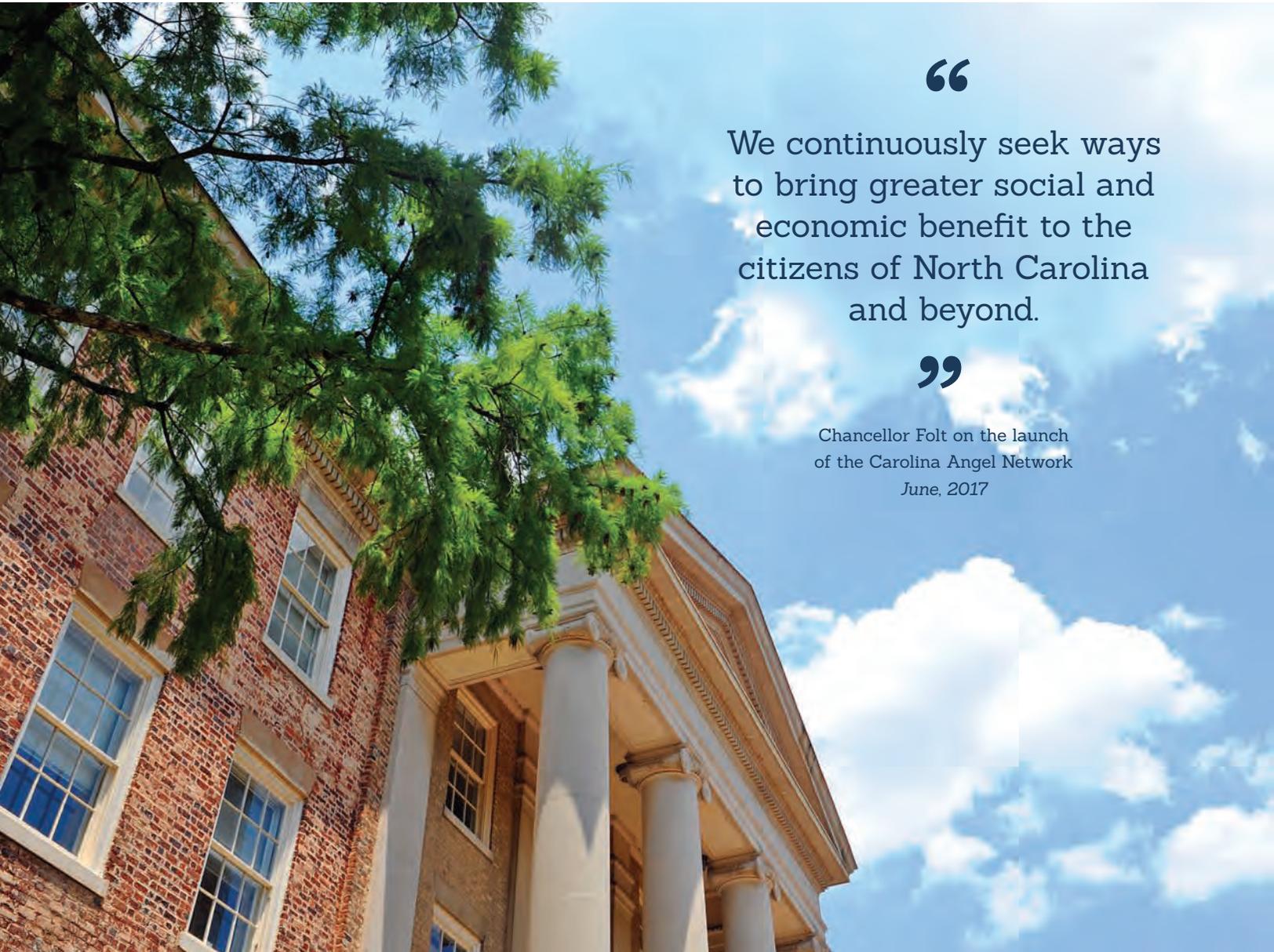
expense pressures are expected to emerge. Brand strength and revenue diversity are expected to ease some of the pressures for large research universities. The University's ability to grow the base and mix of its revenue is an important part of its financial and operational strategy. The University's mixture of funding sources include student tuition, state appropriations, federal, state and other research awards, philanthropy, sales from clinical and business operations, and investment returns. This diversity of resources provides flexibility for the University to withstand funding fluctuations. The University continues to attract top students. International student applications increased 14.4% from the prior year and first-year applicants showed a growth of 15.2%. The University faces significant pressure on its ability to manage expenses while maintaining the competitive salaries and benefits needed to attract top faculty. Continued effective leadership and commitment to financial health will fortify the University as it continues to thrive. While it is not possible to predict future results, management believes that the University's financial position will remain strong.

“

We continuously seek ways to bring greater social and economic benefit to the citizens of North Carolina and beyond.

”

Chancellor Folt on the launch
of the Carolina Angel Network
June, 2017



Statement of Net Position for the University

As of June 30, 2017

Assets	
<i>Current Assets:</i>	
Cash and cash equivalents	\$259,571,676
Restricted cash and cash equivalents	365,512,792
Short-term investments	361,021,327
Restricted short-term investments	124,768,157
Receivables, net (Note 5)	283,845,535
Due from primary government	2,857,908
Due from State of North Carolina component units	29,030,824
Inventories	20,974,206
Notes receivable, net (Note 5)	5,592,258
Other assets	9,664,553
Total current assets	1,462,839,236
<i>Noncurrent Assets:</i>	
Restricted cash and cash equivalents	133,420,025
Receivables, net (Note 5)	35,890,229
Restricted due from primary government	327,656
Endowment investments	1,956,020,361
Restricted investments	2,939,147,139
Other investments	114,505,372
Notes receivable, net (Note 5)	46,899,099
Investment in joint ventures (Note 20)	12,808,382
Capital assets – nondepreciable (Note 6)	295,840,573
Capital assets – depreciable, net (Note 6)	2,795,016,082
Total noncurrent assets	8,329,874,918
Total assets	\$9,792,714,154

Deferred Outflows of Resources	
Deferred loss on refunding	\$11,860,443
Accumulated decrease in fair value of hedging derivatives	102,925,083
Deferred outflows related to pensions	193,658,054
Total deferred outflows of resources	\$308,443,580

Liabilities	
<i>Current Liabilities:</i>	
Accounts payable and accrued liabilities (Note 7)	\$156,785,965
Due to State of North Carolina component units	13,459,633
Deposits payable	7,393,088
Funds held for others	2,794,951
Unearned revenue	124,371,053
Interest payable	4,499,636
Obligations under reverse repurchase agreements	2,461,896
Short-term debt (Note 9)	63,000,000
Long-term liabilities - current portion (Note 10)	127,584,659
Total current liabilities	502,350,881
<i>Noncurrent Liabilities:</i>	
U.S. Government grants refundable	\$33,202,843
Funds held in trust for pool participants	3,020,492,007
Hedging derivative liability	102,925,083
Long-term liabilities (Note 10)	1,702,568,778
Total noncurrent liabilities	4,859,188,711
Total liabilities	\$5,361,539,592

Deferred Inflows of Resources	
Deferred inflows related to pensions	\$15,469,694
Total deferred inflows of resources	\$15,469,694

Net Position	
Net investment in capital assets	\$1,655,225,285

<i>Restricted for:</i>	
<i>Nonexpendable:</i>	
Scholarships and fellowships	192,620,727
Research	21,439,326
Endowed professorships	385,259,221
Departmental uses	150,446,159
Loans	22,442,268
Other	63,869,107
Total nonexpendable	836,076,808

<i>Expendable:</i>	
Scholarships and fellowships	242,214,739
Research	78,459,449
Endowed professorships	466,599,802
Departmental uses	443,741,873
Capital projects	86,534,071
Debt service	164,939,722
Other	65,880,486
Total expendable	1,548,370,142
Unrestricted	684,476,213
Total net position	\$4,724,148,448

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

Statement of Revenues, Expenses and Changes in Net Position for the University

For the fiscal year ended June 30, 2017

Revenues	
<i>Operating Revenues:</i>	
Student tuition and fees, net (Note 13)	\$426,855,854
Patient services, net (Note 13)	442,459,524
Federal grants and contracts	643,952,831
State and local grants and contracts	19,599,875
Non-governmental grants and contracts	147,670,469
Sales and services, net (Note 13)	427,269,957
Interest earnings on loans	1,431,925
Other operating revenues	14,962,232
Total operating revenues	\$2,124,202,667

Expenses	
<i>Operating Expenses:</i>	
Salaries and benefits	\$1,697,183,026
Supplies and materials	191,161,797
Services	782,161,586
Scholarships and fellowships	123,739,574
Utilities	79,080,897
Depreciation and amortization	140,084,652
Total operating expenses	3,013,411,532
Operating loss	(\$889,208,865)

Nonoperating Revenues (Expenses)	
State appropriations	\$500,212,327
Non-capital grants – student financial aid	15,991,507
Other non-capital grants	118,753,785
Non-capital gifts, net (Note 13)	179,000,417
Investment income (net of investment expense of \$2,216,797)	267,069,770
Interest and fees on debt	(56,960,171)
Federal interest subsidy on debt	2,116,130
Other nonoperating expenses	(42,929,104)
Net nonoperating revenues	983,254,661
Income before other revenues	94,045,796
Capital appropriations	12,868,915
Capital grants	3,789,728
Capital gifts	16,995,926
Additions to endowments	16,968,135
Increase in net position	\$144,668,500

Net Position	
Net position – July 1, 2016, as restated (Note 23)	\$4,579,479,948
Net position – June 30, 2017	\$4,724,148,448

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

Statement of Cash Flows for the University

For the fiscal year ended June 30, 2017

Cash Flows From Operating Activities	
Received from customers	\$2,179,129,006
Payments to employees and fringe benefits	(1,658,589,087)
Payments to vendors and suppliers	(1,030,762,194)
Payments for scholarships and fellowships	(123,739,574)
Loans issued	(5,445,663)
Collection of loans	5,591,574
Interest earned on loans	1,340,922
Other receipts	3,460,088
Net cash used by operating activities	(\$629,014,928)

Cash Flows From Non-Capital Financing Activities	
State appropriations	\$500,212,327
Non-capital grants – student financial aid	15,991,507
Non-capital grants	118,753,785
Non-capital gifts	133,372,425
Additions to endowments	16,968,135
William D. Ford direct lending receipts	180,528,097
William D. Ford direct lending disbursements	(180,958,910)
Related activity agency receipts	1,779,937,347
Related activity agency disbursements	(1,190,369,648)
Other receipts	28,644,327
Net cash provided by non-capital financing activities	\$1,403,079,392

Cash Flows From Capital Financing And Related Financing Activities	
Proceeds from capital debt	\$89,214,347
Capital appropriations	12,868,915
Capital grants	2,297,511
Acquisition and construction of capital assets	(127,991,945)
Principal paid on capital debt and leases	(99,119,318)
Interest and fees paid on capital debt and leases	(64,313,019)
Federal interest subsidy on debt received	2,116,130
Net cash used by capital financing and related financing activities	(\$184,927,379)

Cash Flows From Investing Activities	
Proceeds from sales and maturities of investments	\$4,230,194,024
Investment income	118,735,904
Purchase of investments and related fees	(4,665,640,858)
Change in obligations under reverse repurchase agreements	(12,793,104)
Net cash used by investing activities	(329,504,034)
Net increase in cash and cash equivalents	259,633,051
Cash and cash equivalents – July 1, 2016	498,871,442
Cash and cash equivalents – June 30, 2017	\$758,504,493

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

Reconciliation Of Net Operating Loss To Net Cash Used By Operating Activities	
Operating loss	(\$889,208,865)
<i>Adjustments to Reconcile Loss to Net Cash Used by Operating Activities:</i>	
Depreciation and amortization expense	140,084,652
Allowances and write-offs	8,887,956
<i>Changes in Assets and Deferred Outflows of Resources:</i>	
Receivables, net	(49,080,487)
Inventories	2,771,306
Notes receivable, net	1,889,194
Deferred outflows for pensions	(149,480,601)
Other assets	(4,026,879)
<i>Changes in Liabilities and Deferred Inflows of Resources:</i>	
U.S. government grants refundable	1,659,591
Accounts payable and accrued liabilities	14,527,124
Unearned revenue	105,404,962
Net pension liability	169,272,884
Compensated absences	31,173,093
Deferred inflows for pensions	(12,888,858)
Net cash used by operating activities	(\$629,014,928)

Noncash Investing, Capital, And Financing Activities	
Assets acquired through the assumption of liability	\$3,033,233
Assets acquired through a gift	16,995,926
Change in fair value of investments	147,522,203
Loss on disposal of capital assets	(11,613,211)
Amortization of bond premiums / discounts	1,677,406

Reconciliation Of Cash And Cash Equivalents	
<i>Current Assets:</i>	
Cash and cash equivalents	\$259,571,676
Restricted cash and cash equivalents	365,512,792
<i>Noncurrent Assets:</i>	
Restricted cash and cash equivalents	133,420,025
Total cash and cash equivalents – June 30, 2017	\$758,504,493

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

Statement of Financial Position for Component Units of the University

As of June 30, 2017

Assets	UNC-CH Arts and Sciences Foundation, Inc.	The Educational Foundation Scholarship Endowment Trust	The Medical Foundation of North Carolina, Inc.
<i>Current Assets:</i>			
Cash and cash equivalents	\$19,218,897	\$10,210,840	\$31,622,237
Promises to give, net	12,049,545	3,631,444	6,668,659
Contributions receivable from split-interest agreements		4,852,193	
Accounts receivable	511,266		
Other receivables	9,603		
Other current assets			1,969,779
Total current assets	31,789,311	18,694,477	40,260,675
<i>Property and Equipment:</i>			
Property and equipment: capital assets, net	6,679,201		251,162
Total property and equipment	6,679,201		251,162
<i>Other Assets:</i>			
Investments	228,716,733	220,821,086	262,575,627
Promises to give, net	29,829,353		9,649,818
Split-interest agreements	1,729,800		
Cash surrender value of life insurance		1,803,490	
Other assets			3,770,961
Total other assets	260,275,886	222,624,576	275,996,406
Total assets	\$298,744,398	\$241,319,053	\$316,508,243
Liabilities and Net Assets			
<i>Current Liabilities:</i>			
Accounts payable and accrued expenses	\$47,484		\$531,127
Annuities payable		\$41,114	
Current portion of loan payable	340,966		
Total current liabilities	388,450	41,114	531,127
<i>Long-Term Liabilities:</i>			
Deferred revenue			356,518
Loan payable	2,443,959		
Charitable remainder trusts			51,667
Total long-term liabilities	2,443,959		408,185
Total liabilities	2,832,409	41,114	939,312
<i>Net Assets:</i>			
Unrestricted	49,428,310		11,456,456
Temporarily restricted	118,841,041	116,399,472	190,183,520
Permanently restricted	127,642,638	124,878,467	113,928,955
Total net assets	295,911,989	241,277,939	315,568,931
Total liabilities and net assets	\$298,744,398	\$241,319,053	\$316,508,243

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

Statement of Activities and Changes in Net Assets for Component Units of the University
For the fiscal year ended June 30, 2017

Support and Revenue	UNC-CH Arts and Sciences Foundation, Inc.	The Educational Foundation Scholarship Endowment Trust	The Medical Foundation of North Carolina, Inc.
<i>Support:</i>			
Contributions	\$35,661,919	\$7,967,278	\$25,081,102
Development assessment fee	3,139,517		
Change in value of split-interest agreements	273,500		258,000
Contributed services and facilities			2,055,486
Actuarial adjustment of annuities payable		6,512	
Endowment investment return designated for current operations		10,419,407	
Total support	39,074,936	18,393,197	27,394,588
<i>Revenue:</i>			
Interest and dividends			2,469,887
Net unrealized and realized gains on investments	23,386,125		27,648,529
Investment income	46,131		
Other income (expense)	2,571		876,566
Total revenue	23,434,827		30,994,982
Total support and revenue	\$62,509,763	\$18,393,197	\$58,389,570
Expenses			
<i>Program Services:</i>			
Grants	\$12,499,167		\$22,212,969
Scholarship expense distribution		\$10,412,722	
Annuity payments		6,685	
Other expense		115,000	
Total program services	12,499,167	10,534,407	22,212,969
<i>Supporting Services:</i>			
Fundraising expenses	2,710,036		4,279,878
Management, administrative and general	798,969		1,989,370
Total supporting services	3,509,005		6,269,248
Bad debt expense	85,475		
Total expenses and bad debt expense	\$16,093,647	\$10,534,007	\$28,482,217
Other Changes			
Endowment investment return in excess of amounts designated for current operations		\$13,269,745	
Changes in Net Assets			
Unrestricted	\$6,450,221		\$1,895,460
Temporarily restricted	24,354,444	\$13,276,257	19,238,556
Permanently restricted	15,611,451	7,852,278	8,773,337
Total changes in net assets	46,416,116	21,128,535	29,907,353
Net Assets – Beginning of Year (as restated)	249,495,873	220,149,404	285,661,578
Net Assets – End of Year	\$295,911,989	\$241,277,939	\$315,568,931

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

Notes to the Financial Statements

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NOTE 1

Significant Accounting Policies

A Financial Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by generally accepted accounting principles (GAAP) in the United States of America, 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 Chapel Hill (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. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Blended Component Units – Although legally separate, The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund), UNC Investment Fund, LLC (UNC Investment Fund), UNC Intermediate Pool, LLC (UNC Intermediate Fund), UNC Management Company, Inc. (Management Company), The University of North Carolina at Chapel Hill Foundation, Inc. (UNC–Chapel Hill Foundation), The Kenan-Flagler Business School Foundation (Business School Foundation), UNC Law Foundation, Inc. (Law Foundation), The University of North Carolina at Chapel Hill School of Education Foundation, Inc. (School of Education Foundation), WUNC Public Radio, LLC (WUNC), Carolina Research Ventures, LLC (Research Ventures) and HVPV Holdings, LLC (HVPV), component units

of the University, are reported as if they were part of the University.

The Chapel Hill Investment Fund was established in January 1997 and is classified as a governmental external investment pool. The fund is governed by a board consisting of eight to 11 ex-officio directors and two to four elected directors. Ex-officio directors include all of the members of the Board of Trustees of the Endowment Fund of the University, which includes the Chair of the University Board of Trustees, the Chancellor, the Vice Chancellor for Finance and Administration, and the Vice Chancellor for University Development. The UNC–Chapel Hill Foundation Board may, in its discretion, elect one or two of its at-large members to the Chapel Hill Investment Fund Board. The ex-officio directors of the Chapel Hill Investment Fund may elect one or two directors by unanimous written consent. The Chapel Hill Investment Fund supports the University by operating an investment fund for certain eligible charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Because members of the Board of Directors of the Chapel Hill Investment Fund are officials or appointed by officials of the University and the Chapel Hill Investment Fund's primary purpose is to benefit the University and other organizations operated primarily to support the University, its financial statements have been blended with those of the University.

The UNC Investment Fund was organized by the Chapel Hill Investment Fund to allow the University, the UNC System, other constituent institutions of the UNC System, and certain eligible affiliated foundations, associations, trusts, and endowments that support the University and the UNC System, to pool their resources and invest collectively in investment opportunities identified, structured, and managed by the Management Company. The membership interests are offered only to eligible government entities or tax-exempt organizations that are controlled by or support the University, the UNC System, or other constituent institutions of the UNC System. The Chapel Hill Investment Fund contributed and assigned all of its assets to the UNC Investment Fund effective January 1, 2003, in exchange for its membership interest in the UNC Investment Fund. Upon such contribution and assignment, and in consideration thereof, the UNC Investment Fund has assumed all liabilities and obligations of the Chapel Hill Investment Fund in respect of such contributed assets. At June 30, 2017, the Chapel Hill Investment Fund membership interest was approximately 56% of the UNC Investment Fund total membership interests. Because the Chapel Hill Investment Fund is the organizer and controlling member of the UNC Investment Fund, the financial statements of the UNC Investment Fund have been blended with those of the University.

The UNC Intermediate Fund was organized in May 2013 by the University to make available an intermediate-term

investment fund for eligible participants. The University is the controlling member. The UNC Intermediate Fund is classified as governmental external investment pool. Eligible participants in the fund include not only the University but also the UNC System, its constituent institutions, and/or affiliates and supporting organizations of the UNC System or such constituent institutions. The University has retained the Management Company to serve as the investment manager of the fund. Because the University is the organizer and controlling member of the UNC Intermediate Fund, the financial statements of the UNC Intermediate Fund have been blended with those of the University.

The Management Company is organized and operated exclusively to support the educational mission of the University. The Management Company provides investment management and administrative services to the University, UNC System, and institutions and affiliated tax-exempt organizations, and performs other functions for and generally carries out the purposes of the University. The Management Company is governed by five ex-officio directors and one to three additional directors as fixed or changed from time to time by the board, elected by the ex-officio directors. The ex-officio directors consist of the Chancellor, the Vice Chancellor for Finance and Administration, the Chair of the University Board of Trustees, the Chair of the Board of Directors of the Chapel Hill Investment Fund, and the President of the Management Company. Because members of the Board of Directors of the Management Company are officials or appointed by officials of the University and the Management Company's primary purpose is to benefit the University and other organizations operated primarily to support the University, its financial statements have been blended with those of the University.

The UNC–Chapel Hill Foundation is governed by a 17-member board consisting of nine ex-officio directors and eight elected directors.

Ex-officio directors include the Chair of the University Board of Trustees, the Chancellor, the Vice Chancellor for Finance and Administration, and the Vice Chancellor for University Development (non-voting). In addition, the Board of Trustees elects two ex-officio directors from among its own members as well as three ex-officio directors from the Board of Trustees of the Endowment Fund who have not otherwise been selected. The eight remaining directors are elected as members of the UNC–Chapel Hill Foundation Board of Directors by action of the ex-officio directors. The UNC–Chapel Hill Foundation aids, supports, and promotes teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because members of the Board of Directors of the UNC–Chapel Hill Foundation are officials or appointed by officials of the University and the UNC–Chapel Hill Foundation's sole purpose is to benefit the University, its financial statements have been blended with those of the University.

The Business School Foundation is governed by a board consisting of four ex-officio directors and four or more elected directors. Ex-officio directors include the Dean of the Kenan-Flagler Business School (Business School), as well as the Business School's Chief Financial Officer, Associate Dean of Academic Affairs, and Associate Dean for MBA Programs. The remaining directors are elected to the Business School Foundation Board of Directors by action of the ex-officio directors. The Business School Foundation aids, promotes, and supports the Kenan-Flagler Business School at the University. Because members of the Board of Directors of the Business School Foundation are officials or appointed by officials of the University, the financial statements of the Business School Foundation have been blended with those of the University.

The Law Foundation is governed by a board consisting of one ex-officio director, six appointed directors, and six elected directors. The ex-officio director is the Dean of the School of Law of the University. The ex-officio director appoints six directors and the Board of Directors of the Law Alumni Association of UNC, Inc. elects the other six directors. The Law Foundation provides support, fosters, and encourages the study and teaching of law at the University's Law School. Because a majority of the members of the Board of Directors of the Law Foundation are officials or appointed by officials of the University, the financial statements of the Law Foundation have been blended with those of the University.

The School of Education Foundation is governed by a board consisting of seven ex-officio directors and up to 15 elected directors. Ex-officio directors include the Dean of the School of Education, as well as the School's Associate Dean for Academic Programs, Assistant Dean for Development, Assistant Dean for Finance and Operations, Director of Alumni Relations, President of the Alumni Council, and President-Elect of the Alumni Council. The remaining directors are elected to the School of Education Foundation Board of Directors by action of the ex-officio directors. The School of Education Foundation aids, supports, and promotes teaching, research, and service at the School of Education. Because members of the Board of Directors of the School of Education Foundation are officials or appointed by officials of the University, the financial statements of the School of Education Foundation have been blended with those of the University. Effective July 1, 2017, the School of Education Foundation merged into the UNC–Chapel Hill Foundation.

WUNC is governed by a board consisting of nine members. Seven members of the board, at least two of which are members of the Board of Trustees of the University, are appointed by the Board of Trustees of the University. The remaining two board members are the University's Vice Chancellor of Communications and the General Manager of the noncommercial educational radio station WUNC-FM. The purposes of WUNC are to support the University by holding FCC licenses of noncommercial radio stations and operating

and conducting programming of those radio stations and NC Public Radio, WUNC-FM, furthering the University's efforts to extend knowledge-based and educational services to the citizens of NC and to enhance the quality of life for the people of the State. Because members of the Board of Directors of WUNC are officials or appointed by officials of the University and the primary purpose of WUNC is to benefit the University, its financial statements have been blended with those of the University.

Research Ventures is governed by a board consisting of six designated members and three at-large members. Designated members include the Chief Financial Officer of the University, the Chief Executive Officer of the UNC Management Company, Inc., two members of the Board of Trustees of the University, and two individuals appointed by the Chief Executive Officer of the UNC Health Care System. The at-large members are three members elected by the designated members. Research Ventures supports the educational mission of the University by performing functions to carry out the purposes of the University including creating, acquiring, holding, and disposing of investments on behalf of the University in businesses that commercialize technology and inventions created at the University or through use of University resources. Carolina Research Venture Investment Fund, LLC is a component unit of Research Ventures and is included in its financial statements. Because a majority number of the Board of Directors are officials or appointed by officials of the University, and Research Ventures' primary purpose is to benefit the University, the financial statements of Research Ventures have been blended with those of the University.

HVPV is governed by the University as a sole member of HVPV. All decisions with respect to the management of the business and affairs of HVPV are made by the University. The University directs, manages, and controls the business of HVPV. HVPV was formed for the sole benefit of the University and its purposes include holding an investment in limited partnership interests of a venture capital partner and promoting the business thereof. Because the University has complete authority to make decisions, and HVPV's primary purpose is to benefit the University, the financial statements of HVPV have been blended with those of the University.

Separate financial statements for University's blended component units may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

Condensed combining information regarding blended component units is provided in Note 21.

Discretely Presented Component Units – The Medical Foundation of North Carolina, Inc. (Medical Foundation), The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc. (Arts and Sciences Foundation), and The Educational Foundation Scholarship Endowment

Trust (Educational Foundation Trust) are legally separate nonprofit, tax-exempt corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Medical Foundation is governed by a board consisting of one ex-officio director, the Dean of the UNC School of Medicine, and up to 33 elected directors, who serve staggered terms. Two other ex-officio directors, the President of UNC Health Care and the President of the Medical Foundation, have no voting rights on any matters. Its purpose is to support educational, scientific, and public service efforts of the University's School of Medicine and UNC Health Care System. Historically, the University's School of Medicine has been the major recipient of financial support from the Medical Foundation rather than UNC Health Care System. Although the University does not control the timing or amount of receipts from the Medical Foundation, the majority of resources or income that the Medical Foundation holds and invests is restricted to the University by the donors. Because these restricted resources held by the Medical Foundation can only be used by, or for the benefit of the University, the Medical Foundation is considered a component unit of the University.

