State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA

The University of North Carolina at Charlotte

Charlotte, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2018

A Constituent Institution of the University of North Carolina System and a Component Unit of the State of North Carolina

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, The University of North Carolina at Charlotte

We have completed a financial statement audit of The University of North Carolina at Charlotte for the year ended June 30, 2018, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Charlotte (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 unit, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., which represent 4.86 percent and 0.70 percent, respectively, of the assets and revenues of the University; nor the financial statements of The University of North Carolina at Charlotte Facilities Development Corporation, Inc., which represent 0.87 percent and 0.15 percent, respectively, of the assets and revenues of the University. In addition, we did not audit the consolidated financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., the University's discretely presented component unit. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the consolidated financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Charlotte, and its discretely presented component unit, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 19 to the financial statements, during the year ended June 30, 2018, The University of North Carolina at Charlotte adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 29, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The University of North Carolina at Charlotte (UNC Charlotte or University) provides the following discussion and analysis as an overview of the University's financial position and activities for the year ended June 30, 2018, and to provide assistance in understanding the accompanying financial statements and notes. Comparative information for the year ended June 30, 2017 is included, emphasizing current year data and material changes between the two fiscal years, as well as information on currently known facts, decisions, and conditions affecting the financial affairs of the University.

Using the Financial Statements

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

UNC Charlotte is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*. Note that while the Foundation of the University of North Carolina at Charlotte, Inc. (Foundation) is reported as a discretely presented component unit of the University due to the nature and significance of its relationship to the University, this discussion and analysis excludes it except where specifically noted. For more details on the University's component units, see Note 1 of the Notes to the Financial Statements.

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

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

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

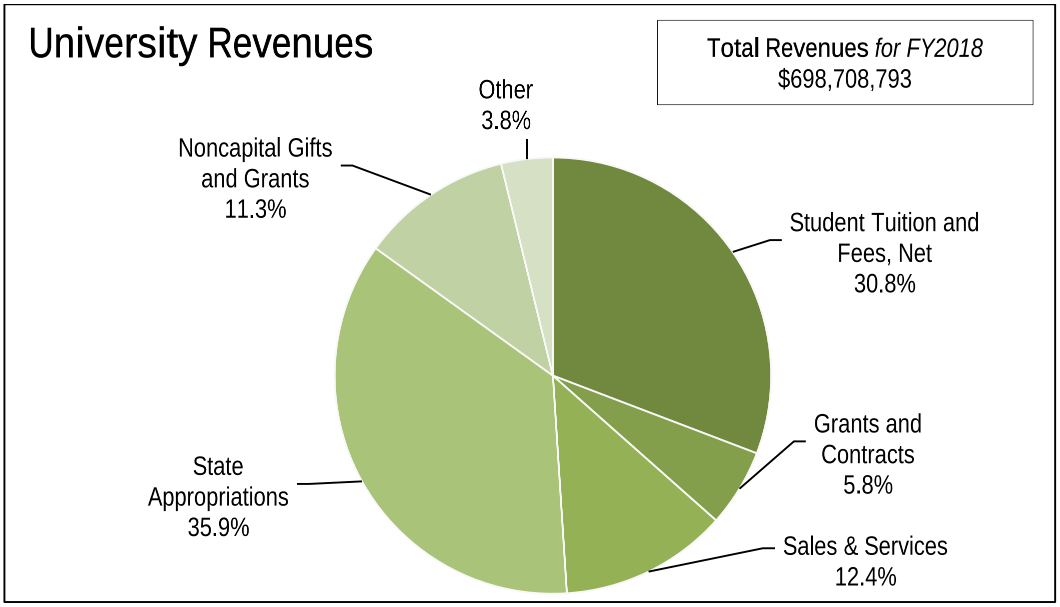
- Consolidated Statement of Financial Position
- Consolidated Statement of Activities

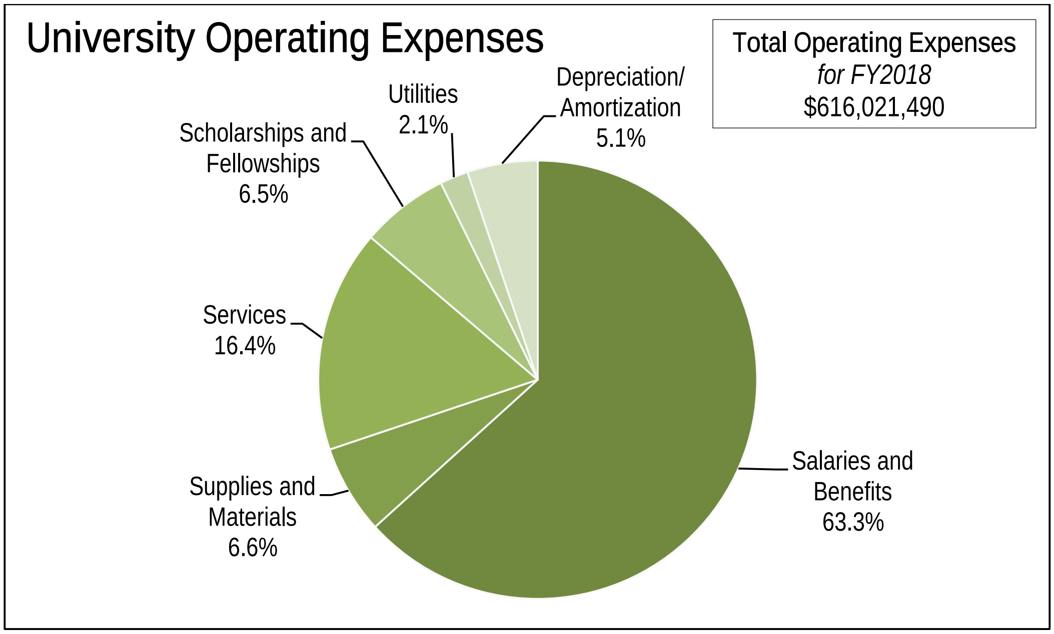
Management's discussion and analysis concentrates on the University's Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

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

Financial Highlights

The University's total assets increased this fiscal year by 7.5%, or $128.5 million, to $1.9 billion at June 30, 2018. Net position increased by $60.0 million during the year, to $524.5 million, reflecting continued growth and general financial strength. The change in net position is a key measure of the sum effect of the University's fiscal year activities on its financial health. More than a half-billion dollars were spent to operate the University this year ($616.0 million), and revenues of $698.7 million were recognized. Revenues and operating expenses as percentages of totals are shown below.



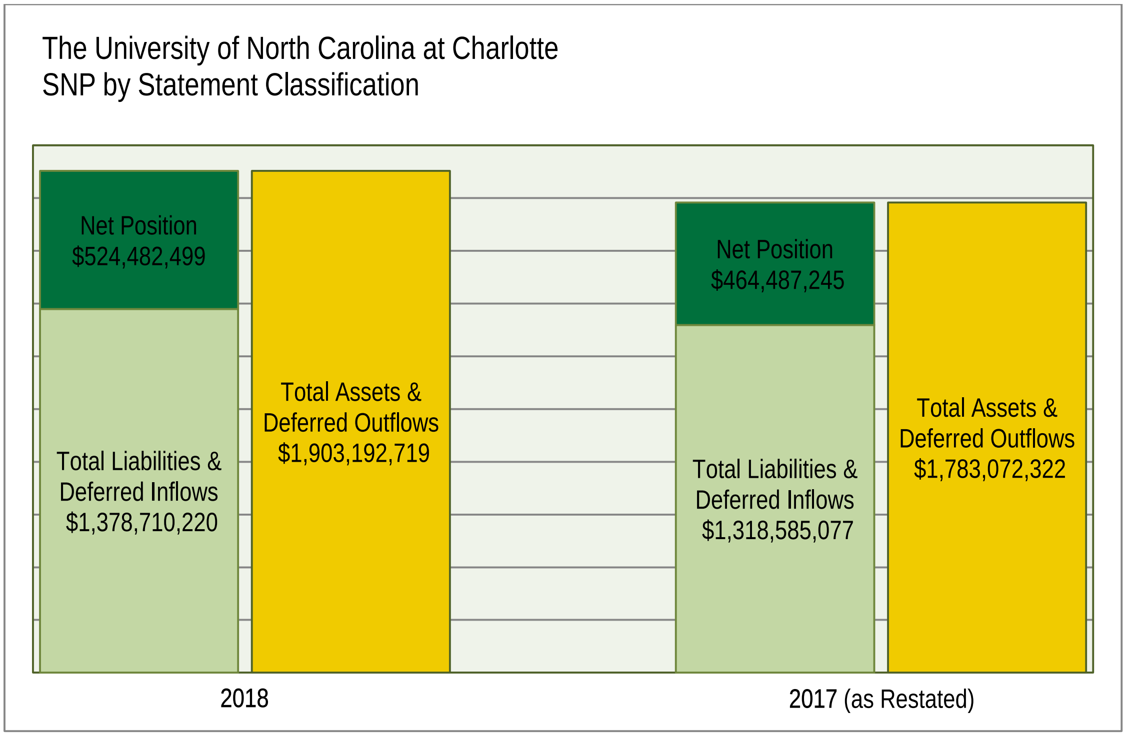


Comparative Condensed Financial Statement Information

Statement of Net Position

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

The following graph presents a comparison of net position and the categories that comprise net position at June 30, 2018, and June 30, 2017:



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

The following table summarizes and compares condensed balances as reported on the University's SNP as of June 30, 2018, and June 30, 2017.