The Arts and Sciences Foundation is governed by a board consisting of five ex-officio directors, 30 elected directors and such number of emeritus directors determined from time to time by the Board of Directors. Staggered terms are set for the elected directors by the Board of Directors in office at the time of election. The purpose of the Arts and Sciences Foundation is to promote and support the University's College of Arts & Sciences. Although the University does not control the timing or amount of receipts from the Arts and Sciences Foundation, the majority of resources or income that the Arts and Sciences Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Arts and Sciences Foundation can only be used by, or for the benefit of the University, the Arts and Sciences Foundation is considered a component unit of the University.

The Educational Foundation Trust is governed by The Educational Foundation Scholarship Endowment Trust Agreement which designates the voting members of the Investment Committee of The Educational Foundation, Inc. as trustees. The Investment Committee consists of five members elected from the membership of The Educational Foundation, Inc. The Educational Foundation Trust operates solely to assist the University in providing financial assistance to students at the University. On an annual basis, the Board of Trustees of the Educational Foundation Trust appropriates a portion of the net appreciation on its assets to The Educational Foundation, Inc. in its capacity as agent for the Educational Foundation Trust. The distribution from the Educational Foundation Trust to The Educational Foundation, Inc. is then forwarded by The Educational Foundation, Inc. to the University to provide

financial assistance to students at the University. Although the University does not control the timing or amount of receipts from the Educational Foundation Trust, the majority of resources or income that the Educational Foundation Trust holds and invests is restricted to the students of the University by the donors. Because these restricted resources held by the Educational Foundation Trust can only be used for the benefit of the students of the University, the Educational Foundation Trust is considered a component unit of the University.

The Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust are private, nonprofit organizations that report their financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the financial information in the University's financial statements for these differences.

During the year ended June 30, 2017, the Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust distributed \$45,124,858 to the University for both restricted and unrestricted purposes. Complete financial statements for the Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust can be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

B Basis of Presentation

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

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

C Basis of Accounting

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

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

D Cash and Cash Equivalents

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

E Investments

To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Investments for which a readily determinable fair value does not exist include investments in hedge funds and limited partnerships. These investments are carried at net asset value (NAV) per share as provided by the respective fund managers of these investments or third party administrators. The Management Company reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the NAV of such investments. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the fair value of investments is recognized as a component of investment income.

Short-term investments include marketable securities representing the investment of cash that is available for current operations. A majority of this available cash is invested in the University's Temporary Pool, a governmental external investment pool.

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, as well as charges to patients for services provided by the UNC Faculty Physicians and the Dental Faculty Practices. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G Inventories

Inventories, consisting of expendable supplies, postage, fuel held for consumption, and other merchandise for resale, are valued at cost or average cost.

H Capital Assets

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

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

Asset Class	Estimated Useful Life
Buildings	10-75 years
Machinery and equipment	3-30 years
General infrastructure	10-75 years
Computer software	3-20 years

The University's historic property, artwork, and literary collections are capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. These collections are considered inexhaustible and therefore are 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 externally owned portion of the University's investment pools as more fully described in Note 2. The assets associated with this liability are included in restricted investments, cash, and other similar asset accounts.

K Funds Held in Trust by Others

Funds held in trust by others are resources neither in the possession nor the control of the University, but held and administered by an outside organization, with the University deriving income from such funds. Such funds established under irrevocable trusts where the University has legally enforceable rights or claims have not been recorded on the accompanying financial statements. The value of these assets at June 30, 2017 is \$34,020,226.

L Noncurrent Long-Term Liabilities

Noncurrent long-term liabilities include principal amounts of revenue bonds payable, net pension liability, notes payable, capital lease obligations, annuity and life income payable, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method that approximates the effective interest method. Deferred gains and losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight line method, and are aggregated as deferred

outflows of resources or deferred inflows of resources on the Statement of Net Position. Issuance costs are expensed in the reporting period in which they are incurred.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2016 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 15 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

M 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.

N Deferred Outflows/Inflows of Resources

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

deferred loss on refunding, the accumulated decrease in fair value of hedging derivatives, and deferred outflows related to pensions.

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

O Net Position

The University's net position is classified as follows:

Net Investment in Capital Assets – This represents the University's total investment in capital assets, net of outstanding liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. Additionally, deferred outflows of resources 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, patient services, sales and services, unrestricted gifts, royalties, and investment income.

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

P 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 gross charge for goods and services provided by the University and the actual 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 non-governmental 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.

Q 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 non-capital 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 state appropriations, subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital, or non-capital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

R 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 utility services, telecommunications, central stores, printing and copy centers, postal services, and repairs and

maintenance services. In addition, the University has other miscellaneous sales and service units that operate either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2

Deposits and Investments

A Deposits

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

Cash on hand at June 30, 2017 was \$533,247. The carrying amount of the University's deposits not with the State Treasurer was \$344,792,516, and the bank balance was \$414,563,911. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2017, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$410,386,801
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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 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 endowment funds of the University's component units, UNC-Chapel Hill Foundation, UNC Management Company, Chapel Hill Investment Fund, UNC Intermediate Pool, UNC Investment Fund, Business School Foundation, Law Foundation, and School of Education Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

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

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the value of

investments. The University 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.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of an investment. The University does not have a formal policy for foreign currency risk.

Short-Term Investment Fund – At June 30, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$413,178,730, which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

Temporary Investment Pool (Temporary Pool) – The Temporary Pool is a fixed income portfolio managed by the Management Company and Novant Asset Management, LLC. It operates in conjunction with the University's Bank of America disbursing account for all special funds, funds received for services rendered by health care professionals, and endowment revenue funds (internal portion) and funds of affiliated foundations (external portion). Because of the participation in the Temporary Pool by affiliated foundations, it is considered a governmental external investment pool. The external portion of the Temporary Pool is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants. Fund ownership of the University's Temporary Pool is measured using the unit value method. Under this method, participant activity is recorded on a cost basis in the UNC-Chapel Hill Money Market System. This is the official means of recording activity in the Temporary Pool. The Temporary Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the University Board of Trustees. The University has not provided legally binding guarantees during the period to support the

value of the pool's investments. There are no involuntary participants in the Temporary Pool.

The Bank of New York Mellon is the custodian for the Temporary Pool and provides the University with monthly statements defining income and market value information. Investments of the Temporary Pool are generally highly liquid and include (but are not limited to) U.S. government securities, collateralized mortgage obligations, asset-backed securities, corporate bonds, and mutual funds. The University has elected to invest a portion of the Temporary Pool assets in the Chapel Hill Investment Fund.

Participants' cash balances are automatically invested in the Temporary Pool. Income distribution is calculated based on the Average Daily Balance (ADB) and distributed monthly. The rate earned by an account is dependent upon its account classification. The rates are set by policy and approved by the Vice Chancellor for Finance and Administration.

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

Temporary Pool Investments

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<i>Debt Securities:</i>					
Money Market Mutual Funds	\$5,342,487	\$5,342,487			
U.S. Treasuries	34,692,050		\$34,692,050		
U.S. Agencies	54,649,564	3,173,529	2,216,653	6,450,419	42,808,963
Asset-Backed Securities	1,053,298				1,053,298
Collateralized Mortgage Obligations	3,914,270				3,914,270
Domestic Corporate Bonds	9,416,050	4,118,690	5,297,360		
Total Debt Securities	\$109,067,719	\$12,634,706	\$42,206,063	\$6,450,419	\$47,776,531
<i>Other Securities:</i>					
Domestic Equities	30,000				
Total Temporary Pool Investments	\$109,097,719				

The University has elected to invest \$120,518,302 of Temporary Pool assets in the Chapel Hill Investment Fund. The disclosures for these investments are not included in the preceding table. Rather, the disclosures for this portion of the Temporary Investment Pool are included in those for the Chapel Hill Investment Fund.

At June 30, 2017, investments in the Temporary Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB, Ba & below	Unrated
Money Market Mutual Funds	\$5,342,487	\$5,342,487					
U.S. Agencies	54,649,564		\$54,649,564				
Asset-Backed Securities	1,053,298					\$1,053,298	
Collateralized Mortgage Obligations	3,914,270				\$14,807	2,023,533	\$1,875,930
Domestic Corporate Bonds	9,416,050	1,267,740	4,137,530	\$2,010,860	1,999,920		
Total	\$74,375,669	\$6,610,227	\$58,787,094	\$2,010,860	\$2,014,727	\$3,076,831	\$1,875,930

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

Since a separate annual financial report of the Temporary Investment Pool is not issued, the following additional disclosures are being provided in the University's financial statements.

The Temporary Investment Pool's Statement of Net Position and Statement of Operations and Changes in Net Position as of and for the period ended June 30, 2017, are as follows:

Statement of Net Position

June 30, 2017

	Amount
<i>Assets:</i>	
Cash in Bank	\$6,500,177
State Treasurer Investment Fund	47
Accounts Receivable	401,973
Accrued Investment Income	390,281
Deferred Gain	295,784
Chapel Hill Investment Fund	120,518,302
Investments	109,097,719
Total Assets	237,204,283
Total Liabilities	
<i>Net Position As Held in Trust for All Pool Participants:</i>	
Internal Portion	186,815,780
External Portion	50,388,503
Total Net Position	\$237,204,283

Statement of Operations and Changes in Net Position

For the Fiscal Year Ended June 30, 2017

	Amount
<i>Increase in Net Position from Operations:</i>	
<i>Revenues:</i>	
Investment Income	\$9,906,865
<i>Expenses:</i>	
Investment Management	(300,417)
Net Increase in Net Position Resulting from Operations	9,606,448
<i>Distributions to Participants:</i>	
Distributions Paid and Payable	(9,606,448)
<i>Share Transactions:</i>	
Net Share Purchases	(143,197,345)
Total Decrease in Net Position	(143,197,345)
<i>Net Position:</i>	
Beginning of Year	380,401,628
End of Year	\$237,204,283

Intermediate Investment Pool (Intermediate Pool) –

Established in October 2007, the Intermediate Pool is a portfolio managed by the Management Company, comprised of fixed income investments and investments with the Chapel Hill Investment Fund. Participation in the Intermediate Pool is open to all participants that are eligible for the Temporary Investment Pool; the University is the only member. Fund ownership of the University's Intermediate Pool is measured using the unit value method. Under this method, each participant's investment balance is determined on a market value basis. The Intermediate Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the University Board of Trustees. The University has not provided legally binding guarantees during the period to support the value of the pool's investments. There are no involuntary participants in the Intermediate Pool.

The Bank of New York Mellon is the custodian for the Intermediate Pool and provides the University with monthly statements defining income and market value information. Generally a minimum of 45% and a maximum of 65% of the market value of the Intermediate Pool will be invested in the Chapel Hill Investment Fund. The remaining assets of the Intermediate Pool will be invested primarily (at least 80%) in cash, money market instruments, high quality bonds, and other high quality fixed income instruments in accordance with investment guidelines.

Purchase and sale of participation shares occur at the beginning of the month. As calculated by the Management Company, returns net of fees and expenses are to be allocated 85% to the Intermediate Pool participants and 15% to the University. Statements are to be provided by the Management Company to each participant on a monthly basis reflecting the participants' balance and investment activity. However, as noted above, the University was the only participant in the Intermediate Investment Pool in fiscal year 2017.

On January 3, 2017, the University's Intermediate Investment Pool investments, valued at \$35,150,346, were liquidated and reinvested in the Chapel Hill Investment Fund and the UNC Intermediate Pool, LLC.

UNC Intermediate Pool, LLC – The UNC Intermediate Pool, LLC (UNC Intermediate Fund) was organized in May 2013 by the University to make available an intermediate-term investment fund for eligible participants with the University being the controlling member. The UNC Intermediate Fund is classified as a governmental external investment pool. Eligible participants in the pool include not only the University but also the University of North Carolina System (UNC System), its constituent institutions, and/or affiliates and supporting organizations of the UNC System or such constituent institutions. The University has retained the Management Company to serve as the investment manager of the pool.

Ownership of the UNC Intermediate Fund is measured using the unit value method. Under this method, each participant's investment balance is determined on a market value basis. The UNC Intermediate Fund is not registered with the SEC and is not subject to any formal oversight beyond that provided by UNC Management Company as well as an Oversight Committee of University employees appointed by the Chancellor of the University. The University has not provided legally binding guarantees during the period to support the value of the pool's investments. There are no

involuntary participants in the Intermediate Fund. The audited financial statements for the UNC Intermediate Fund may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The Bank of New York Mellon is the custodian for the UNC Intermediate Fund and provides the University with monthly statements providing income and market value information. UNC Intermediate Fund investments are comprised of (but not limited to) shares in mutual funds, money market accounts, and the UNC Investment Fund.

As of June 30, 2017, the University's membership interest was approximately 65% of the UNC Intermediate Fund's total membership interests. An affiliated organization, not included in the University's reporting entity, held the remaining 35% membership interest. This external portion of the UNC Intermediate Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants.

The following table presents the UNC Intermediate Fund investments by type and investments subject to interest rate risk at June 30, 2017.

UNC Intermediate Fund Investments

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<i>Debt Securities:</i>					
Money Market Mutual Funds	\$45,984,714	\$45,984,714			
U.S. Treasuries	17,300,812	4,119,720	\$11,796,662	\$1,384,430	
U.S. Agencies	10,209,150			353,947	\$9,855,203
Mortgage Pass Throughs	6,974,743				6,974,743
Collateralized Mortgage Obligations	48,186,266		528,936	16,593,365	31,063,965
Asset-Backed Securities	35,428,528		1,648,538	3,731,502	30,048,488
Debt Mutual Funds	221,686,990	58,064,301	64,743,833	97,332,584	1,546,272
Domestic Corporate Bonds	9,300,498	580,043	4,731,620	3,776,249	212,586
Foreign Corporate Bonds	16,663,507	128,682	7,365,656	7,583,713	1,585,456
Foreign Government Bonds	7,793,768		2,693,348	3,433,960	1,666,460
Total Debt Securities	\$419,528,976	\$108,877,460	\$93,508,593	\$134,189,750	\$82,953,173
<i>Other Securities:</i>					
Domestic Equities	43,419				
Foreign Equities	72,093				
Credit Based Comingled Funds	10,044,685				
Real Estate Investment Trusts	173,129				
Total UNC Intermediate Fund Investments	\$429,862,302				

The University has elected to invest \$155,036,184 of assets of the UNC Intermediate Pool, LLC in the UNC Investment Fund. The disclosures for these investments are not included in the preceding table. Rather, the disclosures for this portion of UNC Intermediate Pool, LLC investments are included in those for the UNC Investment Fund.

At June 30, 2017, investments in the UNC Intermediate Fund had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB, Ba & below	Unrated
Money Market Mutual Funds	\$45,984,714	\$45,984,714					
U.S. Agencies	10,209,150	3,206,362					\$7,002,788
Mortgage Pass Throughs	6,974,743	436,289	\$275,197	\$2,024,031	\$676,621	\$3,562,605	
Collateralized Mortgage Obligations	48,186,266	7,500,914	2,007,920	2,867,432	10,069,680	24,281,293	1,459,027
Asset-Backed Securities	35,428,528	6,727,663	1,460,595	4,559,351	3,977,276	10,771,700	7,931,943
Debt Mutual Funds	221,686,990	49,430,115	8,914,399	25,282,931	52,934,239	70,805,356	14,319,950
Domestic Corporate Bonds	9,300,498		351,561	2,248,464	2,513,826	4,186,647	
Foreign Corporate Bonds	16,663,507	246,955	1,361,247	3,064,655	6,433,081	3,588,852	1,968,717
Foreign Government Bonds	7,793,768		1,392,793	689,612	3,462,509	2,043,314	205,540
Total	\$402,228,164	\$113,533,012	\$15,763,712	\$40,736,476	\$80,067,232	\$119,239,767	\$32,887,965

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

UNC Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund) – Chapel Hill Investment Fund is a North Carolina nonprofit corporation exempt from income tax pursuant to Section 501(c)(3). It was established in January 1997 and is classified as a governmental external investment pool. The pool is utilized to manage the investments for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The University's Endowment, UNC–Chapel Hill Foundation, Business School Foundation, School of Education Foundation, Law Foundation, Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust are participants in the Chapel Hill Investment Fund and are included in the University's reporting entity (internal portion). Other affiliated organizations (external portion) in the Chapel Hill Investment Fund are not included in the University's reporting entity. Fund ownership of the Chapel Hill Investment Fund is measured using the unit value method. Under this method, each participant's investment balance is determined on a market value basis. The external portion of the Chapel Hill Investment Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants.

The Chapel Hill Investment Fund is not registered with the SEC and is not subject to any formal oversight other than that provided by the Chapel Hill Investment Fund Board of Directors (See Note 1A).

The Chapel Hill Investment Fund is the primary participant of UNC Investment Fund, LLC (UNC Investment Fund) and on a monthly basis receives a unitization report from the Management Company defining change in book and market value, applicable realized gains and losses and expenses. The Chapel Hill Investment Fund uses a unit basis to determine

each participant's market value and to distribute the Fund's earnings according to the Fund's spending policy. There are no involuntary participants in the Chapel Hill Investment Fund. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Chapel Hill Investment Fund. The audited financial statements for the Chapel Hill Investment Fund may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The Chapel Hill Investment Fund consists of an approximate 56.3% membership in the UNC Investment Fund categorized below.

UNC Investment Fund, LLC (UNC Investment Fund) – The UNC Investment Fund is a nonprofit limited liability company exempt from income tax pursuant to Section 501(c)(3) organized under the laws of the State of North Carolina. It was established in December 2002 by the Chapel Hill Investment Fund and is classified as a governmental external investment pool. The pool is utilized to manage the investments for The University of North Carolina, its constituent institutions, and affiliates of the constituent institutions. This includes charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support these institutions. As previously noted, the Chapel Hill Investment Fund, with an approximate 56.3% membership interest as of June 30, 2017, is the predominant member of the UNC Investment Fund.

The University's reporting entity portion of the Chapel Hill Investment Fund and the Management Company's portion of the UNC Investment Fund are characterized as the internal portion. Other affiliated organizations in the Chapel Hill Investment Fund, in addition to other members of the UNC Investment Fund not included in the University's reporting

entity, are characterized as the external portion. The external portion of the UNC Investment Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants. Membership interests of the UNC Investment Fund are measured using the unit value method. Under this method, each member's investment balance is determined on a market value basis.

The UNC Investment Fund is not registered with the SEC and is not subject to any formal oversight other than that provided by the Chapel Hill Investment Fund as the controlling member (See Note 1A). Effective January 1, 2003, the Management Company entered into an investment management services agreement with the UNC Investment Fund and provides investment management and administrative services.

The Bank of New York Mellon is the custodian for the UNC Investment Fund and provides the University with monthly statements defining income and market value information. The UNC Investment Fund uses a unit basis to determine each member's market value and to distribute the fund's earnings. The University has not provided or obtained any legally binding guarantees during the period to support the value for the UNC Investment Fund investments. The audited financial statements for the UNC Investment Fund may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

UNC Investment Fund Investments

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<i>Debt Securities:</i>					
Money Market Mutual Funds	\$140,494,077	\$140,494,077			
U.S. Treasuries	18,774,293		\$11,649,755	\$5,063,152	\$2,061,386
U.S. Agencies	77,829,672		2,702,523	6,956,756	68,170,393
Collateralized Mortgage Obligations	37,096,196				37,096,196
Asset-Backed Securities	37,556,104		2,609,185	4,895,452	30,051,467
Debt Mutual Funds	2,265,588				2,265,588
Domestic Corporate Bonds	3,668,950	500,305	2,018,060	495,680	654,905
Domestic Municipal Bonds	2,910,000				2,910,000
Total Debt Securities	\$320,594,880	\$140,994,382	\$18,979,523	\$17,411,040	\$143,209,935
<i>Other Securities:</i>					
Equity Index Funds	30,764,710				
Domestic Equities	249,138,625				
Foreign Equities	21,211,035				
Real Estate Investment Trusts	35,745,929				
Long Only Hedge Funds	1,361,531,149				
Long / Short Hedge Funds	964,680,394				
Diversifying Hedge Funds	364,093,188				
Hedge Funds in Liquidation	6,295,938				
Credit Based Commingled Funds	217,470,822				
Private Equity Limited Partnerships	1,518,091,885				
Real Assets Limited Partnerships	346,275,235				
Total UNC Investment Fund Investments	\$5,435,893,790				

At June 30, 2017, investments in the UNC Investment Fund had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB, Ba & Below	Unrated
Money Market Mutual Funds	\$140,494,077	\$140,494,077					
U.S. Agencies	77,829,672		\$64,107,107		\$2,387,046	\$11,335,519	
Collateralized Mortgage Obligations	37,096,196				1,113,921	35,982,275	
Asset-Backed Securities	37,556,104	5,789,837		\$282,000	3,131,321	12,588,343	\$15,764,603
Debt Mutal Funds	2,265,588			2,265,588			
Domestic Corporate Bonds	3,668,950		496,735	2,161,630	1,010,585		
Domestic Municipal Bonds	2,910,000					2,910,000	
Total	\$301,820,587	\$146,283,914	\$64,603,842	\$4,709,218	\$7,642,873	\$62,816,137	\$15,764,603

Rating Agency: Moody's/Standard and Poor's/Fitch (lowest rating reported above)

Foreign Currency Risk: At June 30, 2017, the UNC Investment Fund's exposure to foreign currency risk is as follows:

Investment	Currency	Amount (U.S. dollars)
Private Equity Limited Partnerships	Euro	\$108,348,202
Other Hedge Funds	Euro	32,437,599
Real Assets Limited Partnerships	Euro	8,943,294
Total Euro		149,729,095
Private Equity Limited Partnerships	British Pound Sterling	35,029,792
Real Assets Limited Partnerships	British Pound Sterling	4,590,826
Total British Pound Sterling		39,620,618
International Equities	Canadian Dollar	1,600,859
Private Equity Limited Partnerships	Canadian Dollar	7,996,374
Total Canadian Dollar		9,597,233
Private Equity Limited Partnerships	Australian Dollar	507,368
Total Australian Dollar		507,368
Total		\$199,454,314

Investment Derivatives: At June 30, 2017, the UNC Investment Fund is invested in a foreign currency futures contract with a value of (\$1,141,425) and in foreign currency forward contracts with a fair value of \$1,456,737. Additional information is provided in Note 11 Derivative Instruments.

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

Non-Pooled Investments

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<i>Debt Securities:</i>					
U.S. Treasuries	\$127,549			\$99,046	\$28,503
U.S. Agencies	259				259
Mortgage Pass Throughs	35,437		\$35,364		73
Collateralized Mortgage Obligations	29,619				29,619
Debt Mutual Funds	6,899,129		2,290,417	4,608,712	
Money Market Mutual Funds	49,695,703	\$49,695,703			
Domestic Corporate Bonds	33,743			33,743	
Foreign Government Bonds	31,489			31,489	
Total Debt Securities	\$56,852,928	\$49,695,703	\$2,325,781	\$4,772,990	\$58,454
<i>Other Securities:</i>					
Equity Mutual Funds	13,230,770				
Investments in Real Estate	8,911,030				
Real Estate Investment Trusts	59,155				
Private Equity Limited Partnerships	10,617,921				
Hedge Funds	253,967				
Domestic Stocks	18,045,602				
Foreign Equities	120,665				
International Mutual Funds	8,119,170				
Total Non-Pooled Investments	\$116,211,208				

At June 30, 2017, the University’s Non-Pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	BBB Baa	BB, Ba & below	Unrated
Money Market Mutual Funds	\$49,695,703	\$49,065,928	\$629,775			
U.S. Agencies	259					\$259
Mortgage Pass Throughs	35,437	35,364				73
Collateralized Mortgage Obligations	29,619			\$9,268	\$13,689	6,662
Debt Mutual Funds	6,899,129	2,830,097	22,717	176,489	1,346,936	2,522,890
Domestic Corporate Bonds	33,743				33,743	
Foreign Government Bonds	31,489		31,489			
Total	\$56,725,379	\$51,931,389	\$683,981	\$185,757	\$1,394,368	\$2,529,884

Rating Agency: Moody’s/Standard & Poor’s/Fitch (lowest rating reported above)

Foreign Currency Risk: At June 30, 2017, the University had nominal direct exposure to foreign currency risk in Non-Pooled Investments.

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

Investment Type	Amount
<i>Debt Securities:</i>	
Money Market Mutual Funds	\$241,516,981
U.S. Treasuries	70,894,704
U.S. Agencies	142,688,645
Mortgage Pass Throughs	7,010,180
Collateralized Mortgage Obligations	89,226,351
Asset-Backed Securities	74,037,930
Debt Mutual Funds	230,851,707
Domestic Corporate Bonds	22,419,241
Domestic Municipal Bonds	2,910,000
Foreign Corporate Bonds	16,663,507
Foreign Government Bonds	7,825,257
Total Debt Securities	906,044,503
<i>Other Securities:</i>	
Equity Index / Mutual Funds	43,995,480
International Mutual Funds	8,119,170
Investment in Real Estate	8,911,030
Real Estate Investment Trusts	35,978,213
Long / Short Hedge Funds	964,680,394
Diversifying Hedge Funds	364,347,155
Hedge Funds In Liquidation	6,295,938
Long Only Hedge Funds	1,361,531,149
Credit Based Commingled Funds	227,515,507
Private Equity Limited Partnerships	1,528,709,806
Real Assets Limited Partnerships	346,275,235
Domestic Equities	267,257,646
Foreign Equities	21,403,793
Total Other Securities	5,185,020,516
Total Investments	\$6,091,065,019

Total investments are reported in the University's financial statements:

University Statement of Net Position	Amount
Short-term investments	\$361,021,327
Restricted short-term investments	124,768,157
Endowment investments	1,956,020,361
Restricted investments	2,939,147,139
Other investments	114,505,372
Subtotal	5,495,462,356
Investments of UNC Investment Fund held for component units that are discretely presented in accompanying financial statements	595,602,663
Total investments	\$6,091,065,019

The University's reporting entity, including the three discretely presented component units, comprises approximately 50.12% of the UNC Investment Fund.