Condensed Statement of Net Position	2018	2017 (as Restated)	Change Amount	Change Percent
Assets:				
Current Assets	$ 330,704,568	$ 289,731,008	$ 40,973,560	14.1%
Noncurrent Assets:				
Endowment and Other Investments	95,889,964	88,779,903	7,110,061	8.0%
Capital Assets, Net	1,367,895,375	1,296,464,768	71,430,607	5.5%
Other Noncurrent Assets	55,958,478	46,986,186	8,972,292	19.1%
Total Assets	1,850,448,385	1,721,961,865	128,486,520	7.5%
Deferred Outflows of Resources:				
Deferred Loss on Refunding	3,921,875	3,489,229	432,646	12.4%
Deferred Outflows Related to Pensions & OPEB	48,822,459	57,621,228	(8,798,769)	-15.3%
Total Deferred Outflows of Resources	52,744,334	61,110,457	(8,366,123)	-13.7%
Liabilities:				
Current Liabilities	59,259,560	49,108,627	10,150,933	20.7%
Noncurrent Liabilities:				
Funds Held in Trust	12,889,492	11,884,281	1,005,211	8.5%
Long-Term Liabilities, Net	1,107,081,493	1,249,127,572	(142,046,079)	-11.4%
Other Noncurrent Liabilities	4,449,398	5,564,786	(1,115,388)	-20.0%
Total Liabilities	1,183,679,943	1,315,685,266	(132,005,323)	-10.0%
Deferred Inflows of Resources:				
Deferred Gain on Refunding	26,862	28,466	(1,604)	-5.6%
Deferred Inflows Related to Pensions & OPEB	195,003,415	2,871,345	192,132,070	6691.4%
Total Deferred Inflows of Resources	195,030,277	2,899,811	192,130,466	6625.6%
Net Position:				
Net Investment in Capital Assets	830,402,380	784,462,871	45,939,509	5.9%
Restricted:				
Nonexpendable	46,892,515	46,960,389	(67,874)	-0.1%
Expendable	36,675,019	51,542,601	(14,867,582)	-28.8%
Unrestricted	(389,487,415)	(418,478,616)	28,991,201	-6.9%
Total Net Position	$ 524,482,499	$ 464,487,245	$ 59,995,254	12.9%

Net position increased to $524.5 million as of June 30, 2018, reflecting continued growth of the University. Other highlights of the information presented on the SNP:

- During the fiscal year, the University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), as amended by GASB Statement No. 85, *Omnibus 2017*. As a result of this new accounting and reporting change, participants in the State's OPEB plans, including the University, were allocated a proportionate share of the OPEB plans' net OPEB liabilities/assets, deferred outflows/inflows of resources, and OPEB benefit expense, specifically for the Retiree Health Benefit Fund (RHBF) and the Disability Income Plan of North Carolina (DIPNC). For the purpose of reporting the actuarially determined OPEB amounts for fiscal year 2018, the SNP was restated as of June 30, 2017. The amounts for the restatement and as of June 30, 2018 were based on the University's proportionate shares of the State's OPEB plans as determined by actuarial valuation and on the deferred outflows for current contributions as determined by the University. See Note 20 to the financial statements for more details on the restatement. This new GASB statement had a significant impact on the

University's SNP. The impact, including changes in the University's shares of the net OPEB liability and deferred outflows/inflows of resources and the significant decrease in unrestricted net position, is discussed by financial statement category below.

- Current assets are those that are available to pay for current liabilities or current year expenditures. Current assets increased by $41.0 million in fiscal year 2018, or 14.1%, primarily due to a $35.8 million increase in current cash and cash equivalents (unrestricted and restricted). Current unrestricted cash increased by $29.2 million, primarily due to an increase in institutional trust funds for future planned projects. Current restricted cash increased by $6.6 million, primarily due to an increase in cash on hand to cover current debt service and construction-related liabilities. Prepaid items increased by $2.7 million, primarily due to increases in prepaid software costs.
- Total noncurrent assets increased by $87.5 million, or 6.1%, during the fiscal year, primarily due to an increase in net capital assets of $71.4 million (discussed in detail in the Capital Assets and Debt Administration section). In addition, noncurrent restricted cash and cash equivalents increased by $9.1 million due to an increase in construction and debt related cash on hand, primarily caused by the bond issuances discussed in the Capital Assets and Debt Administration section. Total endowment and other investments increased by $7.1 million, or 8.0%, mainly due to investment earnings.
- Total deferred outflows of resources decreased by $8.4 million during the fiscal year. This change is primarily due to a decrease in deferred outflows related to pensions of $9.9 million, offset by a $1.1 million increase in deferred outflows related to OPEB. Both of these deferred outflow measures fluctuate each year due to changes in pension and OPEB liability/asset assumptions and calculation inputs, such as differences between projected and actual investment earnings, and changes in the University's proportion of the liabilities/assets.
- Total liabilities decreased by $132.0 million, or 10.0%, to $1.2 billion at June 30, 2018.
    - Current liabilities, those that are due and payable in the next fiscal year, increased by $10.2 million, primarily due to an increase of $5.3 million in accounts payable and contract retainage for construction projects, and an increase in the current portion of long-term liabilities of $2.6 million.
    - Noncurrent liabilities decreased by $142.2 million, or 11.2%, during the fiscal year. The University's portion of the State's net pension liability decreased by $5.1 million to $55.7 million at year end, and the University's portion of the State's net OPEB liability decreased by $192.2 million to $451.1 million at year end. Changes in the net pension and net OPEB liabilities are recognized as deferred outflows and inflows of resources on the SNP and will be recognized as pension and OPEB expense over the next five fiscal years. These decreases were offset by an increase in noncurrent long-term debt of $54.8 million due to bond issuances and refinancing, which are discussed in detail in the Capital Assets and Debt Administration section.
- Total deferred inflows of resources increased by $192.1 million during the fiscal year, attributable to a $193.2 million increase in deferred inflows related to OPEB. As with the deferred outflows of resources related to pensions and OPEB, the related deferred inflow measures fluctuate each year due to changes in net pension and net OPEB liability/asset assumptions and calculation inputs, such as differences between projected and actual investment earnings and changes in the University's proportion of the liabilities/assets.

- Net position is divided into three major categories:
  - Net investment in capital assets: Represents the University's net equity in material property, plant, and equipment owned by the University, which increased by $45.9 million this fiscal year. Reference the Capital Assets and Debt Administration section for further details.
  - Restricted net position
    - Nonexpendable: The corpus of nonexpendable restricted resources (e.g., endowments) that is available for investment purposes. The University's nonexpendable net position did not materially change in fiscal year 2018.
    - Expendable: Restricted resources that must be spent for purposes as determined by donors and external entities that have placed time or purpose restrictions on the use of the assets. The University's decrease in expendable restricted net position of $14.9 million was mainly related to a decrease in cash restricted for capital projects.
  - Unrestricted net position: Represents net equity available for any lawful purpose of the University. The University's unrestricted net position increased by $29.0 million this fiscal year, mainly related to increases in institutional trust funds resulting from operations.

As discussed earlier, implementation of GASB Statement No. 75 resulted in a significant decrease in the University's reported unrestricted net position. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, as amended*, which was effective beginning with fiscal year 2015, also has a material effect on unrestricted net position. To aid in understanding the continuing impact of GASB Statement Nos. 68 and 75 and their effect on unrestricted net position, Note 10, Net Position, was added to the Notes to the Financial Statements this year. The impact on unrestricted net position is also summarized below. The net pension obligation of $25.0 million and the net OPEB obligation for the RHBF of $628.8 million create a combined $653.7 million negative impact on the University's unrestricted net position. Without these reported obligations, the University's available resources are $264.3 million. This amount represents available, unrestricted resources held by the University and its blended component units, along with any operating state funds authorized for carryforward.

Effect of GASB Statement Nos. 68 and 75 on Unrestricted Net Position	2018	2017 (as Restated)	Change Amount	Change Percent
Available Resources	$ 264,251,355	$ 231,782,445	$ 32,468,910	14.0%
Pension Net Obligation (GASB Stmt. No. 68)	(24,962,892)	(21,128,002)	(3,834,890)	18.2%
RHBF OPEB Net Obligation (GASB Stmt. No. 75)	(628,775,878)	(629,133,059)	357,181	-0.1%
Total Unrestricted Net Position	$ (389,487,415)	$ (418,478,616)	$ 28,991,201	-6.9%

The net OPEB obligation reported above relates to the RHBF. The Disability Income Plan of North Carolina (DIPNC) was in an asset position as of June 30, 2018, and its positive net effect on the University's restricted net position was $1.8 million. More information on both of these OPEB plans is included in Note 14, Other Postemployment Benefits, of the Notes to the Financial Statements.

- The University's liquidity remains strong with a current ratio of 5.6. This current ratio, defined as current assets divided by current liabilities, indicates that the University, if needed, could satisfy payment of its current liabilities almost six times before current assets were exhausted. Total working capital (current assets less current liabilities) of $271.4 million at June 30, 2018, increased by $30.8 million, or 12.8%, from the prior year, due to the larger increase in current assets relative to the increase in current liabilities, both discussed above.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

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

The following table summarizes and compares the University's results of operations for the fiscal years ended June 30, 2018, and June 30, 2017.

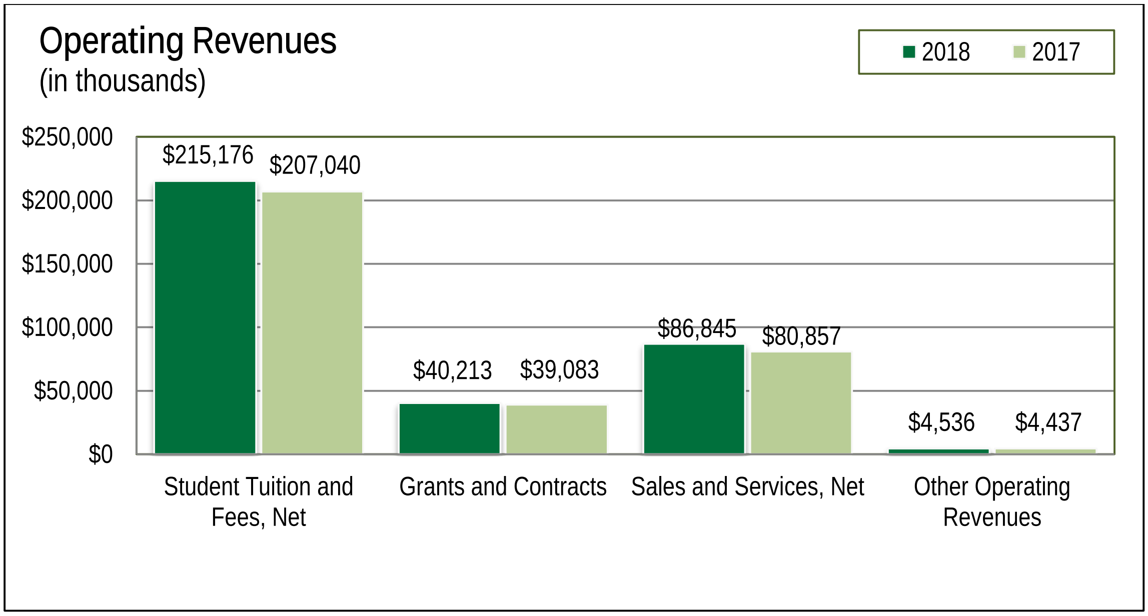
Condensed Statement of Revenues, Expenses, and Changes in Net Position	2018	2017*	Change Amount	Change Percent
Operating Revenues:				
Student Tuition and Fees, Net	$ 215,175,699	$ 207,040,145	$ 8,135,554	3.9%
Grants and Contracts	40,213,200	39,083,268	1,129,932	2.9%
Sales and Services, Net	86,844,526	80,856,639	5,987,887	7.4%
Other	4,535,554	4,437,354	98,200	2.2%
Total Operating Revenues	346,768,979	331,417,406	15,351,573	4.6%
Operating Expenses:				
Salaries and Benefits	389,830,691	368,735,712	21,094,979	5.7%
Supplies and Materials	40,392,073	39,582,411	809,662	2.0%
Services	101,100,779	94,968,648	6,132,131	6.5%
Scholarships and Fellowships	39,888,455	39,927,810	(39,355)	-0.1%
Utilities	12,881,630	12,793,110	88,520	0.7%
Depreciation/Amortization	31,927,862	30,241,637	1,686,225	5.6%
Operating Expenses	616,021,490	586,249,328	29,772,162	5.1%
Operating Loss	(269,252,511)	(254,831,922)	(14,420,589)	5.7%
Nonoperating Revenues (Expenses):				
State Appropriations	251,101,387	231,745,912	19,355,475	8.4%
Noncapital Gifts and Grants	78,673,640	79,055,556	(381,916)	-0.5%
Investment Income, Net	10,486,165	9,942,849	543,316	5.5%
Interest and Fees on Debt	(20,121,655)	(21,242,964)	1,121,309	-5.3%
Federal Interest Subsidy on Debt	1,848,834	1,878,208	(29,374)	-1.6%
Other Nonoperating Expenses	(2,570,394)	(1,515,846)	(1,054,548)	69.6%
Net Nonoperating Revenues	319,417,977	299,863,715	19,554,262	6.5%
Income Before Other Revenues	50,165,466	45,031,793	5,133,673	11.4%
Capital Appropriations, Gifts, and Grants	9,773,257	11,587,942	(1,814,685)	-15.7%
Additions to Endowments	56,531	2,359,172	(2,302,641)	-97.6%
Increase in Net Position	59,995,254	58,978,907	1,016,347	1.7%
Net Position, Beginning of Year	464,487,245	1,032,869,431		
Restatement for GASB 75		(627,361,093)		
Net Position, End of Year	$ 524,482,499	$ 464,487,245	$ 59,995,254	12.9%

Fiscal year 2017-18 total revenues were $698,708,793 and total expenses were $638,713,539
Fiscal year 2016-17 total revenues were $667,987,045 and total expenses were $609,008,138

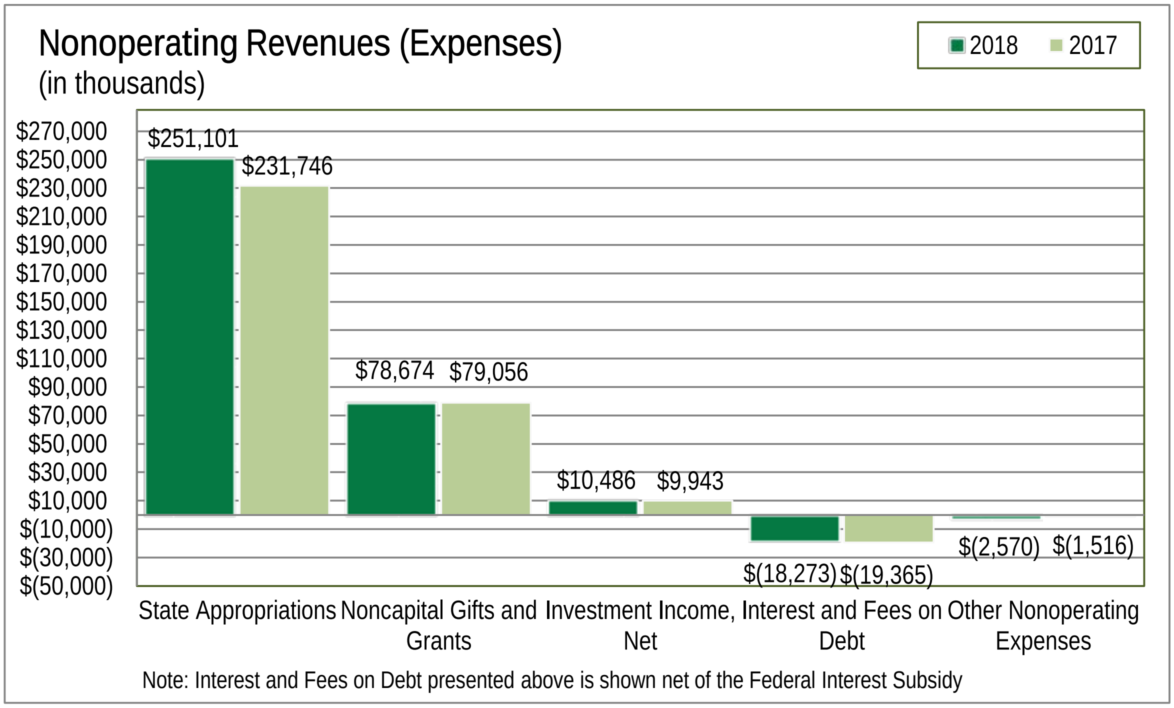
* Note: The year ended June 30, 2017 column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 75 do not provide sufficient information to restate these amounts.