Component Unit – Investments of the University's discretely presented component unit, the Medical Foundation of North Carolina, 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 Medical 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:

Investment Type	Carrying Value
Money Market Funds	\$5,526,445
Common Stock and ETF	29,833,595
Mutual Funds – Equity Oriented	42,126,364
Mutual Funds – Credit Oriented	18,153,712
Mutual Funds – Alternative	5,076,122
International Equity Fund	9,112,785
Government Securities and Corporate Fixed Income	6,175,015
Total Investments	\$116,004,038

NOTE 3

Fair Value Measurements

The following table summarizes the University's investments, including the Short-Term Investment Fund and the discretely presented component units' portion of the UNC Investment Fund, within the fair value hierarchy at June 30, 2017.

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<i>Debt Securities:</i>				
U.S. Treasuries	\$70,894,704	\$70,894,704		
U.S. Agencies	142,688,645	259	\$142,688,386	
Mortgage Pass Throughs	7,010,180		7,010,180	
Collateralized Mortgage Obligations	89,226,351		89,226,351	
Domestic Mutual Bonds	2,910,000		2,910,000	
Asset-Backed Securities	74,037,930		74,037,930	
Debt Mutual Funds	230,851,707	230,851,707		
Money Market Mutual Funds	241,516,981	241,516,981		
Domestic Corporate Bonds	22,419,241		22,419,241	
Foreign Corporate Bonds	16,663,507		16,663,507	
Foreign Government Bonds	7,825,257		7,825,257	
Total Debt Securities	906,044,503	543,263,651	362,780,852	
<i>Other Securities:</i>				
Short-Term Investment Fund	413,178,730		413,178,730	
International Mutual Funds	8,119,170	8,119,170		
Equity Mutual Funds	43,995,480	43,995,480		
Domestic Equities	267,257,646	257,432,439		\$9,825,207
Foreign Equities	21,403,793	21,403,793		
Investments in Real Estate	8,911,027	8,911,027		
Real Estate Investment Trust	35,978,213	35,978,213		
Total Investments by Fair Value Level	\$1,704,888,562	\$919,103,773	\$775,959,582	\$9,825,207

Investments Measured at the Net Asset Value (NAV)	Fair Value
Long / Short Hedge Funds	\$964,680,394
Diversifying Hedge Funds	364,347,155
Hedge Funds in Liquidation	6,295,938
Long Only Hedge Funds	1,361,531,149
Credit-Based Commingled Hedge Funds	227,515,507
Private Equity Limited Partnerships	1,528,709,806
Real Assets Limited Partnerships	346,275,235
Total Investments Measured at the NAV	4,799,355,184
Total Investments Measured at Fair Value	\$6,504,243,746

Derivative Instruments	Fair Value	Level 1	Level 2	Level 3
<i>Hedging Derivative Instruments:</i>				
Pay-Fixed Interest Rate Swap	(\$102,925,083)		(\$102,925,083)	
<i>Investment Derivative Instruments:</i>				
Pay-Fixed Interest Rate Swap	(2,979,579)		(2,979,579)	
Foreign Currency Futures	(1,141,425)	(\$1,141,425)		
Foreign Currency Forwards	1,456,737	1,456,737		
Put Options	3,086,485	3,086,485		
Total Derivative Instruments	(\$102,502,865)	\$3,401,797	(\$105,904,662)	

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

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

Level 1

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

Level 2

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

Level 3

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

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

Debt and Equity Securities – Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Domestic stocks classified in Level 3 of the fair value hierarchy represent equity interest in start-up technology companies. This amount is valued based on 409A valuation and third party valuation due to recent company merger or equity funding.

Investments in Real Estate – Investments in real estate classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those assets.

Derivative Instruments – Investment derivatives classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Interest rate swaps in the hedging and investment derivatives categories classified in Level 2 of the fair value hierarchy are valued based on present value using discounted cash flows technique.

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

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Long / Short Hedge Funds ^{A(b)}	\$964,680,394	\$25,112,000	From 30 Days to 3+ Years	1 to 365 days
Diversifying Hedge Funds ^{A(c)}	364,347,155		From 30 Days to 3+ Years	1 to 365 days
Hedge Funds in Liquidation ^{A(e)}	6,295,938		From 30 Days to 3+ Years	1 to 365 days
Long Only Equity Hedge Funds ^{A(a)}	1,361,531,149		From 30 Days to 3+ Years	1 to 365 days
Credit-Based Commingled Hedge Funds ^{A(d)}	227,515,507		From 30 Days to 3+ Years	1 to 365 days
Private Equity Limited Partnerships ^B	1,528,709,806	863,735,687	not eligible	10 to 15 years
Real Assets Limited Partnerships ^C	346,275,235	246,978,848	not eligible	10 to 15 years
Total Investments Measured at the NAV	\$4,799,355,184			

A Hedge Funds

For hedge funds, a combination of the following asset strategies is used:

(a) Long Biased Equity – Long biased equity managers are characterized by managers who adopt an investment strategy to primarily hold long positions in publicly listed equity securities to gain equity market exposure globally. The managers can from time to time use equity index futures, options on equity index futures, and specific risk options.

(b) Long/Short Equity – Long/short equity managers are characterized by a manager’s ability to buy and/or sell short individual securities that they believe the market has mispriced relative to their fundamental intrinsic value. The long and short positions are generally independent of one another and typically result in an overall net long exposure to equities. The managers can from time to time use equity index futures, options on equity index futures, and specific risk options.

(c) Diversifying Strategies – Diversifying strategy managers use strategies that tend to be uncorrelated with major equity market indices. Diversifying strategies managers may use derivatives such as fixed income and equity futures both as a hedging tool and to gain exposure to specific markets. They may also enter into various swap agreements to manage exposure to specific securities and markets.

(d) Fixed Income/Credit-Based Commingled Strategies – Fixed income fund managers include credit-based commingled hedge funds and generally use strategies that are focused on income generation and provide diversification to the portfolio. They may use futures and options on global fixed income and currency markets and can enter into various swap agreements. These vehicles are used purely to hedge exposure to a given market or to gain exposure to an illiquid market.

(e) Hedge Funds in Liquidation – Hedge funds in liquidation represent funds that are either in the process of being terminated or have received notice of termination.

B Private Equity Limited Partnerships

Private equity managers typically invest in equity investments and transactions in private companies (i.e., companies that are not publicly listed on any stock exchange). Private equity investments are illiquid and expected to provide higher returns than public equity investments over the long term, as well as controlling volatility.

The energy subsection of the private equity strategy is primarily used to hedge against unanticipated inflation. This can include direct energy investments, energy security investments, and limited partnerships. The principal attraction of these investments is the lack of correlation with the balance of the portfolio.

C Real Assets Limited Partnerships

Real estate managers primarily serve as a hedge against unanticipated general price inflation, but are also a source of current income. Investments in this area include private portfolio investments focusing on specific niche markets within the real estate sector. Such sectors may include investments in public Real Estate Investment Trusts (REITs) that provide a more liquid means of gaining exposure to the asset class.

Component Units - Discretely presented component units’ financial data are reported in separate financial statements because of their use of different reporting models. Complete financial statements including applicable disclosures for The Medical Foundation of North Carolina, Inc., The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc., and The Educational Foundation Scholarship Endowment Trust can be obtained from the University Controller’s Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

NOTE 4

Endowment Investments

Substantially all of the investments of the University’s endowment funds are pooled in the Chapel Hill Investment Fund. 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 pooled endowment funds is predicated on the total return concept (yield plus appreciation). Annual distributions from the Chapel Hill Investment Fund to the University’s pooled endowment funds are generally based on an adopted distribution policy. Under this policy, the prior year distribution is increased by the rate of inflation as measured by the Consumer Price Index (CPI) unless the Board determines otherwise. Each year’s distribution, however, is subject to a minimum of 4% and a maximum of 7% of the pooled endowment fund’s average market value for the previous year.

To the extent that the total return for the current year exceeds the distribution, the excess is added to principal. If current year earnings do not meet the distribution requirements, the University uses accumulated income and appreciation to make up the difference. At June 30, 2017, accumulated income and appreciation of \$702,471,502 was available in the University's pooled endowment funds of which \$579,039,154 was restricted to specific purposes including scholarships and fellowships, research, library acquisitions, professorships, departmental and other uses. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5

Receivables

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<i>Current Receivables:</i>			
Students	\$7,591,845	\$2,157,800	\$5,434,045
Student Sponsors	353,617		353,617
Patients	193,903,660	111,698,870	82,204,790
Accounts	32,965,518	351,504	32,614,014
Auxiliary	8,637,927		8,637,927
Intergovernmental	118,381,738		118,381,738
Pledges	32,949,912	1,499,077	31,450,835
Investment Earnings	2,570,725		2,570,725
Interest on Loans	1,339,006		1,339,006
Other	858,838		858,838
Total Current Receivables	399,552,786	115,707,251	283,845,535
<i>Noncurrent Receivables:</i>			
Pledges	36,810,491	920,262	35,890,229
<i>Notes Receivable – Current:</i>			
Federal Loan Programs	3,056,088	134,956	2,921,132
UNC Health Care System	1,722,186		1,722,186
Institutional Student Loan Programs	1,062,505	113,565	948,940
Total Notes Receivable – Current	5,840,779	248,521	5,592,258
<i>Notes Receivable – Noncurrent:</i>			
Federal Loan Programs	24,699,143	1,090,714	23,608,429
UNC Health Care System	13,287,229		13,287,229
Institutional Student Loan Programs	10,490,908	487,467	10,003,441
Total Notes Receivable – Noncurrent	\$48,477,280	\$1,578,181	\$46,899,099

Pledges are receivable over varying time periods ranging from one to 10 years and have been discounted based on a projected interest rate of 1.01% for the outstanding periods, and allowances are provided for the amounts estimated to be uncollectible.

Scheduled receipts, the discounted amount under these pledge commitments, and allowances for uncollectible pledges are as follows:

Fiscal Year	Amount
2018	\$32,949,913
2019	17,429,922
2020	5,242,582
2021	4,497,720
2022	2,923,804
2023-2027	7,749,546
Total Pledge Receipts Expected	70,793,487
Less Discount Amount Representing Interest (1.01% Rate of Interest)	1,033,084
Present Value of Pledge Receipts Expected	69,760,403
Less Allowance for Doubtful Accounts	2,419,339
Pledges Receivable	\$67,341,064

NOTE 6

Capital Assets

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

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
<i>Capital Assets, Nondepreciable:</i>				
	<i>(as restated)</i>			
Land	\$67,673,953	\$730,312	\$358,332	\$68,045,933
Art, Literature, and Artifacts	126,154,886	19,016,024	983,657	144,187,253
Construction in Progress	51,960,706	91,276,712	61,930,031	81,307,387
Other Intangible Assets	1,000,000	1,300,000		2,300,000
Total Capital Assets, Nondepreciable	246,789,545	112,323,048	63,272,020	295,840,573
<i>Capital Assets, Depreciable:</i>				
Buildings	3,010,560,926	61,405,504	2,161,260	3,069,805,170
Machinery and Equipment	423,187,743	31,411,926	21,523,720	433,075,949
General Infrastructure	995,933,557	7,755,859		1,003,689,416
Computer Software	121,673,239			121,673,239
Total Capital Assets, Depreciable	4,551,355,465	100,573,289	23,684,980	4,628,243,774
<i>Less Accumulated Depreciation / Amortization for:</i>				
Buildings	1,051,987,647	81,976,132	909,843	1,133,053,936
Machinery and Equipment	234,515,451	23,098,925	11,161,926	246,452,450
General Infrastructure	395,058,470	28,720,047		423,778,517
Computer Software	23,653,241	6,289,548		29,942,789
Total Accumulation Depreciation / Amortization	1,705,214,809	140,084,652	12,071,769	1,833,227,692
Total Capital Assets, Depreciable, Net	2,846,140,656	(39,511,363)	11,613,211	2,795,016,082
Capital Assets, Net	\$3,092,930,201	\$72,811,685	\$74,885,231	\$3,090,856,655

During the year ended June 30, 2017, the University incurred \$51,614,296 in interest costs related to the acquisition and construction of capital assets. All of these costs are included in interest expense.

The University has pledged Granville Towers, with a carrying value of \$34,908,990, as security for the loan from Nationwide Life Insurance Company. Additional information regarding the loan can be found in Note 10.

NOTE 7

Accounts Payable and Accrued Liabilities

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

Current Accounts Payable and Accrued Liabilities	Amount
Accounts Payable	\$95,018,346
Accrued Payroll	40,321,502
Contract Retainage	2,559,006
Intergovernmental Payables	14,631,957
Investments Derivatives Liability	4,255,154
Total Accounts Payable and Accrued Liabilities	\$156,785,965

NOTE 8

Reverse Repurchase Agreements

Under the University's authority to purchase and sell securities, it has entered into fixed coupon reverse repurchase (reverse repurchase) agreements; that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the University or provide securities or cash of equal value, the University would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit exposure at year-end was \$815,451.

All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, the University's practice is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreement. The University's investments in the underlying securities and the securities purchased with proceeds from the reverse repurchase agreements are in accordance with the statutory requirements

as noted. The interest earnings and interest cost arising from reverse repurchase agreement transactions are reported at gross amounts on the accompanying financial statements.

NOTE 9

Short-Term Debt

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

	Balance July 1, 2016	Draws	Repayments	Balance June 30, 2017
Commercial Paper Program	\$33,000,000	\$30,000,000		\$63,000,000
Total Short-Term Debt	\$33,000,000	\$30,000,000		\$63,000,000

The University manages a commercial paper ("CP") program under the issuer name of the Board of Governors of the University of North Carolina that provides up to \$500,000,000 in short-term financing for the University's and North Carolina State University's ("NCSU") capital improvement programs. Under this CP program, the University is authorized to issue up to \$400,000,000 and NCSU is authorized to issue up to \$100,000,000.

At its June 2012 meeting, the Board of Governors for the University of North Carolina issued a resolution to limit the cumulative amount of outstanding commercial paper for the University under this program to \$250,000,000. This resolution does not impact NCSU. Contingent liquidity needs for the entire CP program are provided by the University and supported by a pledge of the University's available funds.

During the fiscal year, the University continued to use its commercial paper program to provide low-cost bridge financing for capital projects with the intent to refinance all or a portion of the funding, through the issuance of long-term bonds. On May 18, 2017, the University issued \$30,000,000 of taxable commercial paper to fund the University's purchase of improvements on the Rizzo Conference Center Phase III, from the Kenan-Flagler Business School Foundation. Commercial paper debt was \$63,000,000 at June 30, 2017 and \$33,000,000 at June 30, 2016.

NOTE 10

Long-Term Liabilities

A Changes in Long-Term Liabilities

A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016 (as restated)	Additions	Reductions	Balance June 30, 2017	Current Portion
Revenue Bonds Payable	\$1,344,210,000		\$30,290,000	\$1,313,920,000	\$111,936,086
Plus: Unamortized Premium	7,639,146		334,494	7,304,652	
Less: Accretion of Discount on Capital Appreciation Bonds	(6,358,552)		(2,011,900)	(4,346,652)	
Total Revenue Bonds Payable, Net	1,345,490,594		28,612,594	1,316,878,000	111,936,086
Net Pension Liability	115,061,832	\$169,272,884		284,334,716	
Notes Payable	67,838,538	55,300,000	64,726,905	58,411,633	1,762,468
Line of Credit	3,900,000	3,914,347	3,900,000	3,914,347	3,914,347
Capital Leases Payable	0	1,349,619	202,413	1,147,206	472,397
Compensated Absences	120,173,984	105,485,526	74,312,432	151,347,078	8,177,131
Annuity and Life Income Payable	15,498,987	406,990	1,785,520	14,120,457	1,322,230
Total Long-Term Liabilities, Net	\$1,667,963,935	\$335,729,366	\$173,539,864	\$1,830,153,437	\$127,584,659

Additional information regarding capital lease obligations is included in Note 12.

Additional Information regarding the net pension liability is included in Note 15.

B Revenue Bonds Payable

The University was indebted for revenue bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate / Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Accretion on Capital Appreciation Bonds	Principal Outstanding June 30, 2017	See Table Next Page
<i>General Revenue Bonds Payable:</i>								
	2001B	4.755%*	12/01/2025	\$54,970,000	\$35,280,000		\$19,690,000	
	2001C	3.394%*	12/01/2025	54,970,000	35,280,000		19,690,000	
	2009A	3.250%-5.000%	12/01/2028	97,735,000	28,125,000		69,610,000	
	2009B	5.757%**	12/01/2039	112,805,000			112,805,000	
	2012B	5.125%*	12/01/2020	100,000,000			100,000,000	
	2012C	1.455%-3.596%	12/01/2033	127,095,000	15,965,000		111,130,000	
	2012D	2.220%*	06/01/2042	30,000,000			30,000,000	
	2014	1.317%-3.847%	12/01/2034	265,600,000	3,055,000		262,545,000	
	2016A	4.295%*	03/01/2019	100,000,000			100,000,000	
	2016B	1.270%*	03/01/2019	50,000,000			50,000,000	
	2016C	0.800%-3.327%	12/01/2036	400,950,000	4,560,000		396,390,000	
Total General Revenue Bonds				1,394,125,000	122,265,000		1,271,860,000	
Utilities System	1997	5.400 - 5.500%	08/01/2021	30,379,142	42,075,000	\$49,409,206	37,713,348	(1)
Total Revenue Bonds Payable (principal only)				\$1,424,504,142	\$164,340,000	\$49,409,206	1,309,573,348	
Plus: Unamortized Premium							7,304,652	
Total Revenue Bonds Payable, Net							\$1,316,878,000	

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

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

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

		Current Year				
Ref	Revenue Source	Total Future Revenues Pledged	Revenues Net of Expenses	Principal	Interest	Estimate of % of Revenues Pledged
(1)	Utilities Revenue	\$42,060,000	\$25,859,693	\$8,415,000		7%

C Demand Bonds

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

With regards to the following demand bonds, the University has not entered into legal agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

General Revenue, Series 2001B and 2001C

In 2001, the University issued two series of variable rate demand bonds in the amount of \$54.97 million (2001B) and \$54.97 million (2001C) that each has a final maturity date of December 1, 2025. The bonds are subject to mandatory sinking fund redemption on the interest payment date on or immediately preceding each December throughout the term of the bonds. The proceeds of these issuances were used to provide funds to refund in advance of their maturity the following issues: Ambulatory Care Clinic, Series 1990; Athletic Facilities, Series 1998; Carolina Inn, Series 1994; School of Dentistry, Series 1995; Kenan Stadium, Series 1996; Housing System, Series 2000; and Parking System, Series 1997C. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days notice and delivery to the University’s Remarketing Agents; J.P. Morgan Securities,

Inc. (2001B) and Merrill Lynch, Pierce, Fenner & Smith Incorporated (2001C). Effective September 23, 2008, J.P. Morgan Securities, Inc. replaced Lehman Brothers, Inc.

The University entered into line of credit agreements in the amount of \$200.0 million with Wells Fargo Bank, N.A. (“the Bank”), \$100.0 million with Royal Bank of Canada (“the Bank”), and \$100.0 million with U.S. Bank, N.A. (“the Bank”) on September 19, 2014. Under each line of credit agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on variable rate demand bonds (or commercial paper bonds) delivered for purchase. Under each line of credit agreement, the University may, at any time and for any reason, reduce the commitment by any amount upon 30 days prior written notice to the Bank.

The University is required to pay a quarterly facility fee for each line of credit in the amount shown below in the table per annum based on the size of the commitment. If a long-term debt rating assigned by S&P Global (S&P), Fitch Ratings (Fitch) or Moody’s Investors Service (Moody’s) is lowered, the facility fee assigned to the rating in the below table shall apply. In the event of a split rating (i.e., one or more of the rating agency’s ratings is at a different level than the rating of either of the other rating agencies), the facility fee rate shall be determined as follows: (i) if two of the three ratings appear in the same level, the facility fee rate shall be based on that level; (ii) if no two ratings appear in the same level, the facility fee rate shall be based on the level which includes the middle of the three ratings.

Facility Fee					
S&P	Fitch	Moody's	Wells Fargo	Royal Bank of Canada	U.S. Bank
AA+ or higher	AA+ or higher	Aa1 or higher	0.35%	0.27%	0.25%
AA	AA	Aa2	0.40%	0.32%	0.35%
AA-	AA-	Aa3	0.50%	0.37%	0.45%
A+	A+	A1	0.60%	0.47%	0.55%
A	A	A2	0.70%	0.57%	0.65%
A- or lower	A- or lower	A3 or lower	1.70%	1.57%	1.65%

The University will pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the bank rate multiplied by the ratio of the number of days from the date of purchase of the bonds until the date of payment of the accrued interest to 365 days.

Under each line of credit agreement, draws to purchase bonds will accrue interest at the bank rate payable on the same interest date as provided in the Series Indenture for the original bonds. The University is required to begin making a series of six fully amortizing semiannual principal payments on bonds held by the Bank six months after the date of funding. Commercial paper bonds held by the Bank may be rolled over for a period of 180 days and must be reduced by 1/6th of the original amount of the commercial paper bonds for a period of up to five rollovers. All outstanding principal and accrued but unpaid interest is due in full at the maturity of the line of credit.

The line of credit agreement with U.S. Bank, N.A., Wells Fargo Bank, N.A., and Royal Bank of Canada expire on September 19, 2017, September 19, 2018 and September 18, 2019, respectively. These agreements are subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's. At June 30, 2017, no purchase drawings had been made under the line of credit. The University established a replacement line of credit upon expiration of the agreement with U.S. Bank, N.A., as disclosed in Note 24 – Subsequent Events.

General Revenue, Series 2012D

On December 14, 2012, the University issued a bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Kenan Stadium Improvements Phase II), Series 2012D" (the "2012D Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to Kenan Stadium on the University's campus known as "Kenan Stadium Improvements, Phase II - Carolina Student Athlete Center for Excellence". On June 1, 2015, the terms of the 2012D Bond were modified, changing the principal amount to \$30.0 million and extending the maturity to June 1, 2042. All other terms listed below remained the same.

Interest will be payable on the 2012D Bond on the maturity date or, if sooner, the prepayment date of the 2012D Bond as permitted under the tender option or the prepayment options as referenced below. The unpaid principal balance of the 2012D Bond, together with all accrued and unpaid interest thereon will be due and payable in full on the maturity date in the event that the tender option or prepayment option is not exercised in advance of the maturity date.

The University shall be responsible for calculating the interest due on the 2012D Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company,

N.A. (the "Trustee"). Payments of principal and interest on the 2012D Bond shall be made directly by the University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The University shall promptly notify the Trustee in writing of any such payments. Any payments of principal and interest on the 2012D Bond made directly by the University to the Owner of the 2012D Bond will be credited against The Board of Governors of the University of North Carolina's (the "Board") obligation to cause payments to be made with respect to the 2012D Bond to the Debt Service Fund under the General Indenture.

The 2012D Bond may be tendered by the Owner of the 2012D Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the University and the Trustee.

The 2012D Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the Owner and the Trustee.

When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of commercial paper at the time of the payment to fund the obligation under the bond.

The unpaid principal balance of the 2012D Bond outstanding from time to time will bear interest at the Adjusted London Interbank Offered Rate (LIBOR) Rate. "Adjusted LIBOR Rate" means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by adding (1) the one month LIBOR plus (2) 1% per annum, which shall be adjusted monthly on the first day of each LIBOR interest period; provided, however, for any particular LIBOR interest period, the Adjusted LIBOR Rate will not be less than 1.4% per annum.

With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take out agreements.

D Capital Appreciation Bonds

The University's Series 1997 Utility System bond issue includes capital appreciation bonds with an original issue amount of \$30,379,142. These bonds are recorded in the amount of \$37,713,348 (\$84,135,000 ultimate maturity less \$4,346,652 discount less \$42,075,000 principal paid) which is the accreted value at June 30, 2017. The Series 1997 Utility System bond matures in 2021.

E Annual Requirements

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

Fiscal Year	Annual Requirements			Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net*	Principal	Interest
2018	\$46,461,667	\$38,635,969	\$5,576,972	\$1,762,467	\$2,432,318
2019	213,703,333	37,357,247	7,016,873	1,835,766	2,359,020
2020	63,223,333	34,939,050	2,665,231	1,911,909	2,282,877
2021	46,326,667	34,050,510	1,352,493	1,991,678	2,203,108
2022	31,335,000	33,378,961	631,909	2,074,562	2,120,225
2023-2027	171,190,000	154,345,916	1,018,773	9,634,963	9,351,983
2028-2032	209,665,000	123,606,511		10,726,705	7,266,749
2033-2037	467,755,000	51,126,626		28,473,583	4,500,812
2038-2042	64,260,000	6,287,983			
Total Requirements	\$1,313,920,000	\$513,728,773	\$18,262,251	\$58,411,633	\$32,517,092

Interest on the variable rate General Revenue Bonds 2001B is calculated at 0.86% at June 30, 2017
Interest on the variable rate General Revenue Bonds 2001C is calculated at 0.90% at June 30, 2017
Interest on the variable rate General Revenue Bonds 2012B is calculated at 1.57% at June 30, 2017
Interest on the variable rate General Revenue Bonds 2016A is calculated at 1.27% at June 30, 2017
Interest on the variable rate General Revenue Bonds 2016B is calculated at 1.27% at June 30, 2017
Interest rates on General Revenue Bonds 2001 Series B and Series C are reset each week by the remarketing agent based upon a combination of the University's credit rating and market conditions.
Interest rate on General Revenue Bonds 2012 Series B is based on 67% of the 1-month LIBOR index rate plus an interest rate spread of 75 basis points.
Interest rates on General Revenue Bonds 2016 Series A and B are based on 67% of the 1-month LIBOR index rate plus an interest rate spread of 45 basis points.

This schedule also includes the debt service requirements for debt associated with interest rate swaps.

More detailed information about interest rate swaps is presented in Note 11 Derivative Instruments.

*Computed using $(5.240\% - 0.86\%) \times (\$22,000,000 - \text{annual swap reduction})$; $(3.314\% - 0.86\%) \times \$78,460,000$ notional amount; and, $(4.375\% - 0.82\%) \times \$150,000,000$ notional amount.

The fiscal year 2018 principal requirements exclude demand bonds classified as current liabilities (see Note 10C).

General Revenue, Series 2012B

The 2012B Bond has a maturity date of December 1, 2041. However, the bond was issued initially in the Index Mode extending to the initial index tender date of December 1, 2017. While in this mode, the bond will bear interest at the index rate, which will be the rate per annum determined monthly equal to 67.0% of one Month LIBOR plus an applicable spread of 0.75% (75 basis points).