As noted earlier, the change in net position is a key measure of the sum effect of the University's fiscal year activities on its financial health. The overall increase in net position of $60.0 million is composed of the following highlighted changes:

- Operating revenues are generated by providing goods and services to the various customers and constituencies of the University. Total operating revenues increased by $15.4 million, or 4.6%, as compared to the prior fiscal year. Several key financial measures factor into this increase. Student tuition and fees (net) increased by $8.1 million, or 3.9%, as a result of increases in tuition and fee rates and student enrollment. Grant and contract revenue increased by $1.1 million, or 2.9%, due to an increase in federally sponsored grant revenue. Sales and services (net) revenue increased by $6.0 million, or 7.4%, mainly driven by an increase in housing revenues related to a rate increase and higher occupancy of residence halls.



- Nonoperating revenues are those received for which goods and services are not provided. Certain significant recurring sources of the University's revenues, including state appropriations, are classified as nonoperating because they are provided to the University without the provider directly receiving commensurate goods and services for those revenues. The University's net nonoperating revenues were $319.4 million in fiscal year 2018, a $19.6 million increase compared to the prior year. This change was largely attributable to appropriations from the State increasing by $19.4 million, primarily due to new permanent appropriations for enrollment growth and salary increases, and an increase in the fringe benefit rates.



- Operating expenses are those incurred to acquire or produce the goods and services provided to fulfill the mission of the University. Total operating expenses increased by $29.8 million, or 5.1%, from the prior year, to $616.0 million.
- The increase in operating expenses is largely attributable to a $21.1 million, or 5.7%, increase in salary and benefits expense. Salaries increased by $11.3 million, or 3.9%, mainly due to: a $1,000 legislative increase for all employees subject to the State Human Resources Act (SHRA); a state-legislated merit-based increase for employees exempt from the State Human Resources Act (EHRA); and promotions, salary adjustments, and newly filled positions. Benefits expenses increased by $9.8 million due to the increased salary base and an increase in pension and OPEB expenses recognized related to GASB Statement Nos. 68 and 75.
- Services expenses increased by $6.1 million, or 6.5%, due to increased spending in this category, notably related to building repairs and contractual services. Depreciation and amortization expense also increased by $1.7 million due to the increase in depreciable capital assets.
- Additions to endowments were $2.3 million less than the prior year, as no new material endowments were received in fiscal year 2018.
- For an explanation of the changes in capital appropriations, gifts, and grants, see the Capital Assets and Debt Administration section below.

Capital Assets and Debt Administration

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

Total capital assets, by major classification and net of accumulated depreciation and amortization, are presented below for the fiscal years ended June 30, 2018, and June 30, 2017. Information regarding changes in capital assets is also disclosed in Note 6.

Capital Assets, Net of Accumulated Depreciation	2018	2017	Change Amount	Change Percent
Land and Land Improvements	$ 12,856,304	$ 11,737,012	$ 1,119,292	9.5%
Rare Book, Manuscript, Art, and Artifact Collections	35,491,015	34,479,476	1,011,539	2.9%
Construction in Progress	98,156,594	64,842,639	33,313,955	51.4%
Buildings	952,546,279	917,003,205	35,543,074	3.9%
Machinery and Equipment	59,717,712	55,711,286	4,006,426	7.2%
General Infrastructure	198,277,923	201,089,409	(2,811,486)	-1.4%
Computer Software	10,849,548	11,601,741	(752,193)	-6.5%
Total Capital Assets, Net	$ 1,367,895,375	$ 1,296,464,768	$ 71,430,607	5.5%

Total construction in progress (CIP) at the end of the year was $98.2 million, a $33.3 million net increase from the prior year. CIP increased by $93.9 million related to construction on various projects, and decreased $60.6 million mainly due to the completion of various construction projects during the year.

Increases in CIP included renovations to Scott Hall ($18.6 million), the University Recreation Center ($16.7 million), and the Facilities Operations and Parking Services Building

($14.9 million). The offsetting decreases in CIP included completion during the fiscal year of the Christine F. Price Center for Counseling and Psychological Services, at a total cost of $3.7 million. The 11,000 square foot building, located adjacent to the Student Health Center in the northeast section of campus, provides counseling services, consultation, outreach, and psychiatric services to support UNC Charlotte students. In addition, several major renovation projects were completed this fiscal year: Elm, Maple, and Pine residence halls ($19.2 million), Burson Hall ($13.0 million), and the Housing and Residence Life building ($9.8 million). Other capital construction projects completed this fiscal year were mainly related to renovations and replacements. Land improvements increased by $1.1 million related to completed utility improvements. Net general infrastructure and computer software assets both decreased this year, mainly due to depreciation and amortization expense in these categories.

The University also had $76.7 million in outstanding commitments on construction contracts for capital expenditures at June 30, 2018. The bulk of these commitments related to the following construction projects: University Recreation Center ($37.9 million), Admissions and Visitors Center ($5.5 million), Academic Complex Renovations ($5.2 million), Facilities Operations and Parking Services Building ($5.0 million), and Science Building ($4.5 million). These commitments reflect some of the major projects underway per the University's overall capital plan.

Capital appropriations increased by $2.7 million due to an increase in the University's repairs and renovations allocation from the State. Capital grants increased by $3.4 million, reflecting increased expenditures for the University's new science building funded by the State's Connect NC bond package, which was approved in 2016. Capital gifts decreased by $7.9 million, primarily related to a $6.2 million one-time gift of software received in fiscal year 2017.

The University's long-term debt is primarily issued for specific capital needs. In October 2017, the University issued $76.4 million of fixed-rate, tax-exempt General Revenue Bonds, Series 2017. The bonds were issued to refund $19.5 million in bond anticipation notes issued in 2016 for renovations to the University's Elm, Maple, and Pine residence halls, to finance the cost of the University Recreation Center, and to finance renovations to Scott Hall. The University's available funds, which exclude tuition and state appropriations but include a general fee assessed to all students, are pledged to pay the bonds. In addition, in December 2017, the University issued $104.0 million of fixed-rate General Revenue Bonds, Series 2017-A (taxable) and 2017-B (tax-exempt). The bonds were issued to refund $103.9 million of outstanding general revenue and pooled revenue bonds, originally issued in 2007, 2010, and 2012. The economic gain of these refinancing transactions totaled $9.2 million. For additional information on these bond defeasances and the University's debt administration, see Note 8 of the financial statements.

The University received affirmed credit ratings this year from both Standard & Poor's, of 'A+' with a stable outlook, and from Moody's Investors Service, of 'Aa3' with a stable outlook. Both agencies affirmed their ratings based on the very strong enterprise profile of the University, including growing demand and enrollment trends, consistently positive financial operations, strong operating and capital support from Aaa-rated State of North Carolina, and a capable management team. While the University's debt profile has increased over the past ten years, all funding decisions support the University's long-term strategic plan and are made to be as cost effective as possible in the current economic environment.

The University continues to receive recognition for its efforts in sustainability and responsible energy use. Highlights from the past two fiscal years include recognition from the Arbor Day

Foundation for commitment to effective urban forest management, a STARS Silver rating from the Association for the Advancement of Sustainability in Higher Education (AASHE) for accomplishments in sustainability, and a "Green College" designation from The Princeton Review. These distinctions reflect the University's commitment to good stewardship of the environment and its willingness to serve as a role model for the community in sustainability. Additionally, the University's energy savings efforts free up money to be applied to academic and other programs on campus.

Economic Outlook

Management remains prudent, conservative, and strategic in managing institutional financial affairs to achieve the University's goals of providing educational services to the Charlotte region. The overall outlook for the four-year U.S. Higher Education sector, per Moody's Investors Service, changed from stable to negative as of December 2017, reflecting moderation of the industry's revenue growth to about 3.5%, compared with a 4.0% expected increase in expense growth. As of August 2018, Moody's retained this outlook but indicated that certain revenue streams were more favorable than anticipated. Regardless, continued financial success at UNC Charlotte will rely on enrollment demand and state support, as two of the most significant drivers of the University's revenue base, along with effective institutional planning and cost containment.

Continued focus on affordability and student outcomes at the state and national level, coupled with UNC Charlotte's emphasis on value for its students, will constrain tuition increases to those that are necessary to meet operational needs, a trend typical among public universities. There were no increases in tuition rates and only modest increases in fees for the 2018-19 academic year. North Carolina also established a fixed tuition program at all University of North Carolina (UNC) system institutions in 2016 that freezes tuition rates for new resident undergraduate students over a period of continuous enrollment and limits the overall increase in undergraduate student fees to 3% per academic year. UNC Charlotte is mindful of controlling expenses and has one of the lowest spending rates per full-time-equivalent student of the 17 UNC schools. Management has historically improved efficiencies at the academic and operational level, aligning these efforts with student and faculty success, and will continue to do so moving forward.

Overall, UNC Charlotte continues to realize strong enrollment and overall growth with tuition and fee rates that remain low compared to its public peers. The University also benefits from its membership in the UNC system through economies of scale, and draws from a diverse tuition base. UNC Charlotte's enrollment grew to more than 29,700 students for the Fall 2018 semester, the highest enrollment in the University's history and a 27.5% cumulative increase over the past ten years. UNC Charlotte is the largest university in the continuously growing Charlotte region and remains the only urban research university in the UNC system. UNC Charlotte enrolls more transfer students than any other university in North Carolina and offers more than 150 degree programs to a culturally diverse student population.