The Series 2012B Bond in an Index Mode is subject to redemption, at the option of the University, in whole or in part, on any business day during the period beginning six months prior to the index tender date, to and including such index tender date, at a redemption price equal to 100% of the principal amount called for redemption, plus accrued interest, if any, to the date of redemption. In addition, and also at the discretion of the University during the period beginning six months prior to the index tender date for such 2012B Bonds, the interest rate can be reset which would trigger a redemption requirement and a remarketing.

If the funds available to purchase the 2012B Bonds tendered on an index tender date are not sufficient to pay the purchase price, a Delayed Remarketing Period will commence on such index tender date and the failure to purchase tendered bonds will not constitute an event of default under the Indentures.

The Delayed Remarketing Period will continue to (but not include) the earlier of (a) the date on which all such 2012B Bonds are successfully remarketed or (b) the date on which all of such 2012B Bonds have been deemed to have been paid and are no longer outstanding.

During a Delayed Remarketing Period for a Series of 2012B Bonds, unless the 2012B Bonds of such Series have been remarketed, the 2012B Bonds of such Series shall be subject to special mandatory redemption. Beginning with the first such June 1 or December 1 that occurs not less than six months following the date of commencement of the applicable Delayed Remarketing Period and ending on the sixth June 1 or December 1, the 2012B Bonds shall be repaid in six equal (or as equal as possible) semiannual installments on the special mandatory redemption date established herein. The final installment will be due and payable no later than the sixth special mandatory redemption date after the commencement of the applicable Delayed Remarketing Period.

The Annual Requirements presents the 2012B Bonds as amortizing in six semiannual payments as set forth in the Delayed Remarketing Period, to be fully paid off in a period of three years after the respective index tender date established herein. If the bonds are successfully remarketed or refunded into a new bond in the future, and, therefore, not subject to

the three-year amortization schedule after the initial index tender date, the total principal payments due in 2018 will reduce by \$16,667,000 to \$29,794,667, total principal payments in 2019 will reduce by \$33,334,000 to \$180,369,333, total principal payments in 2020 will reduce by \$33,334,000 to \$29,889,333, and total principal payments in 2021 will reduce by \$16,665,000 to \$29,661,667.

General Revenue, Series 2016ABC

On behalf of the University, the Board of Governors for the University of North Carolina System issued General Revenue Bonds Series 2016ABC on March 1, 2016. The 2016A Bonds have a maturity date of December 1, 2041 and the 2016B Bonds have a maturity date of December 1, 2034. However, both Series 2016A and 2016B Bonds are issued initially in the Index Mode extending to the initial index tender date of March 1, 2019. While in this mode, the bonds will bear interest at the index rate, which will be the rate per annum determined monthly equal to 67.0% of one month LIBOR plus an applicable spread of 0.45% (45 basis points).

The Series 2016AB Bonds in an Index Mode are subject to redemption, at the option of the University, in whole or in part, on any business day during the period beginning six months prior to the index tender date for such 2016AB Bonds, up to and including such index tender date, at a redemption price equal to 100% of the principal amount of 2016AB Bonds called for redemption, plus accrued interest, if any, to the date of redemption. The Series 2016AB Bonds are not subject to the provision of a Delayed Remarketing Period and, therefore, the University reported in its Annual Requirements the full maturity in fiscal year 2019, the end of the initial Index Mode.

F Prior Year Defeasances

During prior years, the University defeased General Revenue Series 2007 by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2017, the outstanding balance of prior year defeased bonds was \$298.5 million.

G Notes Payable

The University was indebted for notes payable for the purposes shown below in table:

On July 1, 2009, the UNC–Chapel Hill Foundation, Inc. and Chapel Hill Foundation Real Estate Holdings Inc., (collectively, the “Borrowers”; individually, the “Foundation”, former, or “Real Estate Holdings”, the latter), entered into a loan agreement with Bank of America, N.A. for \$45.8 million to fund the acquisition of student housing and rental real property.

In December 2011, Real Estate Holdings formed a new North Carolina limited liability company called Granville Towers, LLC (the Company). Real Estate Holdings is the sole manager and member of the Company and transferred the Granville Towers condominium unit to the single purpose Company (that purpose being to own and operate Granville Towers). On December 15, 2011, the Company obtained a \$36.5 million loan from Aviva Life and Annuity Company. The proceeds were used to pay down the original Bank of America \$45.8 million loan, decreasing the outstanding balance to \$9.3 million.

On February 14, 2014, the Borrowers executed a modification agreement with Bank of America, N.A. with respect to the original loan amount of \$45.8 million which had an outstanding balance of \$9.3 million. The loan was paid down by \$4.3 million, and the remaining \$5.0 million was refinanced at a fixed rate of 3.55% for the term with no change to the provision whereby the University Foundation and the Corporation are joint obligors to the Bank. The final maturity date is February 14, 2024. Interest and principal payments are made monthly.

On January 30, 2017, Granville Towers LLC obtained a loan from Nationwide Life Insurance Company (the “Lender”) in the amount of \$55.3 million. The proceeds were used to pay the outstanding principal of \$33.5 million Aviva Life and Annuity Company note and related financing expenses. The remaining balance of the proceeds is retained to fund strategic projects approved by the Board of Chapel Hill Foundation Real Estate Holdings, Inc.

The principal and interest payments for the note to the Lender are made in two hundred forty (240) consecutive monthly installments, calculated with an amortization period of

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017
Real Property Purchase	Bank of America	3.55%	02/14/2024	\$9,250,000	\$5,721,852	\$3,528,148
Real Property Purchase	Aviva	5.00%	01/01/2022	36,500,000	36,500,000	
Real Property Purchase	Nationwide	4.26%	02/01/2037	55,300,000	416,515	54,883,485
Real Property Purchase	Wells Fargo	1.82%	10/02/2016	30,000,000	30,000,000	
Total Notes Payable				\$131,050,000	\$72,638,367	\$58,411,633

twenty-five (25) years, the sum of \$299,891 paid on the 1st day of March 2017, and on the first day of each month thereafter until the first day of February 2037, on which date the entire balance of principal and interest then unpaid is due and payable. The interest rate is calculated at the rate of 4.26% per annum. The loan is secured by a first deed of trust on the Granville Towers Property and, with certain exceptions, carries limited recourse to the University Foundation and Real Estate Holdings.

In addition, on October 3, 2013, the Kenan-Flagler Business School Foundation, part of the University's reporting entity, entered into a note agreement with Wells Fargo Bank, N.A. in the aggregate principal amount up to \$30.0 million to finance the construction of the Paul J. Rizzo Conference Center Phase III addition. Advances under the note accrue interest at the variable rate of the LIBOR Market Index Rate plus 0.60%. At June 30, 2016, the total amount of draws against the note was \$30.0 million. In fiscal year 2017, the note was extended with a final maturity date of June 30, 2017. On May 24, 2017, the University purchased the real property improvements using proceeds of a \$30.0 million commercial paper issuance. The Kenan-Flagler Business School Foundation used these funds to repay the full balance of the bank note.

H Annuities Payable

The University participates in split-interest agreements with donors that require benefits payments for a specified period to a designated beneficiary out of assets held in trust for this purpose. At the end of the predetermined period (e.g., the lifetime of the beneficiary specified by the donor), the remaining assets of the trust revert to the University for its use or for a purpose specified by the donor. At the end of each fiscal year, annuities and life income payable to the beneficiaries are calculated using the 2012 IAR mortality table, thus taking into consideration beneficiary's age and the amount of the gift.

I Line of Credit

The UNC-Chapel Hill Foundation (the "Foundation"), part of the University's reporting entity, has a line of credit agreement issued by Bank of America, N.A. to finance the costs of projects approved by the Board of Directors of the Foundation. On November 10, 2016, the Foundation increased the commitment amount of the line of credit from \$4.0 million to \$7.0 million. Under the commitment, advances under the line of credit accrue interest at the variable rate of the LIBOR Market Index plus 1.15%. An unused commitment fee is due each quarter calculated as 0.24% of the difference between the commitment amount and the average balance outstanding for the quarter and paid in arrears on a quarterly basis. Outstanding draws against the line of credit totaled \$3.9 million at June 30, 2016. In fiscal year 2017, the Foundation drew \$1.6 million and \$2.3 million on June 19, 2017 and June 30, 2017, respectively. In addition, on June 30, 2017, the Foundation paid down \$3.9 million on the line. The line of credit commitment has a maturity date of April 30, 2018. The June 30, 2017 outstanding balance of \$3.9 million is recorded as a current liability.

NOTE 11

Derivative Instruments

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

Type	Notional Amount	Classification	Change in Fair Value		Fair Value	
			Increase (Decrease)	Classification	Asset (Liability)	
<i>Hedging Derivative Instruments:</i>						
<i>Cash Flow Hedges:</i>						
Pay-fixed interest rate swap	\$100,000,000	Deferred outflow of resources	\$12,868,308	Hedging derivative liability		(\$26,615,691)
Pay-fixed interest rate swap	\$150,000,000	Deferred outflow of resources	30,850,018	Hedging derivative liability		(76,309,392)
Total			\$43,718,326			(\$102,925,083)
<i>Investment Derivative Instruments:</i>						
Pay-fixed interest rate swap 2001B bonds	15,020,000	Investment income	1,087,208	Accounts payable		(2,979,579)
Foreign currency futures	(98,042,850)	Investment income	(1,590,233)	Accounts payable		(1,141,425)
Foreign currency forward	(21,707,854)	Investment income	(563,874)	Accounts payable		(134,150)
Foreign currency forward	(50,203,054)	Investment income	(263,313)	Other Assets		1,590,887
Equity Put Options	12,439,000	Investment income	626,485	Other Assets		3,086,485
Total			\$705,069			\$422,218

Hedging derivative instruments held at June 30, 2017, are as follows:

Type	Objective	Notional Amount	Effective Start Date	Termination End Date	Terms
Pay-fixed interest rate swap	Hedge changes in cash flows on variable rate debt	\$100,000,000	12/01/2007	12/01/2036	Pay 3.314%, Receive 67% 1 Mo. LIBOR
Pay-fixed interest rate swap	Hedge changes in cash flows on variable rate debt	\$150,000,000	12/01/2011	12/01/2041	Pay 4.375%, Receive 67% 1 Mo. LIBOR

The fair values of interest rate swaps at the University were provided by their financial advisor. The method used by their financial advisor calculated the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Hedging Derivative Risks

Interest Rate Risk: The University is exposed to interest rate risk on its interest rate swaps which is largely offset (or expected to be offset) by rates paid on variable-rate debt. In addition, the fair values of these instruments are highly sensitive to changes in interest rates. Because rates have declined significantly since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2017. The fair values are calculated as of June 30, 2017. As rates rise, the value of the swaps will increase, and as rates fall the fair value of the swaps will decrease.

Basis Risk: The University is exposed to basis risk on the swaps to the extent there is a mismatch between variable bond rates paid and swap index rates received.

Termination Risk: The swap agreements use the International Swaps and Derivatives Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swaps may mandatorily terminate if the University fails to perform under terms of the contract.

Investment Derivative Risks

Interest Rate Risk: The University is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. Because rates have changed since the effective date of the swap, the swap has a negative fair value of \$2,979,579 as of June 30, 2017. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on

the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The negative fair value is the calculated value as of June 30, 2017. As the yield curve rises, the value of the swap will increase and as rates fall, the value of the swap decreases. The University pays 5.24% and receives the Securities Industry and Financial Markets Association (SIFMA) Swaps Index rate. On June 30, 2017, SIFMA was 0.91%. The interest rate swap has a notional amount of \$15,020,000 and matures November 1, 2025.

Foreign Currency Risk: Foreign currency forward contracts are utilized from time to time to minimize the risk and exposure

to fluctuations in the exchange rates of foreign currencies.

Futures contracts based in foreign currency obligate the buyer to purchase an asset (or seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. The University's foreign currency investment derivatives are denominated in U.S. dollars. See Note 2 Deposits and Investments for further information about the University's exposure to foreign currency risk.

Credit Risk: At June 30, 2017, investment derivatives reported as assets expose the University to credit risk as follows:

	Value	Counterparty	Collateral Held	S&P / Fitch	Moody's
Foreign Currency Forwards (1)	\$1,590,887	Bank of America	n/a	A+	A1
Less: Netting Arrangement Liability	(134,150)				
Net Exposure to Credit Risk	\$1,456,737				

(1) Value total represents the maximum risk of loss that would be recognized at the reporting date if all counterparties failed to perform as contracted, without respect to any collateral or netting arrangement.

The University does not have a formal policy regarding requiring collateral or other security to support investment derivative instruments subject to credit risk. The University does not have a formal policy regarding entering into master netting arrangements.

NOTE 12

Lease Obligations

A Capital Lease Obligations

Capital lease obligations relating to machinery and equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	\$491,827
2019	351,283
2020	351,283
Total Minimum Lease Payments	1,194,393
Amount Representing Interest (1.84% Rate of Interest)	47,187
Present Value of Future Lease Payments	\$1,147,206

Machinery and equipment acquired under capital leases amounted to \$1,349,619 at June 30, 2017. Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital leases totaled \$55,742 at June 30, 2017.

B Operating Lease Obligations

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

Fiscal Year	Amount
2018	\$10,438,844
2019	8,963,622
2020	8,836,933
2021	8,332,384
2022	7,429,704
2023-2027	24,484,564
2028-2032	3,664,995
Total Minimum Lease Payments	\$72,151,046

Rental expense for all operating leases during the year was \$27,381,412.

NOTE 13

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*	Less Indigent Care and Contractual Adjustments	Net Revenues
<i>Operating Revenues:</i>						
Student Tuition and Fees, Net	\$535,400,149		\$109,237,151	(\$692,856)		\$426,855,854
Patient Services, Net	\$991,667,090			(\$21,387,977)	\$570,595,543	\$442,459,524
<i>Sales and Services:</i>						
Professional Income	\$116,915,628	\$4,398,113				\$112,517,515
Residential Life	81,719,605		\$11,086,282			70,633,323
Athletic	66,042,642	20,703				66,021,939
Dining	37,806,257					37,806,257
Parking	34,969,414	1,412,749				33,556,665
Utilities	121,119,876	95,138,417				25,981,459
Student Stores	4,438,882		6,710			4,432,172
Other	94,769,925	76,716,159	340,538			17,713,228
Health, Physical Education, and Recreation Services	9,249,026					8,969,246
Trademark License Program	8,419,344	99,160	180,620			8,419,344
UNC Management Company	15,204,062					15,204,062
Gene Therapy Center	3,230,804	337,611				2,893,193
School of Government	4,509,535					4,509,535
Telecommunications	17,680,585	16,180,689				1,499,896
KFBS Center	3,191,618					3,191,618
Doubletree Carolina Inn	2,157,310					2,157,310
Performing Arts Series	1,600,644					1,600,644
Printing / Carolina Copy	5,919,966	810,553				5,109,413
ERP Student Fees	1,391,616					1,391,616
Rental Property	2,156,459					2,156,459
Point to Point Transfer	798,015					798,015
Laundry	427,321					427,321
Student Union Services	543,311	263,584				279,727
Total Sales and Services, Net	\$634,261,845	\$195,377,738	\$11,614,150			\$427,269,957
Nonoperating – Non-capital Gifts, Net	\$180,132,232			\$1,131,815		\$179,000,417

NOTE 14

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 and Amortization	Total
Instruction	\$608,190,713	\$22,724,402	\$90,552,344		\$101,648		\$721,569,107
Research	327,765,973	45,260,667	222,167,809		24,904		595,219,353
Public Service	64,986,425	5,330,167	71,808,237		190,379		142,315,208
Academic Support	87,278,603	14,095,455	36,446,335		126,183		137,946,576
Student Services	22,488,646	2,385,763	20,595,741		36,131		45,506,281
Institutional Support	102,511,466	13,954,605	69,731,871		144,342		186,342,284
Operations and Maintenance of Plant	50,373,130	10,627,711	60,871,727		72,114,920		193,987,488
Student Financial Aid				\$123,739,574			123,739,574
Auxiliary Enterprises	433,588,070	76,783,027	209,987,522		6,342,390		726,701,009
Depreciation / Amortization						\$140,084,652	140,084,652
Total Operating Expenses	\$1,697,183,026	\$191,161,797	\$782,161,586	\$123,739,574	\$79,080,897	\$140,084,652	\$3,013,411,532

NOTE 15

Pension Plans

A Defined Benefit Plan

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended

June 30, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were \$28,838,831, and the University's contributions were \$47,968,589 for the year ended June 30, 2017.

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

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

Methods Used to Value TSERS Investment: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-Term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the University reported a liability of \$284,334,716 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2016, the University's proportion was 3.09361%,

which was a decrease of 0.02866% from its proportion measured as of June 30, 2015.

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

Valuation Date	12/31/15
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.25%

*Salary increases include 3.5% inflation and productivity factor.

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

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (the valuation date) are summarized in the following table:

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

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

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$534,778,656	\$284,334,716	\$73,745,692

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the University recognized pension expense of \$54,727,554. At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience		\$13,438,054
Changes of Assumptions	\$41,932,460	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	101,402,875	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	2,354,130	2,031,640
Contributions Subsequent to the Measurement Date	47,968,589	
Total	\$193,658,054	\$15,469,694

The amount of \$47,968,589 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That Will Be Recognized in Pension Expense

Year Ended June 30:	Amount
2018	\$21,865,372
2019	22,180,028
2020	55,030,856
2021	31,143,515
Total	\$130,219,771

B Defined Contribution Plan

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

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

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

For the current fiscal year, the University had a total payroll of \$1,324,180,922, of which \$611,278,785 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$41,811,469 and \$36,676,727, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of \$906,886.

NOTE 16

Other Post-Employment Benefits

A Health Benefits

The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees

of the Teachers' and State Employees' Retirement System (TSERS) or the Optional Retirement Program (ORP). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

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

For the period July 1, 2016 through December 31, 2016, the University contributed 5.60% of the covered payroll under TSERS and ORP to the Fund, and for the period January 1, 2017 through June 30, 2017 the University contributed 6.02% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were \$63,440,899, \$59,265,733, and \$55,554,649, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

B Disability Income

The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS and ORP. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2017, the University made a statutory contribution of 0.38% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were 0.41% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were \$4,149,319, \$4,339,098, and \$4,148,890, 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 17

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.

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 per employee through a contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

UNC Investment Fund, LLC (Blended Component Unit) Liability Insurance – The UNC Investment Fund is exposed to various risks of loss related to torts, theft of assets, and errors and omissions. The Management Company is a separate legal entity from The University of North Carolina System and the University. However, the Management Company's employees conduct UNC Investment Fund's affairs. Therefore, exposures to loss are handled by the purchase of commercial insurance by the Management Company. This insurance is independent of the risk management programs of The University of North Carolina System and the University.

Fire and Other Property Loss – 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, such as housing units or athletic facilities, are charged for the coverage. The University has opted to purchase additional coverages offered by the Fund. Examples of this additional coverage include special form (all-risk) and business interruption insurance for certain property exposures. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

Automobile Liability Insurance – All state owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

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

Other authorized coverage not handled by the North Carolina Department of Insurance is purchased through the state's insurance agent of record. Examples include, but are not limited to, fine arts, boiler and machinery, medical professional liability, and study abroad health insurance.

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.

Liability Insurance Trust Fund – The University participates in the Liability Insurance Trust Fund (Trust Fund), a claims-servicing public entity risk pool for healthcare professional liability protection. The Trust Fund services professional liability claims, managing separate accounts for each participant from which the losses of that participant are

paid. Although participant assessments are determined on an actuarial basis, ultimate liability for claims remains with the participants and, accordingly, the insurance risks are not transferred to the Trust Fund.

The Trust Fund is an unincorporated entity created by Chapter 116, Article 26, of the *North Carolina General Statutes* and The University of North Carolina Board of Governors Resolution of June 9, 1978. The Trust Fund is a self-insurance program established to provide professional medical malpractice liability covering The University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) and The University of North Carolina at Chapel Hill Faculty Physicians (UNC Faculty Physicians), the program participants. The Trust Fund provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of program participants. The Trust Fund is exempt from federal and state income taxes, and is not subject to regulation by the North Carolina Department of Insurance.

Participation in the Trust Fund is open to the University of North Carolina, any constituent institution of the University of North Carolina, UNC Hospitals, and any health care institution, agency or entity that has an affiliation agreement with the University of North Carolina, with a constituent institution of the University of North Carolina, or with UNC Hospitals. Only UNC Faculty Physicians and UNC Hospitals have participated in the Trust Fund to date. Participants provide management and administrative services to the Trust Fund at no cost.

The Trust Fund is governed by the Liability Insurance Trust Fund Council (the Council). The Council consists of 13 members as follows: one member each appointed by the State Attorney General, the State Insurance Commissioner, the Director of the Office of State Budget and Management, the State Treasurer (each serving at the pleasure of the appointer); and nine members appointed by the UNC System's Board of Governors.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future expenses and claim adjustment expenses) that have been reported but not settled and of claims incurred but not reported. Claim liabilities are recomputed annually based on an independent actuary's study to produce current estimates that reflect recent settlements, claims frequency, inflation, and other factors. Participant assessments are determined at a level to fund claim liabilities, discounted for future investment earnings. Each participant is required by statute to maintain a fund balance of \$100,000 at all times. Participants are subject to additional premium assessments in the event of deficiencies.

For the period July 1, 2016 through June 30, 2017, the Trust Fund provided coverage on an occurrence basis of \$3,000,000 per individual and \$7,000,000 in the aggregate per claim. Effective July 1, 2006, in lieu of purchasing commercial reinsurance, participants contributed approximately

\$10,000,000 to a reimbursement fund for future losses. Prior to July 1, 2006, the Trust Fund entered into an excess of loss agreement with an unaffiliated reinsurer.

For the fiscal year ending June 30, 2017, the Trust Fund purchased a direct insurance policy to cover the first \$1,000,000 per occurrence and \$3,000,000 in the aggregate for dental residents. North Carolina General Statutes Chapter 116 was amended during 1987 to authorize the Trust Fund to borrow necessary amounts up to \$30,000,000, in the event that the Trust Fund may have insufficient funds to pay existing and future claims. Any such borrowing would be repaid from the assets and revenues of program participants. No line of credit or borrowing has been established pursuant to this authorization. The Council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

The Trust Fund has purchased annuity contracts to settle claims for which the claimant has signed an agreement releasing the Fund from further obligation. The related claim liabilities have been removed from estimated malpractice costs.

The Council may choose to terminate the Trust Fund, or the respective participants may choose to terminate their participation. In the event of such termination by either the Council or a participant, an updated actuarial study will be performed to determine amounts due to or from the participants based on loss experience up to the date of termination.

At June 30, 2017, University assets in the Trust Fund totaled \$21,588,376 while University liabilities totaled \$18,623,697 resulting in net position of \$2,964,679.

Additional disclosures about the funding status and obligations of the Trust Fund are set forth in the Audited Financial Statements of the Liability Insurance Trust Fund. Copies of this report may be obtained from The University of North Carolina Health Care System, 211 Friday Center Drive, Hedrick Building, Room 2043, Chapel Hill, NC 27517.

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

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.

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.

NOTE 18

Commitments and Contingencies

A Commitments

The University has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$93,729,799 at June 30, 2017.

The UNC Investment Fund has entered into agreements with limited partnerships to invest capital. These agreements represent the funding of capital over a designated period of time and are subject to adjustments. As of June 30, 2017, the UNC Investment Fund had approximately \$1,135,826,535 unfunded committed capital.

B Pending Litigation and Claims

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

C Other Contingent Receivables

The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with generally accepted accounting principles in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at June 30, 2017 are as follows:

Purpose	Amount
Pledges to permanent endowments	\$27,794,851

NOTE 19

Related Parties

There are 13 separately incorporated nonprofit foundations associated with the University. These foundations are The Botanical Garden Foundation, Inc., The Dental Alumni Association, Inc., The Dental Foundation of North Carolina, Inc., The Educational Foundation, Inc., The General Alumni Association, The School of Government Foundation, Inc., The Morehead-Cain Scholarship Fund, UNC Eshelman School of Pharmacy Foundation, The School of Media and Journalism Foundation of North Carolina, Inc., The University of North Carolina at Chapel Hill Public Health Foundation, Incorporated, The University of North Carolina at Chapel Hill School of Nursing Foundation, Inc., The School of Social Work Foundation, Inc., and Carolina for Kibera, Inc.

Some of these organizations serve, in conjunction with the University's component units (See Note 1A), as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The alumni associations provide educational opportunities or other services to alumni. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of these organizations, except for support from each organization to the University. This support totaled \$60,725,771 for the year ended June 30, 2017.

NOTE 20

Investment in Joint Ventures

The University is a member of the Southern Observatory for Astronomical Research Consortium (SOAR), a joint venture accounted for under the equity method and valued at \$9,309,779. The University is partners with Michigan State University, U.S. National Optical Astronomy Observatory, and the Ministry of Science and Technology of the Federal Republic of Brazil. SOAR designed, constructed, and now operates a 4.1-meter telescope with instrumentation and related support buildings located at Cerro Pachon, a mountain in central Chile. The SOAR agreement allocates the University

16.7% of observing time until 2023. The audited financial statements for SOAR may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of the Carolina Vascular Access Center, a joint venture accounted for under the equity method and valued at \$684,423. The University is partners with Capital Nephrology and Durham Nephrology and has a 40.0% share. This joint venture provides dialysis services to patients in Orange, Durham and Wake counties. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of the Carolina Behavioral Health Alliance, a joint venture accounted for under the equity

method and valued at \$284,922. The University is partners with Wake Forest Baptist Medical Center and East Carolina University and has a 33.3% share. The joint venture specializes in managed mental health benefit plans serving the Winston-Salem and Charlotte areas. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of Qura Therapeutics, a joint venture accounted for under the equity method and valued at \$2,529,258. The University partners with GSK and has a 50.0% share. The joint venture accelerates the search for an HIV cure. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

NOTE 21

Blended Component Units

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

Condensed Statement of Net Position

As of June 30, 2017

	University of North Carolina at Chapel Hill	UNC Investment Fund, LLC	The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	The University of North Carolina at Chapel Hill Foundation, Inc.	UNC Intermediate Pool, LLC	Other Blended Component Units*	Eliminations	Total
<i>Assets:</i>								
Current Assets	\$1,164,619,173	\$165,751,148		\$48,169,823	\$52,589,673	\$60,840,594	(\$29,131,175)	\$1,462,839,236
Capital Assets, Net	3,005,264,639			82,567,758		3,024,258		3,090,856,655
Other Noncurrent Assets	2,473,023,932	5,295,399,713	\$3,046,147,447	353,643,238	538,913,772	162,628,080	(6,630,737,919)	5,239,018,263
Total Assets	6,642,907,744	5,461,150,861	3,046,147,447	484,380,819	591,503,445	226,492,932	(6,659,869,094)	9,792,714,154
Total Deferred Outflows of Resources	308,443,580							308,443,580
<i>Liabilities:</i>								
Current Liabilities	463,838,139	4,646,713	1,956,220	12,610,839	11,678,453	7,620,517		502,350,881
Long-Term Liabilities, Net	1,586,668,283			115,900,495				1,702,568,778
Other Noncurrent Liabilities	725,647,941					10,156,683	2,420,815,309	3,156,619,933
Total Liabilities	2,776,154,363	4,646,713	1,956,220	128,511,334	11,678,453	17,777,200	2,420,815,309	5,361,539,592
Total Deferred Inflows of Resources	15,469,694							15,469,694
<i>Net Position:</i>								
Net Investment in Capital Assets	1,625,700,802			26,500,225		3,024,258		1,655,225,285
Restricted – Nonexpendable	560,241,421	5,456,504,148	3,044,191,227	157,768,395	579,824,992	118,231,028	(9,080,684,403)	836,076,808
Restricted – Expendable	1,365,639,535			123,913,444		58,817,163		1,548,370,142
Unrestricted	608,145,509			47,687,421		28,643,283		684,476,213
Total Net Position	\$4,159,727,267	\$5,456,504,148	\$3,044,191,227	\$355,869,485	\$579,824,992	\$208,715,732	(\$9,080,684,403)	\$4,724,148,448

*Other Blended Component Units include UNC Management Company, Inc., The Kenan-Flagler Business School Foundation, UNC Law Foundation, Inc., The University of North Carolina at Chapel Hill School of Education Foundation, Inc., WUNC Public Radio, LLC, HVPV Holdings, LLC, and Carolina Research Ventures, LLC.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

For the fiscal year ended June 30, 2017

	University of North Carolina at Chapel Hill	UNC Investment Fund, LLC	The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	The University of North Carolina at Chapel Hill Foundation, Inc.	UNC Intermediate Pool, LLC	Other Blended Component Units*	Eliminations	Total
<i>Operating Revenues:</i>								
Student Tuition and Fees, Net	\$417,250,014					\$9,605,840		\$426,855,854
Grants and Contracts	811,223,175							811,223,175
Sales and Services, Net	840,641,556			\$13,686,085		15,401,840		869,729,481
Other Operating Revenues	14,327,403					927,848	\$1,138,906	16,394,157
Total Operating Revenues	2,083,442,148			13,686,085		25,935,528	1,138,906	2,124,202,667
<i>Operating Expenses:</i>								
Operating Expenses	2,822,837,533			12,881,315		37,608,032		2,873,326,880
Depreciation	138,544,971			1,215,364		324,317		140,084,652
Total Operating Expenses	2,961,382,504			14,096,679		37,932,349		3,013,411,532
Operating Income (Loss)	(877,940,356)			(410,594)		(11,996,821)	1,138,906	(889,208,865)
<i>Nonoperating Revenues (Expenses):</i>								
Investment Income (Loss), Net	224,540,742	\$577,032,068	\$346,870,261	34,045,849	\$33,336,391	15,234,825	(963,990,366)	267,069,770
Other, Net	766,751,336	268,496,477	(85,373,369)	(8,605,691)	8,705,649	10,830,614	(244,620,125)	716,184,891
Nonoperating Revenues (Expenses)	991,292,078	845,528,545	261,496,892	25,440,158	42,042,040	26,065,439	(1,208,610,491)	983,254,661
Capital Appropriations	12,868,915							12,868,915
Capital Grants	3,789,728							3,789,728
Capital Gifts	16,995,926							16,995,926
Additions To Endowment	(2,146,127)			17,905,438		1,710,665	(501,841)	16,968,135
Increase (Decrease) In Net Position	144,860,164	845,528,545	261,496,892	42,935,002	42,042,040	15,779,283	(1,207,973,426)	144,668,500
Net Position, July 1, 2016, As Restated	4,014,867,103	4,610,975,603	2,782,694,335	312,934,483	537,782,952	192,936,449	(7,872,710,977)	4,579,479,948
Net Position, June 30, 2017	\$4,159,727,267	\$5,456,504,148	\$3,044,191,227	\$355,869,485	\$579,824,992	\$208,715,732	(\$9,080,684,403)	\$4,724,148,448

*Other Blended Component Units include UNC Management Company, Inc., The Kenan-Flagler Business School Foundation, UNC Law Foundation, Inc., and The University of North Carolina at Chapel Hill School of Education Foundation, Inc., WUNC Public Radio, LLC, HVPV Holdings, LLC, and Carolina Research Ventures, LLC.

Condensed Statement of Cash Flows

For the fiscal year ended June 30, 2017

	The University of North Carolina at Chapel Hill	The University of North Carolina at Chapel Hill Foundation, Inc.	Other Blended Component Units*	Total
Net Cash Used by Operating Activities	(\$610,397,263)	(\$11,114,744)	(\$7,502,921)	(\$629,014,928)
Net Cash Provided by Non-capital Financing Activities	1,381,023,448	14,220,430	7,835,514	1,403,079,392
Net Cash Provided (Used) by Capital and Related Financing Activities	(200,623,481)	9,633,987	6,062,115	(184,927,379)
Net Cash Provided (Used) by Investing Activities	(329,067,980)	(853,672)	417,618	(329,504,034)
Net Increase in Cash and Cash Equivalents	240,934,724	11,886,001	6,812,326	259,633,051
Cash and Cash Equivalents, July 1, 2016	425,903,868	34,934,664	38,032,910	498,871,442
Cash and Cash Equivalents, June 30, 2017	\$666,838,592	\$46,820,665	\$44,845,236	\$758,504,493

*Other Blended Component Units include UNC Management Company, Inc., The Kenan-Flagler Business School Foundation, UNC Law Foundation, Inc., The University of North Carolina at Chapel Hill School of Education Foundation, Inc., WUNC Public Radio, LLC, HVPV Holdings, LLC, and Carolina Research Ventures, LLC.

NOTE 22

Changes in Financial Accounting and Reporting

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

GASB Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73

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

NOTE 23

Net Position Restatements

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

	Amount
July 1, 2016 Net Position as Previously Reported	\$4,586,135,649
<i>Restatements:</i>	
Blending two new Associated Entities: Carolina Research Ventures, LLC, and HVPV Holdings, LLC	202,255
To Remove UNC GA's Center for Leadership Development Building Erroneously Reported by the University in Prior Periods	(6,857,956)
July 1, 2016 Net Position as Restated	\$4,579,479,948

NOTE 24

Subsequent Events

On September 21, 2017, the Board of Governors of the University of North Carolina (Board), on behalf of the University, issued \$110.2 million in General Revenue Series 2017 refunding bonds. The bonds were issued to advance refund \$54.9 million of outstanding General Revenue Series 2009A bonds and refund \$50.0 million of outstanding General Revenue Series 2002A bonds (commercial paper).

The Board, on behalf of the University, had a line of credit in the amount of \$100.0 million with US Bank, N.A. that expired on September 19, 2017. The University closed on a replacement line of credit with a five-year term in the amount of \$100.0 million on September 19, 2017, also in the name of the Board on behalf of the University.

Required Supplementary Information

Schedule of the Proportionate Net Pension Liability Teachers' and State Employees' Retirement System Last four fiscal years

	2016	2015	2014	2013
Proportionate share percentage of collective net pension liability	3.09%	3.12%	3.22%	3.20%
Proportionate share of TSERS collective net pension liability	\$284,334,716	\$115,061,832	\$37,801,432	\$194,278,679
Covered payroll	\$460,471,749	\$451,281,663	\$457,366,996	\$460,281,538
Net pension liability as a percentage of covered payroll	61.75%	25.50%	8.27%	42.21%
Plan fiduciary net position as a percentage of the total pension liability	87.32%	94.64%	98.24%	90.60%

Information is not available for preceding years, to the extent 10 years of information is not presented.

Schedule of University Contributions Teachers' and State Employees' Retirement System Last ten fiscal years

	2017	2016	2015	2014	2013
Contractually required contribution	\$47,968,589	\$42,133,165	\$41,292,272	\$39,745,192	\$38,341,452
Contributions in relation to the contractually determined contribution	47,968,589	42,133,165	41,292,272	39,745,192	38,341,452
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0
Covered payroll	\$480,647,184	\$460,471,749	\$451,281,663	\$457,366,996	\$460,281,538
Contributions as a percentage of covered payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	2012	2011	2010	2009	2008
Contractually required contribution	\$33,975,672	\$23,308,729	\$16,632,618	\$15,756,451	\$13,032,159
Contributions in relation to the contractually determined contribution	33,975,672	23,308,729	16,632,618	15,756,451	13,032,159
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0
Covered payroll	\$456,662,258	\$472,793,699	\$465,899,657	\$468,941,991	\$427,283,896
Contributions as a percentage of covered payroll	7.44%	4.93%	3.57%	3.36%	3.05%

Notes to Required Supplementary Information

Schedule of University Contributions Teachers' and State Employees' Retirement System Last ten fiscal years

Changes of Benefit Terms:

Cost of Living Increase									
2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
n/a	n/a	1.00%	n/a	n/a	n/a	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2016 Comprehensive Annual Financial Report.





Statistical Section

2017 Comprehensive Annual Financial Report
The University of North Carolina at Chapel Hill



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Financial Trends

Net Position by Component

Last ten fiscal years

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	<i>(as restated)</i>		<i>(as restated)</i>			<i>(as restated)</i>				
Net Investment in Capital Assets	\$1,655,225	\$1,655,895	\$1,686,949	\$1,694,842	\$1,632,515	\$1,645,959	\$1,587,446	\$1,420,104	\$1,338,833	\$1,290,034
Restricted, Nonexpendable	836,077	787,682	773,548	724,605	702,225	700,687	656,723	621,873	586,175	548,151
Restricted, Expendable	1,548,370	1,372,533	1,453,008	1,390,715	1,193,821	990,908	1,007,536	891,182	837,154	1,199,280
Unrestricted	684,476	763,370	753,407	766,194	972,888	896,092	851,254	778,439	700,280	671,970
Total Net Position	\$4,724,148	\$4,579,480	\$4,666,912	\$4,576,356	\$4,501,449	\$4,233,646	\$4,102,959	\$3,711,598	\$3,462,442	\$3,709,435

expressed as a percent of the total

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	%	%	%	%	%	%	%	%	%	%
	<i>(as restated)</i>		<i>(as restated)</i>			<i>(as restated)</i>				
Net Investment in Capital Assets	35.0	36.2	36.2	37.1	36.3	38.9	38.7	38.3	38.7	34.8
Restricted, Nonexpendable	17.7	17.2	16.6	15.8	15.6	16.5	16.0	16.7	16.9	14.8
Restricted, Expendable	32.8	30.0	31.1	30.4	26.5	23.4	24.6	24.0	24.2	32.3
Unrestricted	14.5	16.6	16.1	16.7	21.6	21.2	20.7	21.0	20.2	18.1
Total Net Position	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

percentage increase (decrease) from prior year

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	%	%	%	%	%	%	%	%	%	%
	<i>(as restated)</i>		<i>(as restated)</i>			<i>(as restated)</i>				
Net Investment in Capital Assets	0.0	(1.8)	(0.5)	3.8	(0.8)	3.7	11.8	6.1	3.8	n/a
Restricted, Nonexpendable	6.1	1.8	6.8	3.2	0.2	6.7	5.6	6.1	6.9	n/a
Restricted, Expendable	12.8	(5.5)	4.5	16.5	20.5	(1.7)	13.1	6.5	(30.2)	n/a
Unrestricted	(10.3)	1.3	(1.7)	(21.2)	8.6	5.3	9.4	11.2	4.2	n/a
Total Net Position	3.2	(1.9)	2.0	1.7	6.3	3.2	10.5	7.2	(6.7)	n/a

Changes in Net Position

Last ten fiscal years

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	<i>(as restated)</i>		<i>(as restated)</i>						<i>(as restated)</i>	
Revenues:										
<i>Operating Revenues:</i>										
Student tuition and fees, net	\$426,856	\$405,808	\$395,005	\$361,771	\$348,049	\$320,535	\$289,897	\$249,083	\$236,960	\$218,763
Patient services, net	442,460	416,811	323,700	312,054	291,277	280,671	280,035	242,757	237,966	214,706
Federal grants and contracts	643,953	639,351	716,564	707,514	587,220	578,702	571,288	530,368	471,680	447,793
State and local grants and contracts	19,600	29,433	17,227	37,613	41,471	41,953	38,251	37,679	29,091	51,207
Non-governmental grants and contracts	147,670	160,714	106,762	158,133	132,506	105,191	146,081	120,674	123,649	115,513
Sales and services, net	427,270	416,013	461,580	458,458	429,243	400,480	373,706	354,439	321,505	349,372
Interest earnings on loans	1,432	1,450	1,167	823	730	849	842	790	801	666
Other operating revenues	14,962	17,632	9,280	2,872	8,198	8,148	4,836	6,485	7,835	6,232
Total operating revenues	2,124,203	2,087,212	2,031,285	2,039,238	1,838,694	1,736,529	1,704,936	1,542,275	1,429,487	1,404,252
Expenses:										
<i>Operating Expenses:</i>										
Salaries and benefits	1,697,183	1,544,504	1,505,426	1,622,395	1,435,472	1,375,758	1,379,178	1,340,749	1,309,862	1,210,757
Supplies and materials	191,162	216,969	188,308	159,907	160,698	164,899	162,999	156,404	174,501	161,219
Services	782,162	722,677	886,631	872,702	650,516	617,589	614,928	538,784	533,023	526,646
Scholarships and fellowships	123,739	122,816	119,453	112,450	104,557	96,871	91,140	69,083	58,557	58,058
Utilities	79,081	83,711	88,373	85,157	83,265	80,832	81,471	81,210	77,636	66,197
Depreciation and amortization	140,085	136,572	136,493	130,438	117,968	113,530	102,724	90,861	70,747	66,413
Total operating expenses	3,013,412	2,827,249	2,924,684	2,983,049	2,552,476	2,449,479	2,432,440	2,277,091	2,224,326	2,089,290
Operating loss	(889,209)	(740,037)	(893,399)	(943,811)	(713,782)	(712,950)	(727,504)	(734,816)	(794,839)	(685,038)
Nonoperating Revenues (Expenses):										
State appropriations	500,212	493,923	479,186	482,728	515,121	486,492	520,198	509,691	518,276	543,292
State aid - federal recovery funds							14,480	32,062	20,051	
Non-capital grants – federal student financial aid	15,992	19,607	36,232	18,622	18,011	17,899	18,946	17,099	10,170	
Non-capital grants	118,754	75,956	88,597	122,611	164,790	163,440	175,600	155,014	143,846	102,932
Non-capital gifts, net	179,000	123,456	155,065	97,416	67,641	99,446	93,166	75,881	87,226	113,094
Investment income (loss), net	267,070	(50,950)	195,407	258,372	191,969	33,134	208,184	103,605	(296,904)	146,650
Interest and fees on debt	(56,960)	(62,561)	(67,459)	(66,217)	(70,118)	(64,321)	(56,765)	(64,261)	(52,465)	(53,311)
Federal interest subsidy on debt	2,116	2,118	2,107	2,109	2,174	2,274	2,273	1,130		
Other nonoperating revenues (expenses)	(42,929)	27,520	32,631	(6,162)	(1,600)	(6,053)	(2,670)	(14,219)	2,359	851
Net nonoperating revenues	983,255	629,069	921,766	909,479	887,988	732,311	973,412	816,002	432,559	853,508
Income (loss) before other revenues, expenses, gains, or losses	94,046	(110,968)	28,367	(34,332)	174,206	19,361	245,908	81,186	(362,280)	168,470
Capital appropriations	12,869	8,767	1,600	4,313	2,285				12,539	47,206
Refund of prior years capital appropriations							(81)	(444)	(3,317)	
Capital grants	3,790	8,997	29,631	41,507	44,177	78,133	91,864	86,117	27,124	12,885
Capital gifts	16,996	0	11,261	6,064	23,182	5,630	9,149	50,688	34,686	11,596
Additions to endowments	16,967	12,428	19,697	25,609	23,953	27,563	44,521	31,609	44,255	60,242
Increase (Decrease) in Net Position	\$144,668	(\$80,776)	\$90,556	\$43,161	\$267,803	\$130,687	\$391,361	\$249,156	(\$246,993)	\$300,399

Changes in Net Position (continued)

Last ten fiscal years

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	<i>(as restated)</i>		<i>(as restated)</i>		<i>(as restated)</i>					
Total Revenues	\$3,257,969	\$2,859,984	\$3,082,699	\$3,098,589	\$2,891,998	\$2,650,540	\$2,883,317	\$2,605,171	\$2,330,019	\$2,443,000
Total Expenses	3,113,301	2,940,760	2,992,143	3,055,428	2,624,195	2,519,853	2,491,956	2,356,015	2,577,012	2,142,601
Increase (Decrease) in Net Position	\$144,668	(\$80,776)	\$90,556	\$43,161	\$267,803	\$130,687	\$391,361	\$249,156	(\$246,993)	\$300,399

expressed as a percent of the total revenues/total expenses

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	%	%	%	%	%	%	%	%	%	%
	<i>(as restated)</i>		<i>(as restated)</i>		<i>(as restated)</i>					
Revenues:										
<i>Operating Revenues:</i>										
Student tuition and fees, net	13.1	14.2	12.8	11.7	12.0	12.1	10.1	9.6	10.2	9.0
Patient services, net	13.6	14.6	10.5	10.1	10.1	10.6	9.7	9.3	10.2	8.8
Federal grants and contracts	19.8	22.4	23.2	22.8	20.4	21.8	19.8	20.5	20.4	18.3
State and local grants and contracts	0.6	1.0	0.6	1.2	1.4	1.6	1.3	1.4	1.2	2.1
Non-governmental grants and contracts	4.5	5.6	3.5	5.1	4.6	4.0	5.1	4.6	5.3	4.7
Sales and services, net	13.1	14.5	15.0	14.8	14.8	15.1	13.0	13.6	13.8	14.3
Interest earnings on loans	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating revenues	0.5	0.6	0.3	0.1	0.3	0.3	0.2	0.2	0.3	0.3
Total operating revenues	65.2	73.0	65.9	65.8	63.6	65.5	59.1	59.2	61.4	57.5
Expenses:										
<i>Operating Expenses:</i>										
Salaries and benefits	54.5	52.5	50.3	53.1	54.7	54.6	55.3	56.9	50.8	56.5
Supplies and materials	6.1	7.4	6.3	5.2	6.1	6.5	6.5	6.6	6.8	7.5
Services	25.1	24.6	29.6	28.6	24.8	24.5	24.7	22.9	20.7	24.6
Scholarships and fellowships	4.0	4.2	4.0	3.7	4.0	3.8	3.7	2.9	2.3	2.7
Utilities	2.5	2.8	3.0	2.8	3.2	3.2	3.3	3.4	3.0	3.1
Depreciation and amortization	4.5	4.6	4.6	4.3	4.5	4.5	4.1	3.9	2.7	3.1
Total operating expenses	92.5	98.8	94.9	96.3	88.3	92.4	84.4	87.4	95.5	85.5
Operating loss	(27.3)	(25.9)	(29.0)	(30.5)	(24.7)	(26.9)	(25.3)	(28.2)	(34.1)	(28.0)
Nonoperating Revenues (Expenses):										
State appropriations	15.4	17.3	15.5	15.6	17.8	18.4	18.0	19.6	22.2	22.4
State aid – federal recovery funds	0.0	0.0	0.0	0.0	0.0	0.0	0.5	1.2	0.9	0.0
Non-capital grants – federal student financial aid	0.5	0.7	1.2	0.6	0.6	0.7	0.7	0.7	0.4	0.0
Non-capital grants	3.6	2.7	2.9	4.0	5.7	6.2	6.1	6.0	6.2	4.2
Non-capital gifts, net	5.5	4.3	5.0	3.1	2.3	3.8	3.2	2.9	3.7	4.6
Investment income (loss), net	8.2	(1.7)	6.3	8.3	6.6	1.3	7.2	4.0	(11.5)	6.0
Interest and fees on debt	(1.8)	(2.1)	(2.3)	(2.2)	(2.7)	(2.6)	(2.3)	(2.7)	(2.0)	(2.5)
Federal interest subsidy on debt	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Other nonoperating revenues (expenses)	(1.4)	1.0	1.1	(0.2)	(0.1)	(0.2)	(0.1)	(0.6)	0.1	0.0
Net nonoperating revenues	30.2	22.0	29.9	29.4	30.7	27.6	33.9	31.3	18.6	34.9
Income (loss) before other revenues, expenses, gains, or losses	2.9	(3.9)	0.9	(1.1)	6.0	0.7	8.6	3.1	(15.5)	6.9
Capital appropriations	0.4	0.3	0.1	0.1	0.1	0.0	0.0	0.0	0.5	1.9
Refund of prior years capital appropriations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)	0.0
Capital grants	0.1	0.4	0.9	1.4	1.6	3.0	3.2	3.3	0.9	0.4
Capital gifts	0.5	0.0	0.4	0.2	0.8	0.2	0.3	1.9	1.5	0.5
Additions to endowments	0.5	0.4	0.6	0.8	0.8	1.0	1.5	1.2	1.9	2.5
Increase (Decrease) in Net Position	4.4	(2.8)	2.9	1.4	9.3	4.9	13.6	9.6	(10.6)	12.3

Changes in Net Position (continued)

Last ten fiscal years

percentage increase (decrease) from prior year

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	%	%	%	%	%	%	%	%	%	%
		(as restated)		(as restated)						(as restated)
Revenues:										
<i>Operating Revenues:</i>										
Student tuition and fees, net	5.2	2.7	9.2	3.9	8.6	10.6	16.4	5.1	8.3	3.9
Patient services, net	6.2	28.8	3.7	7.1	3.8	0.2	15.4	2.0	10.8	8.9
Federal grants and contracts	0.7	(10.8)	1.3	20.5	1.5	1.3	7.7	12.4	5.3	4.4
State and local grants and contracts	(33.4)	70.9	(54.2)	(9.3)	(1.1)	9.7	1.5	29.5	(43.2)	13.1
Non-governmental grants and contracts	(8.1)	50.5	(32.5)	19.3	26.0	(28.0)	21.1	(2.4)	7.0	24.8
Sales and services, net	2.7	(9.9)	0.7	6.8	7.2	7.2	5.4	10.2	(8.0)	7.7
Interest earnings on loans	(1.2)	24.3	41.8	12.7	(14.0)	0.8	6.6	(1.4)	20.3	(1.9)
Other operating revenues	(15.1)	74.2	223.1	(65.0)	0.6	68.5	(25.4)	(17.2)	25.7	36.2
Total operating revenues	1.8	2.7	(0.4)	10.9	5.9	1.9	10.5	7.9	1.8	7.7
Expenses:										
<i>Operating Expenses:</i>										
Salaries and benefits	9.9	2.6	(7.2)	13.0	4.3	(0.2)	2.9	2.4	8.2	7.9
Supplies and materials	(11.9)	15.2	17.8	(0.5)	(2.5)	1.2	4.2	(10.4)	8.2	(2.7)
Services	8.2	(18.5)	1.6	34.2	5.3	0.4	14.1	1.1	1.2	14.0
Scholarships and fellowships	0.8	2.8	6.2	7.5	7.9	6.3	31.9	18.0	0.9	2.5
Utilities	(5.5)	(5.3)	3.8	2.3	3.0	(0.8)	0.3	4.6	17.3	9.0
Depreciation and amortization	2.6	0.1	4.6	10.6	3.9	10.5	13.1	28.4	6.5	(17.8)
Total operating expenses	6.6	(3.3)	(2.0)	16.9	4.2	0.7	6.8	2.4	6.5	7.2
Operating loss	20.2	(17.2)	(5.3)	32.2	0.1	(2.0)	(1.0)	(7.6)	16.0	6.4
Nonoperating Revenues (Expenses):										
State appropriations	1.3	3.1	(0.7)	(6.3)	5.9	(6.5)	2.1	(1.7)	(4.6)	10.3
State aid – federal recovery funds	0.0	0.0	0.0	0.0	0.0	(100.0)	(54.8)	59.9	n/a	n/a
Non-capital grants – federal student financial aid	(18.4)	(45.9)	94.6	3.4	0.6	(5.5)	10.8	68.1	n/a	n/a
Non-capital grants	56.3	(14.3)	(27.7)	(25.6)	0.8	(6.9)	13.3	7.8	39.7	64.2
Non-capital gifts, net	45.0	(20.4)	59.2	44.0	(32.0)	6.7	22.8	(13.0)	(22.9)	53.6
Investment income (loss), net	624.2	(126.1)	(24.4)	34.6	479.4	(84.1)	100.9	134.9	(302.5)	(53.8)
Interest and fees on debt	(9.0)	(7.3)	1.9	(5.6)	9.0	13.3	(11.7)	22.5	(1.6)	24.2
Federal interest subsidy on debt	(0.1)	0.5	(0.1)	(3.0)	(4.4)	0.0	101.2	n/a	n/a	n/a
Other nonoperating revenues (expenses)	(256.0)	(15.7)	629.6	285.1	(73.6)	126.7	(81.2)	(702.8)	177.2	482.9
Net nonoperating revenues	56.3	(31.8)	1.4	2.4	21.3	(24.8)	19.3	88.6	(49.3)	(5.6)
Income (loss) before other revenues, expenses, gains, or losses	(184.9)	(491.2)	(182.6)	(119.7)	799.8	(92.1)	202.9	122.4	(315.0)	(35.2)
Capital appropriations	46.8	447.9	(62.9)	88.8	0.0	0.0	0.0	(100.0)	(73.4)	(10.7)
Refund of prior years capital appropriations	0.0	0.0	0.0	0.0	0.0	(100.0)	(81.8)	(86.6)	n/a	n/a
Capital grants	(57.9)	(69.6)	(28.6)	(6.0)	(43.5)	(14.9)	6.7	217.5	110.5	(89.2)
Capital gifts	n/a	(100.0)	85.7	(73.8)	311.8	(38.5)	(82.0)	46.1	199.1	(26.0)
Additions to endowments	36.5	(36.9)	(23.1)	6.9	(13.1)	(38.1)	40.8	(28.6)	(26.5)	52.7
Increase (Decrease) in Net Position	279.1	(189.2)	109.8	(83.9)	104.9	(66.6)	57.1	200.9	(182.2)	(38.3)

Changes in Net Position Adjusted for Inflation

Last ten fiscal years (2008 dollars)