Enrollment growth at UNC Charlotte is expected to continue. While national and regional long-term enrollment forecasts vary, North Carolina's population is expected to grow by more than 2 million people from 2010 to 2030, and Charlotte is projected to be one of the fastest growing regions in the U.S. in that same timeframe. A key UNC system goal is to increase the proportion of adults in North Carolina with a bachelor's degree or higher. Mitigating enrollment growth factors include policies and social issues at the international, national, state, and local levels that may discourage attendance by qualified prospective student populations. However, the University continues to plan for a long-term target of 35,000 students, as UNC Charlotte will be expected to support the single largest number of additional students in the UNC system.

The University also continues efforts to foster partnerships and relationships with a wide variety of constituents, positioning itself as the region's preferred provider of talent, knowledge, and innovation. Notably, the University partnered with the City of Charlotte and the Charlotte Area Transit System on the new extension of the city's light rail, which opened in March 2018 and connects UNC Charlotte with the neighborhoods and business districts along the Blue Line's 18.6-mile rail through Charlotte. In addition, the University's largest fundraising campaign in its history has raised $163.0 million as of September 2018, inclusive of several notable alumni contributions, with a goal of $200.0 million by the end of fiscal year 2020. Finally, the Foundation of UNC Charlotte is planning the development of a hotel/conference center positioned at the edge of the University's campus along the light rail. The planned property includes 226 hotel rooms, a 24,000 square-foot conference center, and a 140-space parking structure at an approximate cost of $87.0 million. Funding is expected to be secured from diverse sources, including private donations, contributions from the City of Charlotte and the hotel brand, and debt that will be an obligation of the Foundation. The planned timeline is to break ground in January 2019 and complete the project in August 2020; the asset is expected to be transferred to the Endowment Fund of the University once complete, and the facility will be operated by a third party. The facility is expected to enhance the University's ability to attract academic conferences, raising the visibility and reputation of the University, and to provide an important amenity for the campus and the City.

Approximately 74% of UNC Charlotte students receive some form of financial aid, and approximately 45% of those students are Pell Grant recipients. This, in addition to the fact that the majority of the University's research funding is from federal grants, causes the federal budget to remain a key consideration of the financial outlook. Access, affordability, and accountability remain concerns for the higher education industry. Any legislation related to funding for federal student aid programs and federal research organizations will affect our students and faculty; management is prepared to adapt to changes as they arise.

Finally, the University continues its efforts to make an impact through its research initiatives and received $50.7 million in sponsored awards during fiscal year 2018. The University is consistently in the top five universities nationally for number of startups per million dollars of research funding. The University will continue to strategically target research-rich fields, including advanced manufacturing, biotechnology, data science and business analytics, defense, education, energy production and infrastructure, health, and cybersecurity, which align with UNC Charlotte's professional schools and applied science programs. The University plans to reach a sustainable level of extramurally funded research programs of $55 million annually by 2021.

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

Contacting the University's Financial Management

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

FINANCIAL STATEMENTS

The University of North Carolina at Charlotte
Statement of Net Position
June 30, 2018

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	265,425,171
Restricted Cash and Cash Equivalents		39,100,919
Receivables, Net (Note 5)		13,116,877
Inventories		310,656
Notes Receivable, Net (Note 5)		616,658
Prepaid Items		12,134,287
Total Current Assets		330,704,568
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		50,213,663
Endowment Investments		83,184,030
Restricted Investments		12,665,111
Other Investments		40,823
Notes Receivable, Net (Note 5)		4,825,619
Net Other Postemployment Benefits Asset		919,196
Capital Assets - Nondepreciable (Note 6)		146,503,913
Capital Assets - Depreciable, Net (Note 6)		1,221,391,462
Total Noncurrent Assets		1,519,743,817
Total Assets		1,850,448,385
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding		3,921,875
Deferred Outflows Related to Pensions		32,562,392
Deferred Outflows Related to Other Postemployment Benefits (Note 14)		16,260,067
Total Deferred Outflows of Resources		52,744,334
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		20,148,928
Deposits Payable		1,651,206
Funds Held for Others		100
Unearned Revenue		9,489,233
Interest Payable		6,407,115
Long-Term Liabilities - Current Portion (Note 8)		21,562,978
Total Current Liabilities		59,259,560
Noncurrent Liabilities:		
Funds Held for Others		180,761
Unearned Revenue		186,603
U. S. Government Grants Refundable		4,082,034
Funds Held in Trust for Pool Participants		12,889,492
Long-Term Liabilities, Net (Note 8)		1,107,081,493
Total Noncurrent Liabilities		1,124,420,383
Total Liabilities		1,183,679,943
DEFERRED INFLOWS OF RESOURCES		
Deferred Gain on Refunding		26,862
Deferred Inflows Related to Pensions		1,822,334
Deferred Inflows Related to Other Postemployment Benefits (Note 14)		193,181,081
Total Deferred Inflows of Resources		195,030,277

NET POSITION	
Net Investment in Capital Assets	830,402,380
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	6,309,423
Endowed Professorships	34,595,959
Departmental Uses	4,013,441
Loans	1,757,694
Other	215,998
Expendable:	
Scholarships and Fellowships	5,855,283
Research	2,054,177
Endowed Professorships	17,978,890
Departmental Uses	5,807,170
Debt Service	192,760
Other	4,786,739
Unrestricted	(389,487,415)
Total Net Position	$ 524,482,499

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

The University of North Carolina at Charlotte
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 11)	$	215,175,699
Federal Grants and Contracts		31,354,296
State and Local Grants and Contracts		2,656,544
Nongovernmental Grants and Contracts		6,202,360
Sales and Services, Net (Note 11)		86,844,526
Interest Earnings on Loans		65,737
Other Operating Revenues		4,469,817
Total Operating Revenues		346,768,979
EXPENSES		
Operating Expenses:		
Salaries and Benefits		389,830,691
Supplies and Materials		40,392,073
Services		101,100,779
Scholarships and Fellowships		39,888,455
Utilities		12,881,630
Depreciation/Amortization		31,927,862
Total Operating Expenses		616,021,490
Operating Loss		(269,252,511)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		251,101,387
Noncapital Grants - Student Financial Aid		66,204,330
Noncapital Grants		664,094
Noncapital Gifts		11,805,216
Investment Income (Net of Investment Expense of $467,869)		10,486,165
Interest and Fees on Debt		(20,121,655)
Federal Interest Subsidy on Debt		1,848,834
Other Nonoperating Expenses		(2,570,394)
Net Nonoperating Revenues		319,417,977
Income Before Other Revenues		50,165,466
Capital Appropriations		3,579,547
Capital Grants		4,955,883
Capital Gifts		1,237,827
Additions to Endowments		56,531
Increase in Net Position		59,995,254
NET POSITION		
Net Position - July 1, 2017, as Restated (Note 20)		464,487,245
Net Position - June 30, 2018	$	524,482,499

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

The University of North Carolina at Charlotte
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 340,510,276
Payments to Employees and Fringe Benefits	(385,024,344)
Payments to Vendors and Suppliers	(156,521,430)
Payments for Scholarships and Fellowships	(39,888,455)
Loans Issued	(446,382)
Collection of Loans	738,722
Interest Earned on Loans	76,110
Student Deposits Received	1,024,000
Student Deposits Returned	(935,800)
Other Receipts	4,807,428
Net Cash Used by Operating Activities	(235,659,875)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	251,101,387
Noncapital Grants - Student Financial Aid	65,223,447
Noncapital Grants	664,094
Noncapital Gifts	11,690,555
Additions to Endowments	56,531
William D. Ford Direct Lending Receipts	136,765,358
William D. Ford Direct Lending Disbursements	(136,805,325)
Related Activity Agency Receipts	32,066,619
Related Activity Agency Disbursements	(31,945,179)
External Participation in Investment Fund Receipts	429,116
External Participation in Investment Fund Disbursements	(532,119)
Net Cash Provided by Noncapital Financing Activities	328,714,484
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	209,030,029
Capital Appropriations	3,579,547
Capital Grants	4,955,883
Acquisition and Construction of Capital Assets	(98,607,284)
Principal Paid on Capital Debt	(141,195,372)
Interest and Fees Paid on Capital Debt	(32,180,427)
Federal Interest Subsidy on Debt Received	1,861,208
Net Cash Used by Capital Financing and Related Financing Activities	(52,556,416)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	3,209,870
Investment Income	3,982,407
Purchase of Investments and Related Fees	(2,811,158)
Net Cash Provided by Investing Activities	4,381,119
Net Increase in Cash and Cash Equivalents	44,879,312
Cash and Cash Equivalents - July 1, 2017	309,860,441
Cash and Cash Equivalents - June 30, 2018	$ 354,739,753

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

Operating Loss	$	(269,252,511)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/Amortization Expense		31,927,862
Allowances, Write-Offs, and Amortizations		1,215,634
Nonoperating Other Income		179,865
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(3,636,363)
Inventories		(29,424)
Notes Receivable, Net		267,389
Prepaid Items		(2,705,695)
Net Other Postemployment Benefits Asset		(75,344)
Deferred Outflows Related to Pensions		9,935,517
Deferred Outflows Related to Other Postemployment Benefits		(1,136,748)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		772,011
Unearned Revenue		704,908
Net Pension Liability		(5,051,616)
Net Other Postemployment Benefits Liability		(192,217,577)
Compensated Absences		1,226,522
Deposits Payable		83,625
Deferred Inflows Related to Pensions		(1,049,011)
Deferred Inflows Related to Other Postemployment Benefits		193,181,081
Net Cash Used by Operating Activities	$	(235,659,875)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	265,425,171
Restricted Cash and Cash Equivalents		39,100,919
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		50,213,663
Total Cash and Cash Equivalents - June 30, 2018	$	354,739,753

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	5,258,715
Assets Acquired through a Gift		1,237,827
Change in Fair Value of Investments		6,838,105
Loss on Disposal of Capital Assets		(2,018,414)
Amortization of Bond Premiums/Discounts		(1,557,481)

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

The Foundation of the University of North Carolina at Charlotte, Inc.
Consolidated Statement of Financial Position
June 30, 2018

Exhibit B-1

ASSETS		
Cash and Cash Equivalents	$	21,253,579
Accounts Receivable		60,449
Prepaid Expenses		11,953
Pledges Receivable, Net		11,132,035
Beneficial Interests in Lead Trusts		719,109
Investments		130,892,924
Assets Held in Trust Under Split-Interest Agreements		1,067,596
Cash Surrender Value of Life Insurance		757,304
Property Held for Investment		2,392,545
Total Assets	$	168,287,494
LIABILITIES		
Accounts Payable and Accrued Expenses	$	428,063
Liability Under Split-Interest Agreements		2,182,919
Funds Held for Others		262,620
Total Liabilities		2,873,602
NET ASSETS		
Unrestricted		33,994,250
Temporarily Restricted		70,046,275
Permanently Restricted		61,373,367
Total Net Assets		165,413,892
Total Liabilities and Net Assets	$	168,287,494

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

The Foundation of the University of North Carolina at Charlotte, Inc.
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2018 ***Exhibit B-2***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS, AND OTHER SUPPORT:				
Public Contributions	$ 914,537	$ 4,014,228	$ 2,936,752	$ 7,865,517
Support from Affiliate	3,233,596	357,633		3,591,229
Investment Income	3,286,120	7,911,472		11,197,592
Other Revenue and Support	43,132	167,196		210,328
	7,477,385	12,450,529	2,936,752	22,864,666
Net Assets Released from Restrictions	9,746,586	(9,746,586)		
Total Revenue, Gains, and Other Support	17,223,971	2,703,943	2,936,752	22,864,666
EXPENSES:				
Program Services:				
Contributions to UNC Charlotte	10,473,450			10,473,450
Grants and Research	405,321			405,321
Other Program Services	244,365			244,365
Total Program Services	11,123,136			11,123,136
Support Services:				
Fundraising Support	1,079,136			1,079,136
Professional Fees	780,518			780,518
Investment Expenses	758,743			758,743
Other General and Administrative	2,729,012			2,729,012
Total Support Services	5,347,409			5,347,409
Total Expenses	16,470,545			16,470,545
Change in Net Assets Before Write-Offs and Transfers	753,426	2,703,943	2,936,752	6,394,121
Write-Off of Pledges Receivable	(240,968)	(558,378)	(1,660,355)	(2,459,701)
Transfers Between Net Asset Classes	(247,812)	59,894	187,918	
Change in Net Assets	264,646	2,205,459	1,464,315	3,934,420
NET ASSETS:				
Beginning of Year	33,729,604	67,840,816	59,909,052	161,479,472
Ending of Year	$ 33,994,250	$ 70,046,275	$ 61,373,367	$ 165,413,892

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Charlotte (University) is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are either blended or discretely presented in the University's financial statements. See below for further discussion of the University's component units. 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 Facilities Development Corporation, Inc. (FDC) and The University of North Carolina at Charlotte Investment Fund, Inc. (UNCCIF), component units of the University, are reported as if they were part of the University.

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

The UNCCIF is governed by a board consisting of three ex officio directors and four elected directors. The UNCCIF's purpose is to support the University by operating an investment fund for nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Its participant investors include the University, the Foundation, and the Athletic Foundation (see Note 17). The UNCCIF is a governmental external investment pool. Because two of the seven directors of the UNCCIF are administrators of the University and the elected directors are appointed by the member investors' Boards of Trustees, and because the UNCCIF's primary purpose is to benefit the University, the UNCCIF has been blended with the University's financial statements, with exception of the portion belonging to the Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented (as described below).

Separate financial statements for the FDC and the UNCCIF may be obtained from the University Treasury Services Office at treasuryservices@uncc.edu, or by calling (704) 687-5432.

Condensed combining information regarding blended component units is provided in Note 18.

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

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 38 officers and directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2018, the Foundation distributed $10,473,450 to the University for both restricted and unrestricted purposes. The University provided professional services to the Foundation of $3,591,229 for the year ended June 30, 2018. Complete financial statements for the Foundation may be obtained from the University Treasury Services Office at treasuryservices@uncc.edu, or by calling (704) 687-5432.

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. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

Real estate not held by a governmental external investment pool and other asset holdings are reported at fair value as determined by appraisal as of June 30, 2018. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, postage, fuel held for consumption, and other merchandise for resale, are valued at cost using the last invoice cost method.

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

The University capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year 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	5-20 years
General Infrastructure	10-75 years
Computer Software	10-20 years

The University's rare book, manuscript, art, and artifact collections are capitalized at cost or 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 are therefore not depreciated.

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

J. **Funds Held in Trust for Pool Participants** - Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.

K. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Long-term debt includes: revenue bonds payable, special indebtedness, and notes payable. Other long-term liabilities include: compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

Revenue bonds payable and special indebtedness 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 2017 *Comprehensive Annual Financial Report.* This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 13 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2017 *Comprehensive Annual Financial Report.* This liability represents the University's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

There is no liability for unpaid accumulated sick leave because sick leave is contingent upon a future event that is beyond the control of both the employer and the employee, and therefore the liability is not probable. The University has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

M. **Deferred Outflows/Inflows of Resources** - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods 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, deferred outflows related to pensions, and deferred outflows related to other postemployment benefits.

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 future periods and so will not be recognized as an inflow of resources (revenue) until then. The University has the following items that qualify for reporting in this category: deferred gain on refunding, deferred inflows related to pensions, and deferred inflows related to other postemployment benefits.

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

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

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

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

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income. It also includes the net position of accrued employee benefits such as compensated absences, pension plans, and other postemployment benefits.

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. See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

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

P. Revenue and Expense Recognition - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement

No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes $352,792,279, 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 1.4 years as of June 30, 2018. 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.

Cash on hand at June 30, 2018 was $30,650. The carrying amount of the University's deposits not with the State Treasurer was $1,916,824, and the bank balance was $1,635,081. 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, 2018, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	$ 822,981

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. At June 30, 2018, $62,100 of the total bank balance was denominated in Euros, and was therefore exposed to foreign currency risk. The University does not have a formal policy for foreign currency risk.

B. Investments

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

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

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

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

Investments of the University's component units, the FDC and UNCCIF, 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.

External Investment Pool - The External Investment Pool sponsored by the University was established in November 2004. The Pool is utilized to manage the investments for charitable, nonprofit organizations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. University endowment funds and the Foundation, which is a discretely presented component unit in the University's reporting entity, represent the Pool's internal participants. The Athletic Foundation of the University of North Carolina at Charlotte, Inc., an affiliated organization not included in the University's reporting entity, represents the Pool's external participant. Fund ownership of the Pool is measured using the pro rata share method. Under this method, each participating fund's investment balance is determined based on its pro rata share of the fair market value of the investment pool at the beginning of each quarterly period. The external portion of the Pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The External Investment Pool is not registered with the Securities and Exchange Commission (SEC) and is not subject to any formal oversight other than that provided by the UNCCIF Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Board has chosen not to make individual security selection decisions. The Board's primary role is to oversee the allocation of the Pool's portfolio among the asset classes, investment vehicles, and investment managers.

The UNCCIF is the custodian for the Pool and provides the University with quarterly statements defining income and valuation, which is then allocated among the fund's participants. There are no involuntary participants in the Pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Pool's investments.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2018, for the External Investment Pool.