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		(as restated)		(as restated)						(as restated)
Revenues:										
<i>Operating Revenues:</i>										
Student tuition and fees, net	\$369,850	\$351,613	\$342,253	\$319,458	\$315,650	\$297,553	\$274,463	\$240,922	\$231,548	\$218,763
Patient services, net	383,370	361,146	280,470	275,556	264,163	260,547	265,126	234,803	232,531	214,706
Federal grants and contracts	557,954	553,967	620,868	624,763	532,557	537,210	540,873	512,990	460,907	447,793
State and local grants and contracts	16,982	25,502	14,926	33,214	37,611	38,945	36,215	36,444	28,427	51,207
Non-governmental grants and contracts	127,949	139,251	92,504	139,638	120,171	97,649	138,304	116,720	120,825	115,513
Sales and services, net	370,209	360,455	399,937	404,836	389,286	371,766	353,810	342,826	314,162	349,372
Interest earnings on loans	1,241	1,256	1,011	727	662	788	797	764	783	666
Other operating revenues	12,964	15,277	8,041	2,536	7,435	7,564	4,579	6,273	7,656	6,232
Total operating revenues	1,840,519	1,808,467	1,760,010	1,800,728	1,667,535	1,612,022	1,614,167	1,491,742	1,396,839	1,404,252
Expenses:										
<i>Operating Expenses:</i>										
Salaries and benefits	1,470,527	1,338,238	1,304,379	1,432,638	1,301,847	1,277,119	1,305,752	1,296,819	1,279,945	1,210,757
Supplies and materials	165,633	187,993	163,160	141,204	145,739	153,076	154,321	151,279	170,515	161,219
Services	677,705	626,165	768,223	770,630	589,961	573,309	582,190	521,131	520,849	526,646
Scholarships and fellowships	107,214	106,414	103,500	99,298	94,824	89,926	86,288	66,819	57,220	58,058
Utilities	68,520	72,532	76,571	75,197	75,514	75,036	77,134	78,549	75,863	66,197
Depreciation and amortization	121,377	118,333	118,265	115,182	106,987	105,390	97,255	87,884	69,131	66,413
Total operating expenses	2,610,976	2,449,675	2,534,098	2,634,149	2,314,872	2,273,856	2,302,940	2,202,481	2,173,523	2,089,290
Operating loss	(770,457)	(641,208)	(774,088)	(833,421)	(647,337)	(661,834)	(688,773)	(710,739)	(776,684)	(685,038)
Nonoperating Revenues (Expenses):										
State appropriations	433,409	427,960	415,191	426,268	467,170	451,611	492,503	492,991	506,439	543,292
State aid – federal recovery funds							13,709	31,011	19,593	
Non-capital grants – federal student financial aid	13,856	16,989	31,393	16,444	16,334	16,616	17,937	16,539	9,938	
Non-capital grants	102,895	65,812	76,765	108,270	149,450	151,722	166,251	149,935	140,561	102,932
Non-capital gifts, net	155,095	106,969	134,356	86,022	61,344	92,316	88,206	73,395	85,234	113,094
Investment income (loss), net	231,403	(44,146)	169,311	228,153	174,099	30,758	197,100	100,210	(290,123)	146,650
Interest and fees on debt	(49,353)	(54,206)	(58,450)	(58,472)	(63,591)	(59,709)	(53,743)	(62,155)	(51,267)	(53,311)
Federal interest subsidy on debt	1,833	1,835	1,826	1,862	1,972	2,111	2,152	1,093		
Other nonoperating revenues (expenses)	(37,196)	23,845	28,273	(5,441)	(1,451)	(5,619)	(2,528)	(13,753)	2,305	851
Net nonoperating revenues	851,942	545,058	798,665	803,106	805,327	679,806	921,587	789,266	422,680	853,508
Income before other revenues	81,485	(96,150)	24,577	(30,315)	157,990	17,972	232,814	78,527	(354,004)	168,470
Capital appropriations	11,150	7,596	1,386	3,809	2,072				12,253	47,206
Refund of prior years capital appropriations							(77)	(429)	(3,241)	
Capital grants	3,284	7,795	25,674	36,652	40,065	72,531	86,973	83,295	26,504	12,885
Capital gifts	14,726	0	9,757	5,355	21,024	5,226	8,662	49,027	33,894	11,596
Additions to endowments	14,701	10,768	17,066	22,614	21,723	25,587	42,151	30,573	43,244	60,242
Increase (Decrease) in Net Position	\$125,346	(\$69,991)	\$78,460	\$38,115	\$242,874	\$121,316	\$370,523	\$240,993	(\$241,350)	\$300,399
Higher Education Price Index (HEPI)	340.7*	340.7	340.7	334.3	325.5	318.0	311.8	305.2	302.1	295.2

*2017 Index not available

Changes in Net Position Adjusted for Inflation (continued)

Last ten fiscal years

percentage increase (decrease) from prior year

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	%	%	%	%	%	%	%	%	%	%
	(as restated)		(as restated)							(as restated)
Revenues:										
<i>Operating Revenues:</i>										
Student tuition and fees, net	5.2	2.7	7.1	1.2	6.1	8.4	13.9	4.0	5.8	n/a
Patient services, net	6.2	28.8	1.8	4.3	1.4	(1.7)	12.9	1.0	8.3	n/a
Federal grants and contracts	0.7	(10.8)	(0.6)	17.3	(0.9)	(0.7)	5.4	11.3	2.9	n/a
State and local grants and contracts	(33.4)	70.9	(55.1)	(11.7)	(3.4)	7.5	(0.6)	28.2	(44.5)	n/a
Non-governmental grants and contracts	(8.1)	50.5	(33.8)	16.2	23.1	(29.4)	18.5	(3.4)	4.6	n/a
Sales and services, net	2.7	(9.9)	(1.2)	4.0	4.7	5.1	3.2	9.1	(10.1)	n/a
Interest earnings on loans	(1.2)	24.2	39.1	9.8	(16.0)	(1.1)	4.3	(2.4)	17.6	n/a
Other operating revenues	(15.1)	90.0	217.1	(65.9)	(1.7)	65.2	(27.0)	(18.1)	22.8	n/a
Total operating revenues	1.8	2.8	(2.3)	8.0	3.4	(0.1)	8.2	6.8	(0.5)	n/a
Expenses:										
<i>Operating Expenses:</i>										
Salaries and benefits	9.9	2.6	(9.0)	10.0	1.9	(2.2)	0.7	1.3	5.7	n/a
Supplies and materials	(11.9)	15.2	15.5	(3.1)	(4.8)	(0.8)	2.0	(11.3)	5.8	n/a
Services	8.2	(18.5)	(0.3)	30.6	2.9	(1.5)	11.7	0.1	(1.1)	n/a
Scholarships and fellowships	0.8	2.8	4.2	4.7	5.4	4.2	29.1	16.8	(1.4)	n/a
Utilities	(5.5)	(5.3)	1.8	(0.4)	0.6	(2.7)	(1.8)	3.5	14.6	n/a
Depreciation and amortization	2.6	0.1	2.7	7.7	1.5	8.4	10.7	27.1	4.1	n/a
Total operating expenses	6.6	(3.3)	(3.8)	13.8	1.8	(1.3)	4.6	1.3	4.0	n/a
Operating loss	20.2	(17.2)	(7.1)	28.7	(2.2)	(3.9)	(3.1)	(8.5)	13.4	n/a
Nonoperating Revenues (Expenses):										
State appropriations	1.3	3.1	(2.6)	(8.8)	3.4	(8.3)	(0.1)	(2.7)	(6.8)	n/a
State aid – federal recovery funds	0.0	0.0	0.0	0.0	0.0	(100.0)	(55.8)	58.3	100.0	n/a
Non-capital grants – federal student financial aid	(18.4)	(45.9)	90.9	0.7	(1.7)	(7.4)	8.5	66.4	100.0	n/a
Non-capital grants	56.3	(14.3)	(29.1)	(27.6)	(1.5)	(8.7)	10.9	6.7	36.6	n/a
Non-capital gifts, net	45.0	(20.4)	56.2	40.2	(33.5)	4.7	20.2	(13.9)	(24.6)	n/a
Investment income (loss), net	(624.2)	(126.1)	(25.8)	31.0	466.0	(84.4)	96.7	(134.5)	(297.8)	n/a
Interest and fees on debt	(9.0)	(7.3)	(0.0)	(8.0)	6.5	11.1	(13.5)	21.2	(3.8)	n/a
Federal interest subsidy on debt	(0.1)	0.5	(1.9)	(5.6)	(6.6)	(1.9)	96.9	n/a	n/a	n/a
Other nonoperating revenues (expenses)	(256.0)	(15.7)	(619.6)	275.0	(74.2)	122.3	(81.6)	(696.7)	170.9	n/a
Net nonoperating revenues	56.3	(31.8)	(0.6)	(0.3)	18.5	(26.2)	16.7	86.7	(50.5)	n/a
Income before other revenues	(184.7)	(491.2)	(181.1)	(119.2)	779.1	(92.3)	196.5	122.2	(310.1)	n/a
Capital appropriations	46.8	448.1	(63.6)	83.8	0.0	0.0	0.0	(100.0)	(74.0)	n/a
Refund of prior years capital appropriations	0.0	0.0	0.0	0.0	0.0	(100.0)	(82.1)	(86.8)	(100.0)	n/a
Capital grants	(57.9)	(69.6)	(30.0)	(8.5)	(44.8)	(16.6)	4.4	214.3	105.7	n/a
Capital gifts	0.0	(100.0)	82.2	(74.5)	302.3	(39.7)	(82.3)	44.6	192.3	n/a
Additions to endowments	36.5	(36.9)	(24.5)	4.1	(15.1)	(39.3)	37.9	(29.3)	(28.2)	n/a
Increase (Decrease) in Net Position	(279.1)	(189.2)	105.9	(84.3)	100.2	(67.3)	53.7	199.9	(180.3)	n/a

Operating Expenses by Function

Last ten fiscal years

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		<i>(as restated)</i>		<i>(as restated)</i>						<i>(as restated)</i>
<i>Operating Expenses by Function:</i>										
Instruction	\$721,569	\$728,243	\$683,793	\$675,822	\$694,692	\$682,857	\$698,770	\$684,836	\$674,942	\$662,228
Research	595,219	546,228	714,093	703,621	529,102	472,102	468,685	431,317	398,754	358,199
Public Service	142,315	164,235	152,661	134,917	133,059	122,989	137,279	138,044	126,427	95,618
Academic Support	137,947	137,657	110,417	118,680	114,371	111,719	105,883	107,806	107,371	106,613
Student Services	45,506	39,162	35,845	32,807	27,565	25,992	28,320	26,961	27,967	28,434
Institutional Support	186,342	139,743	130,905	100,238	93,852	84,400	91,558	83,962	89,954	86,549
Operations and Maintenance of Plant	193,988	152,396	162,016	150,013	135,314	140,417	145,270	136,008	145,550	133,031
Student Financial Aid	123,740	122,816	119,453	112,450	104,557	96,871	91,140	69,083	58,557	58,058
Auxiliary Enterprises	726,701	660,197	662,094	669,423	601,996	598,602	562,811	508,213	524,057	494,147
Depreciation and amortization	140,085	136,572	136,493	130,439	117,968	113,530	102,724	90,861	70,747	66,413
Pension Expense*			16,914	154,639						
Total Operating Expenses by Function	\$3,013,412	\$2,827,249	\$2,924,684	\$2,983,049	\$2,552,476	\$2,449,479	\$2,432,440	\$2,277,091	\$2,224,326	\$2,089,290

expressed as a percent of the total

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	%	%	%	%	%	%	%	%	%	%
		<i>(as restated)</i>		<i>(as restated)</i>						<i>(as restated)</i>
Instruction	23.9	25.8	23.4	22.7	27.2	27.9	28.7	30.1	30.4	31.7
Research	19.8	19.3	24.4	23.6	20.7	19.3	19.3	18.9	17.9	17.2
Public Service	4.7	5.8	5.2	4.4	5.2	5.0	5.6	6.1	5.7	4.6
Academic Support	4.6	4.9	3.8	4.0	4.5	4.6	4.4	4.7	4.8	5.1
Student Services	1.5	1.4	1.2	1.1	1.1	1.1	1.2	1.2	1.3	1.3
Institutional Support	6.2	4.9	4.5	3.4	3.7	3.4	3.8	3.7	4.0	4.1
Operation and Maintenance of Plant	6.4	5.4	5.5	5.0	5.3	5.7	6.0	6.0	6.5	6.4
Student Financial Aid	4.1	4.3	4.1	3.8	4.1	4.0	3.7	3.0	2.6	2.8
Auxiliary Enterprises	24.1	23.4	22.6	22.4	23.6	24.4	23.1	22.3	23.6	23.6
Depreciation and amortization	4.7	4.8	4.7	4.4	4.6	4.6	4.2	4.0	3.2	3.2
Pension Expense*	0.0	0.0	0.6	5.2	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Expenses by Function	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

percentage increase (decrease) from prior year

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	%	%	%	%	%	%	%	%	%	%
		<i>(as restated)</i>		<i>(as restated)</i>						<i>(as restated)</i>
Instruction	(0.9)	6.5	1.2	(2.7)	1.7	(2.3)	2.0	1.5	1.9	n/a
Research	9.0	(23.5)	1.5	33.0	12.1	0.7	8.7	8.2	11.3	n/a
Public Service	(13.3)	7.6	13.2	1.4	8.2	(10.4)	(0.6)	9.2	32.2	n/a
Academic Support	0.2	24.7	(7.0)	3.8	2.4	5.5	(1.8)	0.4	0.7	n/a
Student Services	16.2	9.3	9.3	19.0	6.1	(8.2)	5.0	(3.6)	(1.6)	n/a
Institutional Support	33.3	6.8	30.6	6.8	11.2	(7.8)	9.0	(6.7)	3.9	n/a
Operations and Maintenance of Plant	27.3	(5.9)	8.0	10.9	(3.6)	(3.3)	6.8	(6.6)	9.4	n/a
Student Financial Aid	0.8	2.8	6.2	7.5	7.9	6.3	31.9	18.0	0.9	n/a
Auxiliary Enterprises	10.1	(0.3)	(1.1)	11.2	0.6	6.4	10.7	(3.0)	6.1	n/a
Depreciation and amortization	2.6	0.1	4.6	10.6	3.9	10.5	13.1	28.4	6.5	n/a
Pension Expense*	n/a	(100.0)	(89.1)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total Operating Expenses by Function	6.6	(3.3)	(2.0)	16.9	4.2	0.7	6.8	2.4	6.5	n/a

*Effective 2016 Pension Expense is not a separate line item but is distributed between functional categories.

Revenue Capacity

Revenue Base

Last ten fiscal years

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		(as restated)		(as restated)						(as restated)
<i>National Institutes of Health:</i>										
Total Appropriations (000's)	\$34,229,139	\$32,311,349	\$30,559,349	\$30,075,730	\$29,151,462	\$30,689,990	\$30,986,200	\$31,246,200	\$30,553,298	\$29,465,000
percent increase from prior year	5.94%	5.73%	1.61%	3.17%	(5.01%)	(0.96%)	(0.83%)	2.27%	3.69%	2.93%
<i>National Science Foundation:</i>										
Total Appropriations (000's)	\$7,472,000	\$7,463,000	\$7,344,205	\$7,171,920	\$6,884,110	\$7,033,000	\$6,859,870	\$6,926,400	\$6,490,400	\$6,064,900
percent increase from prior year	0.12%	1.62%	2.40%	4.18%	(2.12%)	2.52%	(0.96%)	6.72%	7.02%	2.50%

Sources: National Institutes of Health, National Science Foundation.

Academic Year Tuition and Required Fees

Last ten fiscal years

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		(as restated)		(as restated)						(as restated)
<i>UNC-Chapel Hill vs Association Of American Universities (AAU):</i>										
Resident Undergraduate – UNC-CH	\$8,834	\$8,591	\$8,336	\$8,340	\$7,693	\$7,009	\$6,665	\$5,625	\$5,397	\$5,340
percent increase from prior year	2.83%	3.06%	(0.05%)	8.41%	9.76%	5.15%	18.50%	4.23%	1.07%	6.10%
AAU Public Universities (mean)	\$11,833	\$12,285	\$11,465	\$11,318	\$11,142	\$10,642	\$9,786	\$8,806	\$8,283	\$7,771
percent increase from prior year	(3.68%)	7.15%	1.30%	1.58%	4.70%	8.75%	11.13%	6.31%	6.59%	6.15%
<i>Non-Resident Undergraduate – UNC-CH</i>										
Resident Undergraduate – UNC-CH	\$33,916	\$33,673	\$33,418	\$30,122	\$28,445	\$26,834	\$25,280	\$23,513	\$22,295	\$20,988
percent increase from prior year	0.72%	0.76%	10.94%	5.90%	6.00%	6.14%	7.52%	5.46%	6.23%	6.64%
AAU Public Universities (mean)	\$32,890	\$31,026	\$30,618	\$29,668	\$28,991	\$28,031	\$26,577	\$24,775	\$23,104	\$21,821
percent increase from prior year	6.01%	1.33%	3.20%	2.34%	3.42%	5.47%	7.27%	7.23%	5.88%	5.66%
<i>Resident Graduate – UNC-CH</i>										
Resident Graduate – UNC-CH	\$11,606	\$11,074	\$10,594	\$10,248	\$9,692	\$8,646	\$8,202	\$7,162	\$6,693	\$6,236
percent increase from prior year	4.80%	4.53%	3.38%	5.74%	12.10%	5.42%	14.52%	7.01%	7.33%	9.79%
AAU Public Universities (mean)	\$13,848	\$13,751	\$13,415	\$13,189	\$12,849	\$12,364	\$11,367	\$10,795	\$10,133	\$9,432
percent increase from prior year	0.71%	2.50%	1.71%	2.65%	3.92%	8.77%	5.30%	6.53%	7.43%	5.82%
<i>Non-Resident Graduate – UNC-CH</i>										
Non-Resident Graduate – UNC-CH	\$28,817	\$28,285	\$27,805	\$27,459	\$25,782	\$24,333	\$22,932	\$21,560	\$21,091	\$20,234
percent increase from prior year	1.87%	1.72%	1.25%	6.49%	5.95%	6.11%	6.36%	2.22%	4.23%	2.83%
AAU Public Universities (mean)	\$28,609	\$28,182	\$27,495	\$26,793	\$26,145	\$25,381	\$24,085	\$23,002	\$21,912	\$20,618
percent increase from prior year	1.52%	2.50%	2.62%	2.48%	3.01%	5.38%	4.71%	4.97%	6.28%	2.75%

Sources: "Academic Year Tuition and Required Fees, AAU Public Universities," Univ. of Missouri System, Sept. 2011; The University of North Carolina at Chapel Hill Fact Book; Office of Institutional Research and Assessment.

Principal Revenue Payers

Last ten fiscal years

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		<i>(as restated)</i>		<i>(as restated)</i>						<i>(as restated)</i>
State and local grants and contracts	\$19,600	\$29,433	\$17,227	\$37,613	\$41,471	\$41,953	\$38,251	\$37,679	\$29,091	\$51,207
State appropriations and state aid	500,212	493,923	479,186	482,728	515,121	486,492	534,678	541,753	538,327	543,292
Capital appropriations	12,869	8,767	1,600	4,313	2,285				12,539	47,206
Capital grants	3,790	8,997	29,631	41,507	44,177	78,133	91,864	86,117	27,124	12,885
NC State Government	\$536,471	\$541,120	\$527,644	\$566,161	\$603,054	\$606,578	\$664,793	\$665,549	\$607,081	\$654,590
percent increase (decrease) from prior year	(0.86%)	2.55%	(6.80%)	(6.12%)	(0.58%)	(8.76%)	(0.11%)	9.63%	(7.26%)	(7.73%)
Federal grants and contracts	\$643,953	\$639,351	\$716,564	\$707,514	\$587,220	\$578,702	\$571,288	\$530,368	\$471,680	\$447,793
Non-capital grants	134,746	95,563	124,829	141,233	182,801	181,339	194,546	172,113	154,016	102,932
Federal Government	\$778,699	\$734,914	\$841,393	\$848,747	\$770,021	\$760,041	\$765,834	\$702,481	\$625,696	\$550,725
percent increase (decrease) from prior year	5.96%	(12.66%)	(0.87%)	10.22%	1.31%	(0.76%)	9.02%	12.27%	13.61%	12.00%

Debt Capacity

Long-Term Debt

Last ten fiscal years

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		<i>(as restated)</i>		<i>(as restated)</i>						<i>(as restated)</i>
General Revenue Debt	\$1,271,860	\$1,293,735	\$1,288,640	\$1,302,255	\$1,319,835	\$1,088,320	\$1,112,480	\$1,135,545	\$943,585	\$961,280
Plus Unamortized Discount / Premium	7,345	7,688	18,008	28,855	30,189	34,312	36,068	37,824	30,438	31,898
Less Unamortized Loss on Refunding					(3,234)	(1,829)	(2,231)	(2,633)	(3,034)	(3,436)
Net General Revenue Debt	1,279,205	1,301,423	1,306,648	1,331,110	1,346,790	1,120,803	1,146,317	1,170,736	970,989	989,742
Revenue Bonds	37,713	44,116	50,152	59,866	68,952	77,449	77,903	82,944	79,734	81,480
Plus Unamortized Discount / Premium	(40)	(48)	(56)	(92)	(128)	(164)	(200)	(243)	(287)	(333)
Net Revenue Bonds	37,673	44,068	50,096	59,774	68,824	77,285	77,703	82,701	79,447	81,147
Total Bonds Payable	1,316,878	1,345,491	1,356,744	1,390,884	1,415,614	1,198,088	1,224,020	1,253,437	1,050,436	1,070,889
Notes Payable	62,326	71,739	58,125	44,829	45,257	45,941	45,750	46,100	675	1,037
Capital Leases Payable	1,147		192	485	765	54	814	3,462	1,710	2,804
Total	\$1,380,351	\$1,417,230	\$1,415,061	\$1,436,198	\$1,461,636	\$1,244,083	\$1,270,584	\$1,302,999	\$1,052,821	\$1,074,730

Long Term Debt (whole dollars):

per Student FTE	\$50,156	\$52,728	\$52,464	\$53,214	\$53,997	\$46,357	\$47,022	\$48,789	\$39,946	\$41,503
per Dollar of Total Grants and Contracts	\$1.46	\$1.53	\$1.47	\$1.38	\$1.55	\$1.37	\$1.34	\$1.51	\$1.35	\$1.50
per Dollar of State Appropriations and State Aid	\$2.76	\$2.87	\$2.95	\$2.98	\$2.84	\$2.56	\$2.38	\$2.41	\$1.96	\$1.98

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		<i>(as restated)</i>		<i>(as restated)</i>						<i>(as restated)</i>
Net General Revenue Debt	\$1,279,205	\$1,301,423	\$1,306,648	\$1,331,110	\$1,346,790	\$1,120,803	\$1,146,317	\$1,170,736	\$970,989	\$989,742
Commercial Paper Program	63,000	33,000	28,000	18,000	18,000	132,650	73,650	59,784	148,291	101,157
Total General Revenue Debt	\$1,342,205	\$1,334,423	\$1,334,648	\$1,349,110	\$1,364,790	\$1,253,453	\$1,219,967	\$1,230,520	\$1,119,280	\$1,090,899

General Revenue Debt (whole dollars):

per Student FTE	\$48,770	\$49,647	\$49,483	\$49,987	\$50,419	\$46,706	\$45,149	\$46,075	\$42,468	\$42,128
per Dollar of Total Grants and Contracts	\$1.42	\$1.44	\$1.38	\$1.29	\$1.45	\$1.38	\$1.28	\$1.43	\$1.44	\$1.52
per Dollar of State Appropriations and State Aid	\$2.68	\$2.70	\$2.79	\$2.79	\$2.65	\$2.58	\$2.28	\$2.27	\$2.08	\$2.01

Data Used in the Above Calculations

Total Student FTE	27,521	26,878	26,972	26,989	27,069	26,837	27,021	26,707	26,356	25,895
State appropriations and State aid	\$500,212	\$493,923	\$479,186	\$482,728	\$515,121	\$486,492	\$534,678	\$541,753	\$538,327	\$543,292
Federal grants and contracts	\$643,953	\$639,351	\$716,564	\$707,514	\$587,220	\$578,702	\$571,288	\$530,368	\$471,680	\$447,793
State and local grants and contracts	19,600	29,433	17,227	37,613	41,471	41,953	38,251	37,679	29,091	51,207
Non-governmental grants and contracts	147,670	160,714	106,762	158,133	132,506	105,191	146,081	120,674	123,649	115,513
Non-capital grants	134,746	95,563	124,829	141,233	182,801	181,339	194,546	172,113	154,016	102,932
Total Grants and Contracts	\$945,969	\$925,061	\$965,382	\$1,044,493	\$943,998	\$907,185	\$950,166	\$860,834	\$778,436	\$717,445

Summary of Ratios

Last ten fiscal years

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	<i>(as restated)</i>		<i>(as restated)</i>			<i>(as restated)</i>				
<i>Composite Financial Index:</i>										
+ Primary Reserve Ratio	0.89 x	0.89 x	0.89 x	0.84 x	0.96 x	0.87 x	0.87 x	0.83 x	0.79 x	1.06 x
/ Strength Factor	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133
= Ratio / Strength Factor	6.69	6.69	6.69	6.32	7.20	6.51	6.54	6.24	5.94	7.97
* Weighting Factor	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
= Ratio Subtotal	2.34	2.34	2.34	2.21	2.53	2.29	2.29	2.18	2.08	2.79
= Ratio 10.00 Cap Subtotal	2.34	2.34	2.34	2.21	2.53	2.29	2.29	2.18	2.08	2.79
+ Return on Net Position Ratio	3.2%	(1.7%)	2.0%	1.0%	6.3%	3.2%	10.5%	7.2%	6.7%	8.8%
/ Strength Factor	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
= Ratio / Strength Factor	1.60	(0.85)	1.00	0.50	3.15	1.60	5.25	3.60	(3.35)	4.40
* Weighting Factor	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
= Ratio Subtotal	0.32	(0.17)	0.20	0.10	0.63	0.32	1.05	0.72	(0.67)	0.88
= Ratio 10.00 Cap Subtotal	0.32	(0.17)	0.20	0.10	0.63	0.32	1.05	0.72	(0.67)	0.88
+ Net Operating Revenues Ratio	2.9%	(4.0%)	1.0%	(1.1%)	6.2%	0.8%	9.0%	3.3%	18.9%	7.3%
/ Strength Factor	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
= Ratio / Strength Factor	4.14	(5.71)	1.43	(1.67)	8.86	1.14	12.86	4.71	(27.00)	10.43
* Weighting Factor	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
= Ratio Subtotal	0.41	(0.57)	0.14	(0.16)	0.89	0.11	1.29	0.47	(2.70)	1.04
= Ratio 10.00 Cap Subtotal	0.41	(0.57)	0.14	(0.16)	0.89	0.11	1.00	0.47	(2.70)	1.00
+ Viability Ratio	1.9 x	1.8 x	1.8 x	1.8 x	1.7 x	1.6 x	1.6 x	1.4 x	1.5 x	1.9 x
/ Strength Factor	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417
= Ratio / Strength Factor	4.56	4.32	4.32	4.32	4.07	3.84	3.84	3.36	3.60	4.56
* Weighting Factor	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
= Ratio Subtotal	1.59	1.51	1.51	1.51	1.43	1.34	1.34	1.18	1.26	1.60
= Ratio 10.00 Cap Subtotal	1.59	1.51	1.51	1.51	1.43	1.34	1.34	1.18	1.26	1.60
Composite Financial Index	4.66	3.11	4.19	3.65	5.48	4.05	5.97	4.55	(0.03)	6.31
Composite Financial Index with 10.00 Cap	4.66	3.11	4.19	3.65	5.48	4.05	5.68	4.55	(0.03)	6.27

The Composite Financial Index (CFI) provides a methodology for a single overall financial measurement of the institution's health based on the four core ratios. The CFI uses a reasonable weighting plan and allows a weakness or strength in a specific ratio to be offset by another ratio result, which provides a more balanced measure. The CFI provides a more holistic approach to understanding the financial health of the institution. The CFI scores are not intended to be precise measures; they are indicators of ranges of financial health that can be indicators of overall institutional well-being when combined with non-financial indicators. Ratio / Strength are capped at a maximum of 10 before the weighing factors are applied so that a higher CFI does not unduly mask a weakness in a component ratio.