External Investment Pool

	Amount
Investment Type	
Other Securities	
UNC Investment Fund	$ 41,708,570
Global Endowment Fund II, LP	43,862,305
Total External Investment Pool	$ 85,570,875

The UNCCIF invests with two external investment firms, a limited partnership interest, Global Endowment Fund II, LP, and the UNC Investment Fund, LLC (UNC Investment Fund), an external investment pool. Global Endowment Management, LP is registered with the SEC, but neither firm has a credit rating, nor are they subject to any regulatory oversight. Investment risks associated with Global Endowment Fund II, LP are included in the audited financial statements of the Global Endowment Fund II, LP, which may be obtained from Global Endowment Management, LP, 550 South Tryon Street, Suite 3500, Charlotte, NC 28202. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC, which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Separate financial statements for the UNCIFF may be obtained from the University Treasury Services Office at treasuryservices@uncc.edu, or by calling (704) 687-5432.

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2018, for the University's non-pooled investments.

Non-Pooled Investments

	Amount	Investment Maturities (in Years) Less Than 1
Investment Type		
Debt Securities		
Money Market Mutual Funds	$ 398,266	$ 398,266
Other Securities		
Investments in Real Estate	9,880,000	
Cash Surrender Value of Life Insurance	40,823	
Total Non-Pooled Investments	$ 10,319,089	

At June 30, 2018, the money market mutual funds with an amortized cost of $398,266 were rated AAAm and Aaa-mf by Standard and Poor's and Moody's, respectively.

Total Investments - The following table presents the total investments at June 30, 2018:

	Amount
Investment Type	
Debt Securities	
Money Market Mutual Funds	$ 398,266
Other Securities	
UNC Investment Fund	41,708,570
Global Endowment Fund II, LP	43,862,305
Investments in Real Estate	9,880,000
Cash Surrender Value of Life Insurance	40,823
Total Investments	$ 95,889,964

Component Unit - Investments of the University's discretely presented component unit, the Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment Type	Carrying Value
Short-Term Investments	$ 138,085
Bonds	3,595,862
Fixed Income Mutual Funds	1,061,231
Equity Securities and Other Investments	1,173,821
UNCCIF External Investment Pool and Other Pooled Investments	125,991,521
Total Investments	$ 131,960,520

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2018, is as follows:

Cash on Hand	$ 30,650
Amount of Deposits with Private Financial Institutions	1,916,824
Deposits in the Short-Term Investment Fund	352,792,279
External Investment Pool	85,570,875
Non-Pooled Investments	10,319,089
Total Deposits and Investments	$ 450,629,717
Deposits	
Current:	
Cash and Cash Equivalents	$ 265,425,171
Restricted Cash and Cash Equivalents	39,100,919
Noncurrent:	
Restricted Cash and Cash Equivalents	50,213,663
Total Deposits	354,739,753
Investments	
Noncurrent:	
Endowment Investments	83,184,030
Restricted Investments	12,665,111
Other Investments	40,823
Total Investments	95,889,964
Total Deposits and Investments	$ 450,629,717

NOTE 3 - FAIR VALUE MEASUREMENTS

University - To the extent available, the University's investments are recorded at fair value as of June 30, 2018. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

The following table summarizes the University's investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2018:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Investments in Real Estate	$ 9,880,000	$ 0	$ 9,880,000	$ 0
Investments Measured at the Net Asset Value (NAV)				
Global Endowment Fund II, LP	43,862,305			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	352,792,279			
UNC Investment Fund	41,708,570			
Total Investments as a Position in an External Investment Pool	394,500,849			
Total Investments Measured at Fair Value	$ 448,243,154			

Short-Term Investment Fund - University funds totaling $352,792,279 are on deposit with the STIF. 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. Pool investments are measured at fair value in accordance with GASB 72. The University's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

UNC Investment Fund - The fair value of the University's balance in the UNC Investment Fund is $41,708,570. An additional $54,640,852 is held by the discretely presented Foundation for a total of $96,349,422 invested by the UNCCIF. Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund's operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The University's position in the pool is measured and reported at fair value and the UNC Investment Fund is not required to be categorized within the fair value hierarchy.

Investments in Real Estate - The fair value of the University's investments in real estate is $9,880,000. These investments are classified as Level 2 of the fair value hierarchy and are valued using market multiples that consider current appraisals.

The following table presents the valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) at June 30, 2018.

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Global Endowment Fund II, LP	$ 43,862,305	N/A	Semi-Annually	Written notice given by March 1 & Sept. 1 preceding June 30 & Dec. 31, the respective redemption dates.

Global Endowment Fund II, LP - The net asset value (NAV) of the University's balance in the private equity limited partnership, Global Endowment Fund II, LP, is $43,862,305. An additional $57,462,380 is held by the discretely presented Foundation for a total of $101,324,685 invested by the UNCCIF. The private investment partnership offers an endowment-style investment program to institutional investors, family offices, qualified individuals, and other sophisticated investors. The Partnership invests with a long-term horizon, seeking varied and non-traditional investment opportunities in an effort to provide a diversified, single-portfolio investment strategy for its investors. The Management Company's Valuation Committee is responsible for valuing the Fund's assets. The Committee will ensure that positions are valued in accordance with the requirements of the governing documents of the managed funds and applicable accounts standards. The funds are valued based on the investments' NAV or its equivalent in accordance with FASB Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*. This ASU amends FASB ASC 820, *Fair Value Measurement*, to offer investors a practical expedient for measuring the fair value of investments that do not have a readily determinable fair value and that calculate a NAV to be valued based on the NAV per share or its equivalent of the underlying investment when it is probable that the investment will not be sold in the short-term.

Component Unit - The Foundation's investments are reported using FASB ASC 820, *Fair Value Measurement*, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 Financial instruments with unadjusted, quoted prices listed on active market exchanges.

Level 2 Financial instruments determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 Financial instruments that are not actively traded on an active exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

In determining fair value, the Foundation uses valuation approaches within the FASB ASC 820 fair value measurement framework and utilizes the end of reporting period for determining when transfers between levels are recognized. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy.

Short-term investments: Short-term investments are traded in active markets and are classified within Level 1 of the hierarchy.

Bonds, mutual funds, equity securities, and other investments (including assets held under split-interest agreements): Bonds, mutual funds, equity securities, and other investments are traded in active markets and are classified within Level 1 of the hierarchy.

Financial assets measured at fair value on a recurring basis are classified in the statement of financial position as of June 30, 2018 as follows:

Investments	$ 130,892,924
Assets Held in Trust Under Split-Interest Agreements	1,067,596
Total	$ 131,960,520

The following table summarizes financial assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2018:

	Assets At Fair Value As Of June 30, 2018	
	Level 1	Total
Short-Term Investments	$ 138,085	$ 138,085
Bonds	3,595,862	3,595,862
Fixed Income Mutual Funds	1,061,231	1,061,231
Equity Securities and Other	1,173,821	1,173,821
	$ 5,968,999	5,968,999
Pooled Investments [(a)]		125,991,521
		$ 131,960,520

[(a)] In accordance with FASB ASU 2015-07, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following table presents the Foundation's investments, which are reported at NAV or its equivalent, and unfunded commitments at June 30, 2018:

Investment	Note	Net Asset Value 2018	Redemption Frequency	Redemption Notice	Unfunded Commitments
UNCCIF	a	$ 117,793,438	Semi Annually	120 Days	None
Limited Duration	b		Weekly	5 Days	None
Intermediate Term	c	4,094,686	Weekly	5 Days	None
Contingent Asset Portfolio	d	2,081,348	Weekly	5 Days	None
Core Equity	e	500,059	Weekly	5 Days	None
Strategic Solutions Equity	f	502,842	Weekly	5 Days	None
High Quality Bond	g	1,019,148	Weekly	5 Days	None
		$ 125,991,521			

a. The UNCCIF seeks to provide equity-like returns while mitigating risk through diversification and long-term asset allocation and to preserve the real purchasing power of the fund, while providing a predictable and growing stream of spending distributions to Fund participants.

   The UNCCIF invests in a limited partnership that is subject to the terms and conditions of the limited partnership agreement. The agreement allows semi-annual redemptions on June 30 and December 31, with notice given by March 1 and September 1, respectively, preceding the redemption date. All redemptions are subject to the general partner's approval and can be limited or suspended. The sale of the limited partnership interest to a third party is not permitted.