Summary of Ratios (continued)

Last ten fiscal years

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		(as restated)		(as restated)						(as restated)
Primary Reserve Ratio:										
Unrestricted Net Position	\$684,476	\$763,370	\$753,407	\$766,194	\$972,888	\$896,092	\$851,254	\$778,439	\$700,280	\$671,970
Unrestricted Net Assets – Component Units*	60,885	54,446	50,784	46,701	40,075	35,651	37,848	26,543	23,334	28,897
Expendable Restricted Net Position	1,548,370	1,372,533	1,453,008	1,390,715	1,193,821	990,908	1,007,536	891,182	837,154	1,199,280
Temporarily Restricted Net Assets – Component Units*	425,424	372,368	401,177	362,695	307,147	269,856	278,740	245,187	237,867	363,803
Expendable Net Position and Net Assets	\$2,719,155	\$2,562,717	\$2,658,376	\$2,566,305	\$2,513,931	\$2,192,507	\$2,175,378	\$1,941,351	\$1,798,635	\$2,263,950
Operating Expenses	3,013,412	2,827,348	2,924,684	2,983,049	2,552,476	2,449,479	2,432,440	2,277,091	2,224,326	2,089,290
Interest and Fees on Debt	56,960	62,561	67,459	66,218	70,119	64,321	56,765	64,261	52,465	53,311
Total Expenses	\$3,070,372	\$2,889,909	\$2,992,143	\$3,049,267	\$2,622,595	\$2,513,800	\$2,489,205	\$2,341,352	\$2,276,791	\$2,142,601
Expendable Net Position and Net Assets	\$2,719,155	\$2,562,717	\$2,658,376	\$2,566,305	\$2,513,931	\$2,192,507	\$2,175,378	\$1,941,351	\$1,798,635	\$2,263,950
Total Expenses	\$3,070,372	\$2,889,909	\$2,992,143	\$3,049,267	\$2,622,595	\$2,513,800	\$2,489,205	\$2,341,352	\$2,276,791	\$2,142,601
Ratio	0.89 x	0.89 x	0.89 x	0.84 x	0.96 x	0.87 x	0.87 x	0.83 x	0.79 x	1.06 x

Measures the financial strength of the institution by indicating how long the institution could function using its expendable reserves to cover operations should additional net assets not be available. A positive ratio and an increasing amount over time denotes strength.

*For the fiscal year ended June 30, 2004, the University implemented Governmental Accounting Standards Board Statement No. 39, Determining Whether Certain Organizations are Component Units. This Statement amends GASB Statement No. 14, The Financial Reporting Entity, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship to the University. The component units of the University are discretely presented in the Financial Section.

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		(as restated)		(as restated)						(as restated)
Return On Net Assets Ratio:										
Change in Net Position	\$144,668	(\$80,776)	\$90,556	\$43,161	\$267,803	\$130,687	\$391,361	\$249,156	(\$246,993)	\$300,399
Total Net Position (Beginning of Year)	\$4,579,480	\$4,660,256	\$4,576,356	\$4,533,195	\$4,233,646	\$4,102,959	\$3,711,598	\$3,462,442	\$3,709,435	\$3,409,036
Ratio	3.2%	(1.7%)	2.0%	1.0%	6.3%	3.2%	10.5%	7.2%	(6.7%)	8.8%

Measures total economic return. While an increasing trend reflects strength, a decline may be appropriate and even warranted if it represents a strategy on the part of the institution to fulfill its mission.

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		(as restated)		(as restated)						(as restated)
Net Operating Revenues Ratio:										
Total Operating Revenues	\$2,124,203	\$2,085,746	\$2,031,285	\$2,039,238	\$1,838,694	\$1,736,529	\$1,704,936	\$1,542,275	\$1,429,487	\$1,404,252
State Appropriations and State Aid	500,212	493,923	479,186	482,728	515,121	486,492	534,678	541,753	538,327	543,292
Non-capital Gifts and Grants, net	313,746	219,320	279,894	238,649	250,442	280,785	287,712	247,994	241,242	216,026
Investment Income (Loss), net	267,070	(50,950)	195,407	258,372	191,969	33,134	208,184	103,605	(296,904)	146,650
Adjusted Net Operating Revenues	\$3,205,231	\$2,748,039	\$2,985,772	\$3,018,987	\$2,796,226	\$2,536,940	\$2,735,510	\$2,435,627	\$1,912,152	\$2,310,220
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	\$94,046	(\$110,764)	\$28,367	(\$34,332)	\$174,205	\$19,361	\$245,908	\$81,186	(\$362,280)	\$168,470
Adjusted Net Operating Revenues	\$3,205,231	\$2,748,039	\$2,985,772	\$3,018,987	\$2,796,226	\$2,536,940	\$2,735,510	\$2,435,627	\$1,912,152	\$2,310,220
Ratio	2.9%	(4.0%)	1.0%	(1.1%)	6.2%	0.8%	9.0%	3.3%	(18.9%)	7.3%

Measures whether the institution is living within available resources. A positive ratio and an increasing amount over time, generally reflects strength.

Summary of Ratios (continued)

Last ten fiscal years

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	<i>(as restated)</i>		<i>(as restated)</i>			<i>(as restated)</i>				
<i>Viability Ratio:</i>										
Unrestricted Net Position	\$684,476	\$763,370	\$753,407	\$766,194	\$972,888	\$896,092	\$851,254	\$778,439	\$700,280	\$671,970
Unrestricted Net Assets – Component Units*	60,885	54,446	50,784	46,701	40,075	35,651	37,848	26,543	23,334	28,897
Expendable Restricted Net Position	1,548,370	1,372,533	1,453,008	1,390,715	1,193,821	990,908	1,007,536	891,182	837,154	1,199,280
Temporarily Restricted Net Assets – Component Units*	425,424	372,368	401,177	362,695	307,147	269,856	278,740	245,187	237,867	363,803
Expendable Net Position and Net Assets	\$2,719,155	\$2,562,717	\$2,658,376	\$2,566,305	\$2,513,931	\$2,192,507	\$2,175,378	\$1,941,351	\$1,798,635	\$2,263,950
Bonds	1,316,878	1,345,491	1,356,744	1,390,884	1,415,614	1,198,088	1,224,020	1,253,437	1,050,436	1,070,889
Commercial Paper	63,000	33,000	28,000	18,000	18,000	132,650	73,650	59,784	148,291	101,157
Capital Leases	1,147		192	485	765	54	814	3,462	1,710	2,804
Notes	62,326	71,739	58,125	44,829	45,257	45,941	45,750	46,100	675	1,037
Notes – Component Units*	2,444	1,943	2,000		420	625	850	850	1,400	1,500
Total Adjusted University Debt	\$1,445,795	\$1,452,173	\$1,445,061	\$1,454,198	\$1,480,056	\$1,377,358	\$1,345,084	\$1,363,633	\$1,202,512	\$1,177,387
Expendable Net Position and Net Assets	\$2,719,155	\$2,562,717	\$2,658,376	\$2,566,305	\$2,513,931	\$2,192,507	\$2,175,378	\$1,941,351	\$1,798,635	\$2,263,950
Total Adjusted University Debt	\$1,445,795	\$1,452,173	\$1,445,061	\$1,454,198	\$1,480,056	\$1,377,358	\$1,345,084	\$1,363,633	\$1,202,512	\$1,177,387
Ratio	1.9 x	1.8 x	1.8 x	1.8 x	1.7 x	1.6 x	1.6 x	1.4 x	1.5 x	1.9 x

Measures the ability of the institution to cover its debt as of the statement of net position date, should the institution need to do so. A positive ratio of greater than 1:1 generally denotes strength. *For the fiscal year ended June 30, 2004, the University implemented Governmental Accounting Standards Board Statement No. 39, Determining Whether Certain Organizations are Component Units. This Statement amends GASB Statement No. 14, The Financial Reporting Entity, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship to the University. The component units of the University are discretely presented in the Financial Section.

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	<i>(as restated)</i>		<i>(as restated)</i>			<i>(as restated)</i>				
<i>Operating Margin Excluding Non-Capital Gifts and Grants:</i>										
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	\$94,046	(\$110,968)	\$28,367	(\$34,332)	\$174,205	\$19,361	\$245,908	\$81,186	(\$362,280)	\$168,470
Less: Non-capital Gifts and Grants, net	(313,746)	(219,320)	(279,894)	(238,649)	(250,442)	(280,785)	(287,712)	(247,994)	(241,242)	(216,026)
Adjusted Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(\$219,700)	(\$329,987)	(\$251,527)	(\$272,981)	(\$76,237)	(\$261,424)	(\$41,804)	(\$166,808)	(\$603,522)	(\$47,556)
Total Operating Revenues	2,124,203	2,085,746	2,031,285	2,039,238	1,838,694	1,736,529	1,704,936	1,542,275	1,429,487	1,404,252
State Appropriations and State Aid	500,212	493,923	479,186	482,728	515,121	486,492	534,678	541,753	538,327	543,292
Investment Income (Loss), net	267,070	(50,950)	195,407	258,372	191,969	33,134	208,184	103,605	(296,904)	146,650
Adjusted Net Operating Revenues less Gifts	\$2,891,485	\$2,528,719	\$2,705,878	\$2,780,338	\$2,545,784	\$2,256,155	\$2,447,798	\$2,187,633	\$1,670,910	\$2,094,194
Adjusted Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(\$219,700)	(\$329,987)	(\$251,527)	(\$272,981)	(\$76,237)	(\$261,424)	(\$41,804)	(\$166,808)	(\$603,522)	(\$47,556)
Adjusted Net Operating Revenues less Gifts	\$2,891,485	\$2,528,719	\$2,705,878	\$2,780,338	\$2,545,784	\$2,256,155	\$2,447,798	\$2,187,633	\$1,670,910	\$2,094,194
Ratio	(7.6%)	(13.0%)	(9.3%)	(9.8%)	(3.0%)	(11.6%)	(1.7%)	(7.6%)	(36.1%)	(2.3%)

A more restrictive measure of whether the institution is living within available resources. A positive ratio and an increasing amount over time generally reflects strength.

Summary of Ratios (continued)

Last ten fiscal years

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	<i>(as restated)</i>		<i>(as restated)</i>			<i>(as restated)</i>				
<i>Expendable Resources To Debt:</i>										
Unrestricted Net Position	\$684,476	\$763,370	\$753,407	\$766,194	\$972,888	\$896,092	\$851,254	\$778,439	\$700,280	\$671,970
Unrestricted Net Assets – Component Units*	60,885	54,446	50,784	46,701	40,075	35,651	37,848	26,543	23,334	28,897
Expendable Restricted Net Position	1,548,370	1,372,533	1,453,008	1,390,715	1,193,821	990,908	1,007,536	891,182	837,154	1,199,280
Temporarily Restricted Net Assets – Component Units*	425,424	372,368	401,177	362,695	307,147	269,856	278,740	245,187	237,867	363,803
Expendable Net Position and Net Assets	\$2,719,155	\$2,562,717	\$2,658,376	\$2,566,305	\$2,513,931	\$2,192,507	\$2,175,378	\$1,941,351	\$1,798,635	\$2,263,950
Total Notes, Bonds, Capital Leases and Commercial Paper	1,443,352	1,450,230	1,443,061	1,454,198	1,479,636	1,376,733	1,344,233	1,362,783	1,201,112	1,175,887
Long-Term Debt – Component Units*	2,444	1,943	2,000		420	625	850	850	1,400	1,500
Less: U.S. EPA Project Bonds**				(3,979)	(7,614)	(10,935)	(13,974)	(21,060)	(19,286)	(21,478)
Total Adjusted University Debt	\$1,445,796	\$1,452,173	\$1,445,061	\$1,450,219	\$1,472,442	\$1,366,423	\$1,331,109	\$1,342,573	\$1,183,226	\$1,155,909
Expendable Net Position and Net Assets	\$2,719,155	\$2,562,717	\$2,658,376	\$2,566,305	\$2,513,931	\$2,192,507	\$2,175,378	\$1,941,351	\$1,798,635	\$2,263,950
Total Adjusted University Debt	\$1,445,796	\$1,452,173	\$1,445,061	\$1,450,219	\$1,472,442	\$1,366,423	\$1,331,109	\$1,342,573	\$1,183,226	\$1,155,909
Ratio	1.9 x	1.8 x	1.8 x	1.8 x	1.7 x	1.6 x	1.6 x	1.4 x	1.5 x	2.0 x

A broader measure of the ability of the institution to cover its debt as of the statement of net position date.

*For the fiscal year ended June 30, 2004, the University implemented Governmental Accounting Standards Board Statement No. 39, Determining Whether Certain Organizations are Component Units. This Statement amends GASB Statement No. 14, The Financial Reporting Entity, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship to the University. The component units of the University are discretely presented in the Financial Section.

**U.S. EPA Project Bonds were secured by an irrevocable lease from the U.S. government. This lease covered the debt service requirements for the term of the Bonds.

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	<i>(as restated)</i>		<i>(as restated)</i>			<i>(as restated)</i>				
<i>Total Financial Resources To Direct Debt:</i>										
Unrestricted Net Position	\$684,476	\$763,370	\$753,407	\$766,194	\$972,888	\$896,092	\$851,254	\$778,439	\$700,280	\$671,970
Nonexpendable Restricted Net Position	836,077	787,682	773,548	724,605	702,225	700,687	656,723	621,873	586,175	548,151
Expendable Restricted Net Position	1,548,370	1,372,533	1,453,008	1,390,715	1,193,821	990,908	1,007,536	891,182	837,154	1,199,280
Total Financial Resources	\$3,068,923	\$2,923,585	\$2,979,963	\$2,881,514	\$2,868,934	\$2,587,687	\$2,515,513	\$2,291,494	\$2,123,609	\$2,419,401
Total Financial Resources	\$3,068,923	\$2,923,585	\$2,979,963	\$2,881,514	\$2,868,934	\$2,587,687	\$2,515,513	\$2,291,494	\$2,123,609	\$2,419,401
Total Notes, Bonds, Capital Leases and Commercial Paper	\$1,443,352	\$1,450,230	\$1,443,061	\$1,454,198	\$1,479,636	\$1,376,733	\$1,344,233	\$1,362,783	\$1,201,112	\$1,175,887
Ratio	2.1 x	2.0 x	2.1 x	2.0 x	1.9 x	1.9 x	1.9 x	1.7 x	1.8 x	2.1 x

A broader measure of the ability of the institution to cover its debt as of the statement of net position date.

Summary of Ratios (continued)

Last ten fiscal years

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		(as restated)		(as restated)						(as restated)
<i>Direct Debt To Adjusted Cash Flow:</i>										
Net Cash Used by Operating Activities	(\$629,015)	(\$747,146)	(\$712,679)	(\$654,291)	(\$658,048)	(\$608,177)	(\$598,111)	(\$626,420)	(\$679,012)	(\$641,134)
State Appropriations and State Aid	500,212	493,923	479,186	482,728	515,121	486,492	534,678	541,753	538,327	543,292
Grants for Other than Capital Purposes	134,746	95,563	124,829	141,233	182,801	181,339	194,546	172,113	154,016	102,932
Non-capital Gifts	179,000	123,456	155,065	97,416	67,641	99,446	93,166	75,881	87,226	113,094
Adjusted Cash Flow from Operations	\$184,943	(\$34,204)	\$46,401	\$67,086	\$107,515	\$159,100	\$224,279	\$163,327	\$100,557	\$118,184
Total Notes, Bonds, Capital Leases and Commercial Paper	\$1,443,351	\$1,450,229	\$1,443,061	\$1,454,198	\$1,479,636	\$1,376,733	\$1,344,233	\$1,362,783	\$1,201,112	\$1,175,887
Adjusted Cash Flow from Operations	\$184,943	(\$34,204)	\$46,401	\$67,086	\$107,515	\$159,100	\$224,279	\$163,327	\$100,557	\$118,184
Ratio	7.8 x	(42.4)x	31.1 x	21.7 x	13.8 x	8.7 x	6.0 x	8.3 x	11.9 x	9.9 x

Measures the financial strength of the institution by indicating how long the institution would take to repay the debt using the cash provided by its operations. A decreasing ratio over time denotes strength.

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		(as restated)		(as restated)						(as restated)
<i>Debt Burden Ratio:</i>										
Interest and Fees Paid on Debt and Leases	\$56,960	\$62,561	\$58,235	\$72,031	\$67,685	\$58,903	\$55,699	\$53,180	\$53,010	\$52,779
Principal Paid on Debt and Leases	99,119	555,598	293,282	35,618	273,155	66,730	47,647	148,637	46,462	238,672
Less: Principal Paid from Gifts and Excess Funds	(68,829)	(1,328)	(1,149)	(5,133)	(684)	(221)	(16,484)	(17,639)	(20,866)	(15,732)
Less: Principal Paid from Refinancing Activities		(527,055)	(261,000)		(241,645)	(36,500)		(104,858)		(198,244)
Debt Service	\$87,250	\$89,776	\$89,368	\$102,516	\$98,511	\$88,912	\$86,862	\$79,320	\$78,606	\$77,475
Operating Expenses	\$3,013,412	\$2,827,249	\$2,924,684	\$2,983,049	\$2,552,476	\$2,449,479	\$2,432,440	\$2,277,091	\$2,224,326	\$2,089,290
Interest and Fees on Debt	56,960	62,561	67,459	66,218	70,119	64,321	56,765	64,261	52,465	53,311
Fixed Asset Writedowns (if not included in Operating Expenses)										
Less: Depreciation and Amortization Expense	(140,085)	(136,572)	(136,493)	(130,439)	(117,968)	(113,530)	(102,724)	(90,861)	(70,747)	(66,413)
Plus: Principal Paid on Debt and Leases	99,119	555,598	293,282	35,618	273,155	66,730	47,647	148,637	46,462	238,672
Less: Principal Paid from Gifts and Excess Funds	(68,829)	(1,328)	(1,149)	(5,133)	(684)	(221)	(16,484)	(17,639)	(20,866)	(15,732)
Less: Principal Paid from Refinancing Activities		(527,055)	(261,000)		(241,645)	(36,500)		(104,858)		(198,244)
Total Expenditures	\$2,960,577	\$2,780,453	\$2,886,783	\$2,949,313	\$2,535,453	\$2,430,279	\$2,417,644	\$2,276,631	\$2,231,640	\$2,100,884
Debt Service	\$87,250	\$89,776	\$89,368	\$102,516	\$98,511	\$88,912	\$86,862	\$79,320	\$78,606	\$77,475
Total Expenditures	\$2,960,577	\$2,780,453	\$2,886,783	\$2,949,313	\$2,535,453	\$2,430,279	\$2,417,644	\$2,276,631	\$2,231,640	\$2,100,884
Ratio	2.9%	3.2%	3.1%	3.5%	3.9%	3.7%	3.6%	3.5%	3.5%	3.7%

Measures the institution's dependence on borrowed funds as a source of financing its mission and the relative cost of borrowing to overall expenditures.

Summary of Ratios (continued)

Last ten fiscal years

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		(as restated)		(as restated)						(as restated)
<i>Debt Service To Operations:</i>										
Interest and Fees Paid on Debt and Leases	\$56,960	\$62,561	\$58,235	\$72,031	\$67,685	\$58,903	\$55,699	\$53,180	\$53,010	\$52,779
Less: Interest and Fees Paid – U.S. EPA Project Bonds*				(5)	(5)	(5)	(5)	(6)	(360)	(683)
Principal Paid on Debt and Leases	99,119	555,598	293,282	35,618	273,155	66,730	47,647	148,637	46,462	238,672
Less: Non-contractual Principal Paid from Gifts and Excess Funds	(68,829)	(1,328)	(1,149)	(5,133)	(684)	(221)	(16,484)	(17,639)	(20,866)	(15,732)
Less: Principal Paid from Refinancing Activities		(527,055)	(261,000)		(241,645)	(36,500)		(104,858)		(198,244)
Less: Principal Paid – U.S. EPA Project Bonds*			(4,210)	(4,210)	(4,210)	(4,215)	(4,215)	(4,215)	(3,860)	(3,540)
Debt Service	\$87,250	\$89,776	\$85,158	\$98,301	\$94,296	\$84,692	\$82,642	\$75,099	\$74,386	\$73,252
Operating Expenses	\$3,013,412	\$2,827,249	\$2,924,684	\$2,983,049	\$2,552,476	\$2,449,479	\$2,432,440	\$2,277,091	\$2,224,326	\$2,089,290
Debt Service	\$87,250	\$89,776	\$85,158	\$98,301	\$94,296	\$84,692	\$82,642	\$75,099	\$74,386	\$73,252
Operating Expenses	\$3,013,412	\$2,827,249	\$2,924,684	\$2,983,049	\$2,552,476	\$2,449,479	\$2,432,440	\$2,277,091	\$2,224,326	\$2,089,290
Ratio	2.9%	3.2%	2.9%	3.3%	3.7%	3.5%	3.4%	3.3%	3.3%	3.5%

Measures the financial strength of the institution.

*U.S. EPA Project Bonds were secured by an irrevocable lease from the U.S. government. This lease covered the debt service requirements for the term of the Bonds.

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		(as restated)		(as restated)						(as restated)
<i>Research Expenses to Total Operating Expenses:</i>										
Operating Expenses	\$3,013,412	\$2,827,249	\$2,924,684	\$2,983,049	\$2,552,476	\$2,449,479	\$2,432,440	\$2,277,091	\$2,224,326	\$2,089,290
Interest and Fees on Debt	56,960	62,561	67,459	66,218	70,119	64,321	56,765	64,261	52,465	53,311
Fixed Asset Writedowns (if not included in Operating Expenses)										
Total Adjusted Operating Expenses	\$3,070,372	\$2,889,810	\$2,992,143	\$3,049,267	\$2,622,595	\$2,513,800	\$2,489,205	\$2,341,352	\$2,276,791	\$2,142,601
Research Expenses	\$595,219	\$546,228	\$714,093	\$546,752	\$529,102	\$472,102	\$468,685	\$431,317	\$398,753	\$358,199
Total Adjusted Operating Expenses	\$3,070,372	\$2,889,810	\$2,992,143	\$3,049,267	\$2,622,595	\$2,513,800	\$2,489,205	\$2,341,352	\$2,276,791	\$2,142,601
Ratio	19.4%	18.9%	23.9%	17.9%	20.2%	18.8%	18.8%	18.4%	17.5%	16.7%

Measures the institution's research expense to the total operating expenses.

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		(as restated)		(as restated)						(as restated)
<i>Net Tuition Per Student:</i>										
Student Tuition and Fees, net	\$426,856	\$405,808	\$395,005	\$361,771	\$348,049	\$320,535	\$289,897	\$249,083	\$236,960	\$218,763
Less: Scholarships and Fellowships	(123,740)	(122,816)	(119,453)	(112,449)	(104,556)	(96,871)	(91,140)	(69,083)	(58,557)	(58,059)
Net Tuition and Fees	\$303,116	\$282,992	\$275,552	\$249,322	\$243,493	\$223,664	\$198,757	\$180,000	\$178,403	\$160,703
Net Tuition and Fees	\$303,116	\$282,992	\$275,552	\$249,322	\$243,493	\$223,664	\$198,757	\$180,000	\$178,403	\$160,703
Undergraduate, Graduate and Professional FTE	27,521	26,878	26,972	26,989	27,069	26,837	27,021	26,707	26,356	25,895
Net Tuition per Student (whole dollars)	\$11,014	\$10,529	\$10,216	\$9,238	\$8,995	\$8,334	\$7,356	\$6,740	\$6,769	\$6,206

Measures the institution's net student tuition and fees received per student.

Summary of Ratios (continued)

Last ten fiscal years

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
		<i>(as restated)</i>		<i>(as restated)</i>						<i>(as restated)</i>
<i>State Appropriations And State Aid Per Student:</i>										
State Appropriations and State Aid	\$500,212	\$493,923	\$479,186	\$482,728	\$515,121	\$486,492	\$534,678	\$541,753	\$538,327	\$543,292
Undergraduate, Graduate and Professional FTE	27,521	26,878	26,972	26,989	27,069	26,837	27,021	26,707	26,356	25,895
State Appropriation per Student (whole dollars)	\$18,176	\$18,376	\$17,766	\$17,886	\$19,030	\$18,128	\$19,787	\$20,285	\$20,425	\$20,981

Measures the institution's dependency on state appropriations.

Specific Revenue and General Revenue Bond Coverage

Last ten fiscal years

The University of North Carolina at Chapel Hill has issued General Revenue Bonds, which are repaid from Available Funds. Available Funds are defined as any unrestricted Net Assets remaining after satisfying obligations of the University under trust indentures, trust agreements or bond resolutions (Specific Revenue Bonds), but excluding State Appropriations, Tuition, and certain special facilities revenues. Specific Revenue Bonds have a pledged revenue stream as the repayment source.

in thousands

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013
		<i>(as restated)</i>		<i>(as restated)</i>	
<i>Specific Revenue Bond Coverage:</i>					
Gross Operating Revenues	\$127,344	\$131,807	\$130,501	\$134,421	\$131,607
Direct Operating Expenses	101,484	105,950	102,288	90,534	91,321
Net Revenue Available for Debt Service	\$25,860	\$25,857	\$28,213	\$43,887	\$40,286
Principal	\$8,415	\$8,410	\$12,625	\$12,625	\$12,625
Interest					
Specific Revenue Debt Service Requirements	\$8,415	\$8,410	\$12,625	\$12,625	\$12,625
Coverage	3.07	3.07	2.23	3.48	3.19
<i>Available Funds General Revenue Bonds:</i>					
Total Unrestricted Revenue	\$2,448,814	\$1,247,665	\$1,709,235	\$1,830,170	\$1,796,035
Less:					
State Appropriations	(500,212)	(\$493,923)	(479,186)	(482,728)	(515,121)
Tuition and Fees	(426,856)	(\$405,808)	(395,005)	(361,771)	(348,049)
Specific Revenue Debt Service Requirements	(8,415)	(\$8,410)	(12,625)	(12,625)	(12,625)
Plus:					
Adjusted Beginning Unrestricted Net Position	763,370	753,407	766,194	972,888	896,092
Total Available Funds	\$2,276,701	\$1,092,931	\$1,588,613	\$1,945,934	\$1,816,332
Annual Increase / (Decrease)	\$1,183,770	(\$495,682)	(\$357,321)	\$129,602	\$68,821
% Increase / (Decrease)	108.3%	(31.2%)	(18.4%)	7.1%	3.9%
<i>General Revenue Bond Coverage:</i>					
Total Available Funds	\$2,276,701	\$1,092,931	\$1,588,613	\$1,945,934	\$1,816,332
Principal	\$21,875	\$18,805	\$18,215	\$17,580	\$49,265
Interest	34,310	45,542	48,951	48,764	49,204
General Revenue Debt Service Requirements	\$56,185	\$64,347	\$67,166	\$66,344	\$98,469
Coverage	40.52	16.98	23.65	29.33	18.45

General Revenue Bond Debt Service includes debt service for specific revenue bonds refunded or defeased by issuance of general revenue debt during the year of refunding.

Specific Revenue and General Revenue Bond Coverage (continued)

Last ten fiscal years

in thousands

Fiscal Year Ended June 30,	2012	2011	2010	2009	2008
<i>(as restated)</i>					
<i>Specific Revenue Bond Coverage:</i>					
Gross Operating Revenues	\$186,052	213,554	\$204,725	\$195,265	\$177,705
Direct Operating Expenses	121,734	132,525	129,049	144,364	114,352
Net Revenue Available for Debt Service	64,318	81,029	75,676	50,901	63,353
Principal	5,090	5,450	5,890	5,515	6,340
Interest	22	84	168	588	1,090
Specific Revenue Debt Service Requirements	\$5,112	\$5,534	\$6,058	\$6,103	\$7,430
Coverage	12.58	14.64	12.49	8.34	8.53
<i>Available Funds General Revenue Bonds:</i>					
Total Unrestricted Revenue	1,708,396	1,670,027	1,572,416	1,483,607	1,539,517
Less:					
State Appropriations	(486,492)	(534,678)	(541,753)	(538,327)	(543,292)
Tuition and Fees	(320,535)	(289,897)	(249,083)	(236,960)	(218,763)
Specific Revenue Debt Service Requirements	(5,112)	(5,534)	(6,058)	(6,103)	(7,430)
Plus:					
Beginning Unrestricted Net Assets	851,254	778,439	699,458	671,970	617,573
Total Available Funds	\$1,747,511	\$1,618,357	\$1,474,980	\$1,374,187	\$1,387,605
Annual Increase / (Decrease)	129,154	143,377	100,793	(13,418)	124,983
% Increase / (Decrease)	8.0%	9.7%	7.3%	(1.0%)	9.9%
<i>General Revenue Bond Coverage:</i>					
Total Available Funds	\$1,747,511	\$1,618,357	\$1,474,980	\$1,374,187	\$1,387,605
Principal	\$24,160	\$23,065	\$18,580	\$17,695	\$16,175
Interest	52,385	53,310	48,596	44,876	38,970
General Revenue Debt Service Requirements	\$76,545	\$76,375	\$67,176	\$62,571	\$55,145
Coverage	22.83	21.19	21.96	21.96	25.16

General Revenue Bond Debt Service includes debt service for specific revenue bonds refunded or defeased by issuance of general revenue debt during the year of refunding.

Demographic and Economic Information

**FISCAL YEAR
2016 - 2017**

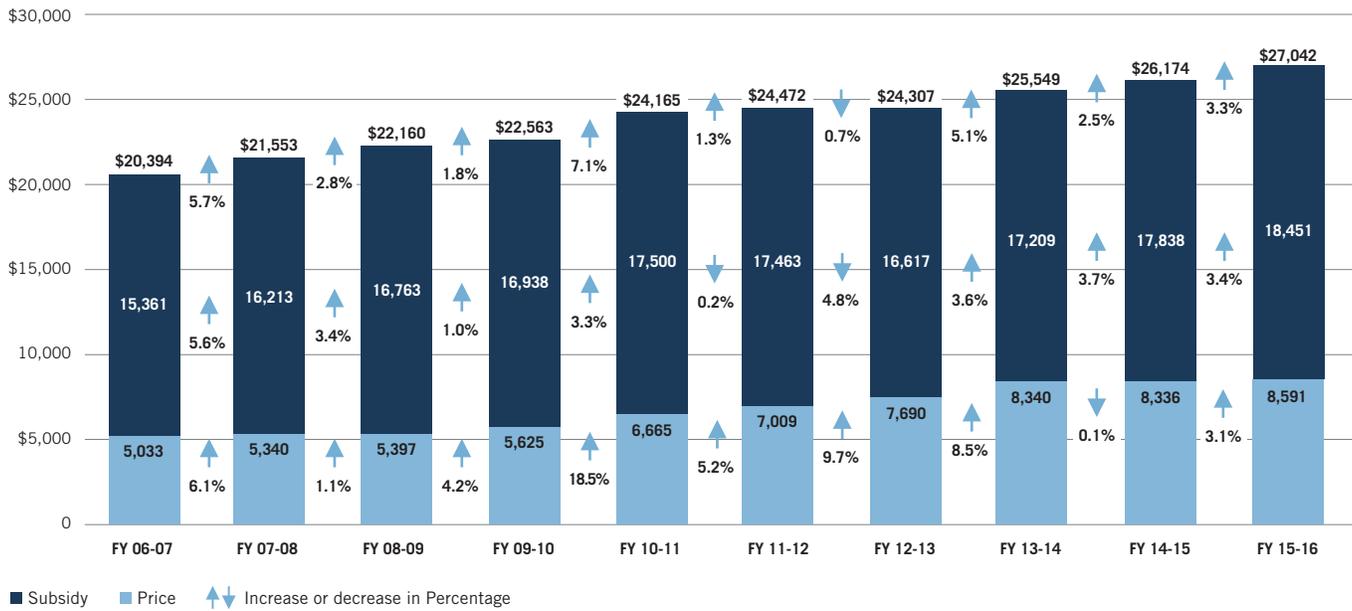
Annual Undergraduate Educational Costs Per Student

Public concern over tuition prices at colleges and universities led in 1997 to the establishment by Congress of the National Commission on the Cost of Higher Education. The task of the commission was to investigate the college cost-price conundrum and recommend ways to address it. In response, the National Association of College and University Business Officers (NACUBO) developed the Cost of College Project. The goal was to create a uniform methodology that any college or university could use to explain and present how much it costs to provide one year of undergraduate education and related services. The criteria governing the project include: simplicity of use and understanding; basis should be on existing data from annual financial statements; should be applicable to all types of colleges and universities; and should produce reasonable results when compared with more detailed cost data derived from the institution's internal accounting methods.

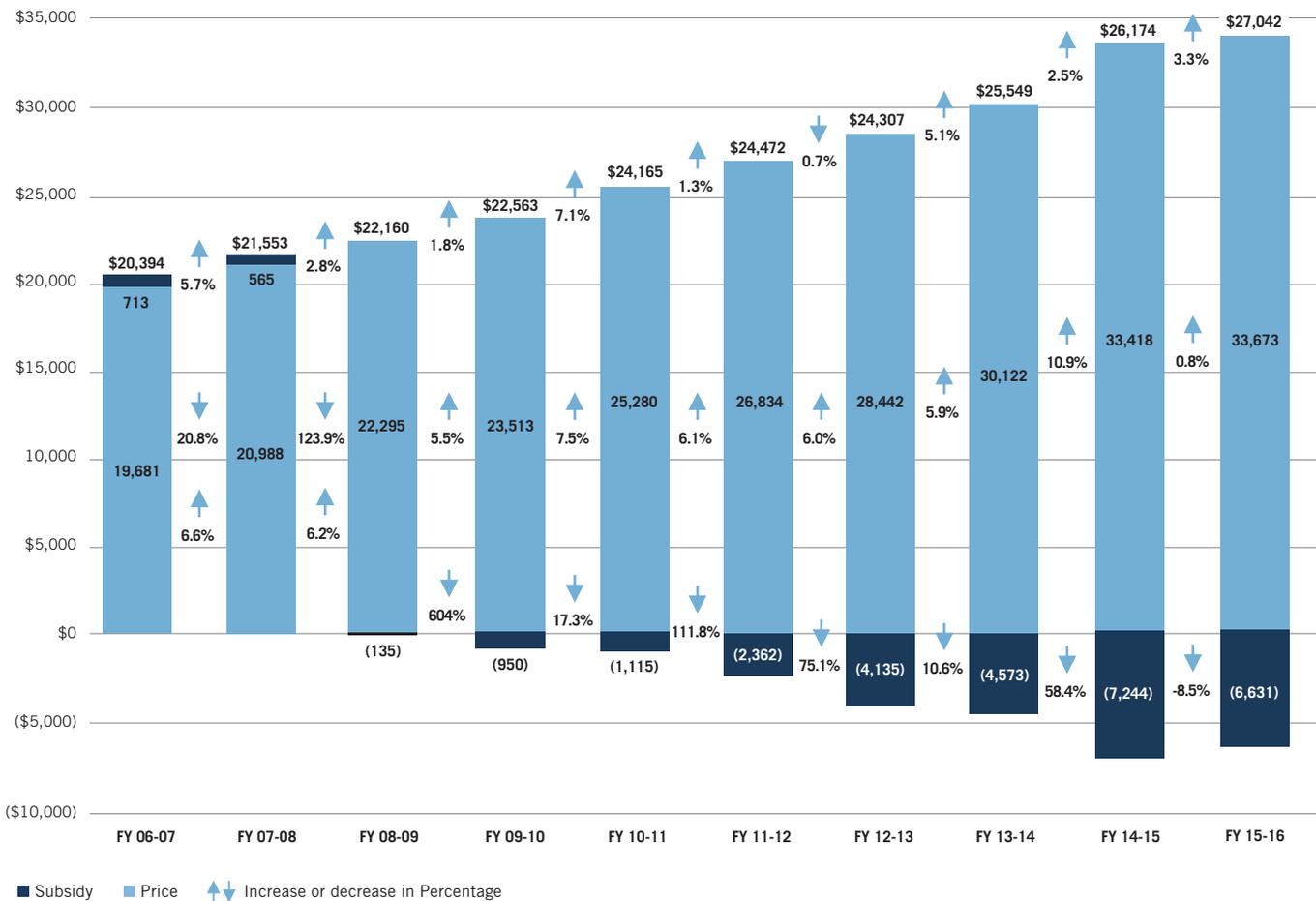
After more than two years in development and testing by almost 150 colleges and universities, the final project report was delivered in November 2002. Carolina was one of those testing sites. A single-page template was developed by NACUBO to be used to record the necessary information. The template shows annual costs per resident undergraduate student at the University. The graphs displayed on the next page show historical trends in the total annual costs per resident and non-resident undergraduate student at the University, and the difference between the price the student pays (i.e., tuition and fees) and state/university support (i.e., "subsidy"). The methodology was created to help individual institutions calculate and report the annual cost of providing an undergraduate education. It was not designed to be a mechanism for collecting national data on college costs or creating industry benchmarks. It is also not a measure of the value or quality of the education provided by the institution.

Annual Undergraduate Educational Costs Per Student

Resident Undergraduate Students



Non-Resident Undergraduate Students



Admissions, Enrollment and Degrees Earned

Fall enrollment last ten fiscal years

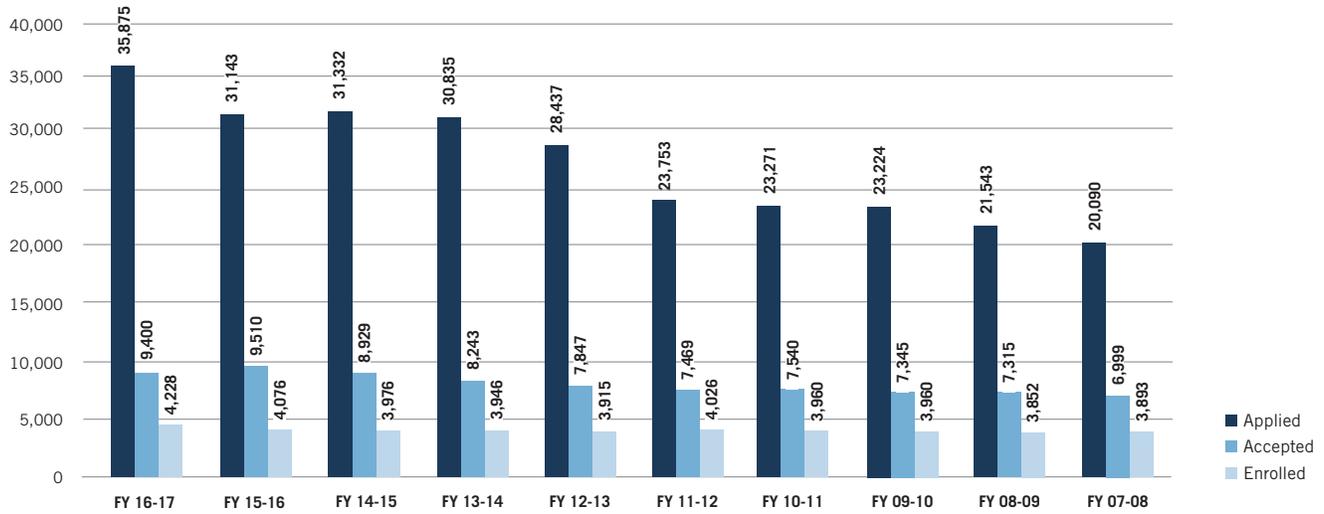
	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08
<i>Admissions – Freshmen:</i>										
Applications	35,875	31,143	31,332	30,835	28,437	23,753	23,271	23,224	21,543	20,090
Accepted	9,400	9,510	8,929	8,243	7,847	7,469	7,540	7,345	7,315	6,999
Enrolled	4,228	4,076	3,976	3,946	3,915	4,026	3,960	3,960	3,852	3,893
Accepted as a Percentage of Applications	26.9%	30.5%	28.5%	26.7%	27.6%	31.4%	32.4%	31.6%	34.0%	34.8%
Enrolled as a Percentage of Accepted	45.0%	42.9%	44.5%	47.9%	49.9%	53.9%	52.5%	53.9%	52.7%	55.6%
Average SAT Scores – Total	1,300	1,301	1,308	1,301	1,300	1,300	1,304	1,302	1,301	1,302
Critical Reading	644	645	646	644	642	642	644	642	643	646
Math	656	656	662	657	658	658	660	660	658	656

<i>Enrollment:</i>										
Undergraduate, Graduate, and Professional FTE	27,521	26,878	26,972	26,989	27,069	26,837	27,021	26,707	26,356	25,895
Undergraduate, Graduate, and Professional Headcount	29,469	29,084	29,135	29,127	29,278	29,137	29,390	28,916	28,567	28,136
Men (Headcount)	12,642	12,514	12,654	12,442	12,283	12,169	12,083	11,825	11,825	11,635
Percentage of Total	42.9%	43.0%	43.4%	42.7%	42.0%	41.8%	41.1%	40.9%	41.4%	41.4%
Women (Headcount)	16,827	16,570	16,481	16,685	16,995	16,968	17,307	17,091	16,742	16,501
Percentage of Total	57.1%	57.0%	56.6%	57.3%	58.0%	58.2%	58.9%	59.1%	58.6%	58.6%
African American (Headcount)	2,342	2,353	2,374	2,403	2,486	2,556	2,504	2,793	2,820	2,813
Percentage of Total	7.9%	8.1%	8.1%	8.3%	8.5%	8.8%	8.6%	9.8%	9.9%	10.0%
White (Headcount)	18,257	18,252	18,791	18,967	19,106	19,205	19,587	19,616	19,788	19,860
Percentage of Total	62.0%	62.8%	64.5%	65.1%	65.3%	65.9%	66.6%	67.8%	69.3%	70.6%
Other (Headcount)	8,870	8,479	7,970	7,757	7,686	7,376	7,299	6,507	5,959	5,463
Percentage of Total	30.1%	29.2%	27.4%	26.6%	26.2%	25.3%	24.8%	22.4%	20.8%	19.4%

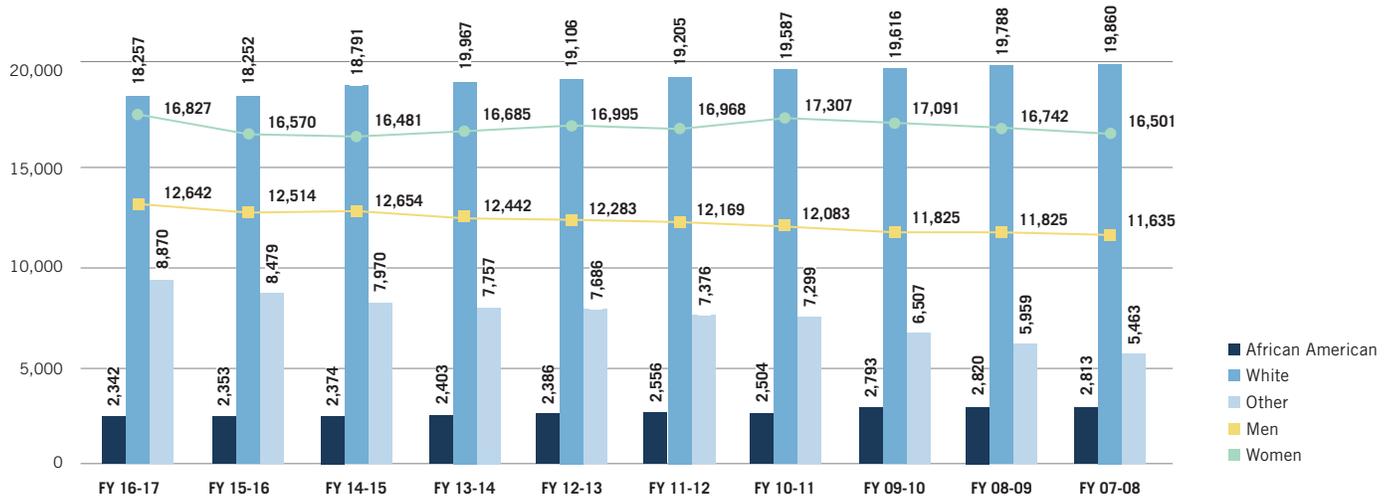
<i>Degrees Earned:</i>										
Bachelor's	4,520	4,603	4,590	4,625	4,426	4,622	4,595	4,444	4,302	4,131
Master's	2,186	2,161	2,101	1,961	1,930	1,981	1,918	1,840	1,832	1,836
Doctoral	562	528	528	563	499	479	495	513	485	600
Professional	702	704	673	671	686	668	668	643	618	604

Source: The University of North Carolina at Chapel Hill Fact Book.

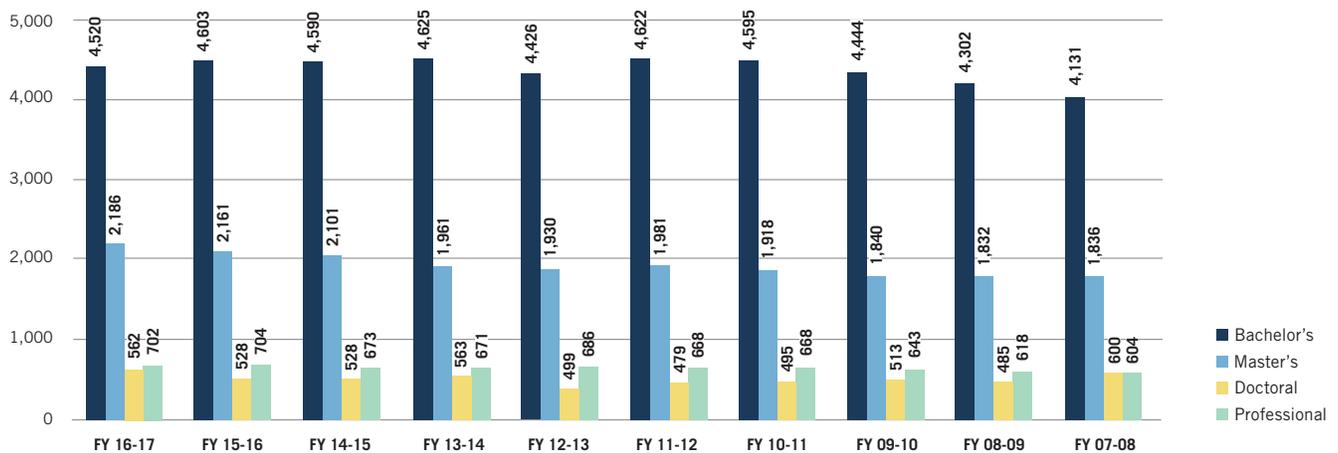
Freshmen Applied, Accepted and Enrolled



Headcount Total



Degrees Earned



Demographic Data

Last ten fiscal years

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
North Carolina Population	10,259,417	10,146,243	10,042,409	9,944,571	9,854,470	9,779,037	9,692,818	9,535,483	9,380,884	9,222,414
North Carolina Population – 18 year olds	134,092	137,691	136,650	137,652	138,538	139,387	136,156	134,940	142,644	131,240
North Carolina Personal Income (in millions)	\$440,509	\$428,679	\$407,631	\$389,509	\$375,051	\$368,934	\$348,602	\$333,523	\$319,963	\$317,611
North Carolina Per Capita Income	\$42,937	\$42,250	\$40,591	\$39,168	\$38,059	\$37,727	\$35,965	\$34,977	\$34,108	\$34,439
North Carolina Unemployment Rate	4.20%	4.90%	5.80%	6.40%	8.80%	9.40%	10.50%	10.00%	11.02%	5.95%

Sources: Office of the State Controller, North Carolina State Data Center, U.S. Census Bureau.

Principal Employers

Employer	2017			2008		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina	175,000-179,999	1	3.78%	180,000-184,999	1	4.26%
Federal Government	70,000-74,999	2	1.54%	60,000-64,999	2	1.46%
Wal-Mart Associates, Inc.	45,000-59,999	3	1.12%	50,000-54,999	3	1.22%
Charlotte Mecklenburg Hospital Authority	35,000-39,999	4	0.80%	15,000-19,999	9	0.41%
Duke University	30,000-34,999	5	0.69%	25,000-29,999	4	0.64%
Food Lion, LLC	30,000-34,999	6	0.69%	25,000-29,999	5	0.64%
Wells Fargo Bank NA	25,000-29,999	7	0.59%	—	—	—
Wake County Public School System	20,000-24,999	8	0.48%	15,000-19,999	8	0.41%
Charlotte Mecklenburg Board of Education	20,000-24,999	9	0.48%	20,000-24,999	6	0.52%
Lowe's Home Centers, Inc.	15,000-19,999	10	0.37%	15,000-19,999	10	0.41%
Wachovia Bank NA	—	—	—	20,000-24,999	7	0.52%
Total	465,000-524,990		10.54%	425,000-474,990		10.49%

Notes: All figures are based on 1st quarter average. Percentage of total state employment is based on the average of the ranges given.

Source: Office of the State Controller (North Carolina Department of Commerce – Division of Employment Security).

Operating Information

Faculty and Staff

Last ten fiscal years

Fall Employment of Fiscal Year	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08
<i>Faculty:</i>										
Full-time	3,557	3,482	3,375	3,406	3,318	3,291	3,234	3,221	3,147	3,000
Part-time	293	296	292	290	290	293	284	285	303	295
Total Faculty	3,850	3,778	3,667	3,696	3,608	3,584	3,518	3,506	3,450	3,295
Percentage Tenured	35.1%	37.7%	38.3%	38.3%	39.8%	40.2%	41.4%	41.2%	41.1%	42.0%
<i>Staff and EHRA Non-Faculty:</i>										
Full-time	2,024	1,918	1,847	1,815	1,780	1,725	1,738	1,771	1,710	1,610
Part-time	120	153	128	126	131	132	138	139	146	146
EHRA Non-Faculty	2,144	2,071	1,975	1,941	1,911	1,857	1,876	1,910	1,856	1,756
Full-time	6,191	6,115	6,110	6,099	6,133	6,197	6,385	6,484	6,453	6,174
Part-time	226	223	212	247	248	271	273	303	323	308
SHRA	6,417	6,338	6,322	6,346	6,381	6,468	6,658	6,787	6,776	6,482
Total Full-time	8,215	8,033	7,957	7,914	7,913	7,922	8,123	8,255	8,163	7,784
Total Part-time	346	376	340	373	379	403	411	442	469	454
Total Staff and EHRA Non-Faculty	8,561	8,409	8,297	8,287	8,292	8,325	8,534	8,697	8,632	8,238
Total Faculty, Staff, and EHRA Non-Faculty	12,411	12,187	11,964	11,983	11,900	11,909	12,052	12,203	12,082	11,533

Note: SHRA denotes employees subject to the North Carolina Human Resources Act. EHRA denotes employees exempt from the North Carolina Human Resources Act.
Source: The University of North Carolina at Chapel Hill Fact Book.

Capital Assets (Number of Facilities)

Last ten fiscal years

Fiscal Year Ended June 30,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Academic / Administrative buildings	136	137	135	135	134	135	133	131	129	127
Dormitories / Auxiliary buildings	91	91	91	91	91	91	90	90	90	90
Art / Library collections	6	6	6	6	6	6	6	6	6	6

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