   The UNCCIF investment in another external investment pool is subject to an operating agreement. Ownership in the external investment pool is based on the per unit market value method, whereby the total market value of the underlying assets are divided by the number of units to determine the market value per unit. The number of units times the rate per unit determines the ownership. Redemptions of up to $10 million may be made monthly with at least 30 days' notice, and redemption requests greater than $10 million may be made quarterly with at least 90 days' notice.

b. The Limited Duration fund primarily invests in fixed income markets with a goal of seeking to produce returns in excess of the returns achieved by typical money market funds.

c. The Intermediate Term fund objective is to offer a program to be used for core cash balances or operating funds that are not expected to be needed for expenditure for a period of at least a year. The Fund seeks to produce a total return in excess of its benchmark, the Merrill Lynch 1–3 Year Treasury Index, but attaches greater emphasis to its goal of generating a higher current yield than short-term money market instruments in a manner that mitigates the chances of a negative total return over any 12-month period.

d. The Contingent Asset Portfolio fund generally expects to invest in investment-grade fixed income securities (i.e., securities rated at least Baa3 or BBB- by a nationally recognized rating agency such as Moody's Investors Service, Inc., Standard & Poor's, or Fitch Ratings, or that are of comparable quality as determined by the Sub-Adviser, although the fund has no ratings-based restrictions, and at times it may hold a substantial portion of ratings-based restrictions, and at times it may hold a substantial portion of securities rated below investment grade). The benchmark for the fund is the BofA Merrill Lynch 1-3 Year U.S. Treasury Index.

e. The Core Equity fund objective is to offer access to large capitalization and, to a lesser extent, mid-capitalization companies. The fund seeks to outperform its benchmark, the S&P 500 Index, over a full market cycle.

f. The Strategic Solutions Equity fund objective is to outperform the S&P 500 Index over a full market cycle.

g. The High Quality Bond fund objective is to offer a program devoted to investing in high quality, investment-grade-only, fixed income securities. The fund seeks to outperform its benchmark, the Barclays Aggregate Bond Index, over a full market cycle.

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are real property held for investment of $9,880,000 and pooled investments invested with the UNCCIF of $85,570,875 (includes $12,266,845 of Athletic Foundation restricted investments). Non-real property investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and, therefore, the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy, which limits spending to 80% of the prior year's spending adjusted for inflation, plus 20% of 4.5% of the average of the prior three years' market values as of December 31 each year. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2018, accumulated income and net appreciation of $31,890,020 was available to be spent, of which $21,998,196 was classified in net position as restricted expendable for scholarships, fellowships, and endowed professorships, as it was restricted for these specific purposes. The remaining $9,891,824 was classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 7,756,350	$ 1,825,615	$ 5,930,735
Accounts	1,452,161		1,452,161
Intergovernmental	5,034,032		5,034,032
Investment Earnings	457		457
Interest on Loans	74,044		74,044
Federal Interest Subsidy on Debt	466,438		466,438
Other	159,010		159,010
Total Current Receivables	$ 14,942,492	$ 1,825,615	$ 13,116,877
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 594,677	$ 29,734	$ 564,943
Institutional Student Loan Programs	57,710	5,995	51,715
Total Notes Receivable - Current	$ 652,387	$ 35,729	$ 616,658
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 4,366,275	$ 218,314	$ 4,147,961
Institutional Student Loan Programs	714,434	36,776	677,658
Total Notes Receivable - Noncurrent	$ 5,080,709	$ 255,090	$ 4,825,619

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land and Land Improvements	$ 11,737,012	$ 1,119,292	$ 0	$ 12,856,304
Art, Literature, and Artifacts	34,479,476	1,011,539		35,491,015
Construction in Progress	64,842,639	93,884,095	60,570,140	98,156,594
Total Capital Assets, Nondepreciable	111,059,127	96,014,926	60,570,140	146,503,913
Capital Assets, Depreciable:				
Buildings	1,099,836,324	55,145,766	334,465	1,154,647,625
Machinery and Equipment	115,490,915	12,146,196	6,159,076	121,478,035
General Infrastructure	244,022,309	2,640,135	412,412	246,250,032
Computer Software	13,643,949			13,643,949
Total Capital Assets, Depreciable	1,472,993,497	69,932,097	6,905,953	1,536,019,641
Less Accumulated Depreciation/Amortization for:				
Buildings	182,833,119	19,395,109	126,882	202,101,346
Machinery and Equipment	59,779,629	6,705,609	4,724,915	61,760,323
General Infrastructure	42,932,900	5,074,951	35,742	47,972,109
Computer Software	2,042,208	752,193		2,794,401
Total Accumulated Depreciation/Amortization	287,587,856	31,927,862	4,887,539	314,628,179
Total Capital Assets, Depreciable, Net	1,185,405,641	38,004,235	2,018,414	1,221,391,462
Capital Assets, Net	$ 1,296,464,768	$ 134,019,161	$ 62,588,554	$ 1,367,895,375

During the year ended June 30, 2018, the University incurred $22,342,737 in interest costs related to the acquisition and construction of capital assets. Of this total, $20,121,655 was charged in interest expense, and $2,221,082 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014 to pay the related debt service. The carrying value of the energy savings improvement assets associated with the agreement is $1,688,603 and is subject to security provisions in the agreement to ensure timely debt service payments. Additional information regarding the UNC System Energy Savings Installment Financing Agreement note payable can be found in Note 8.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2018, were as follows:

	Amount
Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 2,692,148
Accounts Payable - Capital Assets	11,143,091
Accrued Payroll	1,098,601
Contract Retainage	4,677,997
Intergovernmental Payables	239,400
Other	297,691
Total Accounts Payable and Accrued Liabilities	$ 20,148,928

NOTE 8 - LONG-TERM LIABILITIES

University

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 492,690,863	$ 180,385,000	$ 120,831,799	$ 552,244,064	$ 17,766,801
Special Indebtedness	12,650,000		530,000	12,120,000	540,000
Plus: Unamortized Premium	26,459,579	23,417,529	11,289,165	38,587,943	
Less: Unamortized Discount	(464,478)		(61,135)	(403,343)	
Total Revenue Bonds Payable and Special Indebtedness, Net	531,335,964	203,802,529	132,589,829	602,548,664	18,306,801
Notes Payable	2,257,328		356,073	1,901,255	370,945
Bond Anticipation Notes	14,250,000	5,227,500	19,477,500		
Total Long-Term Debt	547,843,292	209,030,029	152,423,402	604,449,919	18,677,746
Other Long-Term Liabilities					
Compensated Absences	16,154,393	15,703,019	14,476,497	17,380,915	2,885,232
Net Pension Liability	60,754,566		5,051,616	55,702,950	
Net Other Postemployment Benefits Liability	643,328,264		192,217,577	451,110,687	
Total Other Long-Term Liabilities	720,237,223	15,703,019	211,745,690	524,194,552	2,885,232
Total Long-Term Liabilities, Net	$ 1,268,080,515	$ 224,733,048	$ 364,169,092	$ 1,128,644,471	$ 21,562,978

Additional information regarding the net pension liability is included in Note 13.
Additional information regarding the net other postemployment benefits liability is included in Note 14

B. Revenue Bonds Payable and Special Indebtedness - The University was indebted for revenue bonds payable and special indebtedness (limited obligation bonds) for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date		Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Revenue Bonds Payable							
General Revenue Bonds Payable							
Parking Deck H BABs	2009-B	4.53%-6.25%	2039	*	$ 16,280,000	$ 495,000	$ 15,785,000
Housing Phase 9 BABs	2009-B	4.53%-6.25%	2039	*	33,490,000	1,025,000	32,465,000
Football Stadium BABs	2010	4.63%-6.52%	2040	*	40,895,000	6,800,000	34,095,000
Portal Building	2012-A	3.00%-4.00%	2022		2,615,000	2,350,000	265,000
South Village Dining	2012-A	4.00%	2022		3,470,000	3,120,000	350,000
Regional Utility Plant	2012-A	4.00%	2022		4,140,000	3,965,000	175,000
Refi-Sprinkler Loan	2012-A	4.00%	2022		3,645,000	2,000,000	1,645,000
Parking Deck J - South Village Deck	2012-A	4.00%	2022		14,685,000	13,910,000	775,000
Residence Hall Phase 10	2012-A	4.00%-5.00%	2023		30,290,000	27,175,000	3,115,000
Residence Hall Phase 11	2012-A	4.00%-5.00%	2023		28,890,000	25,915,000	2,975,000
2012 Sprinkler Project	2012-A	4.00%-5.00%	2023		3,260,000	2,935,000	325,000
Portal Building - Taxable	2012-B	2.27%-4.45%	2041		25,575,000	7,935,000	17,640,000
South Village Dining - Taxable	2012-B	2.27%-4.45%	2041		8,655,000	2,685,000	5,970,000
Regional Utility Plant - Taxable	2012-B	2.27%-4.25%	2032		2,710,000	585,000	2,125,000
Residence Hall Phase 12	2013-A	3.00%-5.00%	2043		39,560,000	3,255,000	36,305,000
Refinancing of 2003-A Pooled Bonds	2013-A	4.40%-5.25%	2028		8,640,000	6,085,000	2,555,000
Campus Infrastructure	2013-B	1.54%-4.12%	2043		35,240,000	4,150,000	31,090,000
Refinancing 2004-A Parking Bonds	2013-B	3.75%-4.00%	2021		2,545,000	1,560,000	985,000
Energy Savings Bonds	2013	4.41%	2029	**	8,443,099	2,024,035	6,419,064
Residence Hall Phase 13	2014	3.00%-5.00%	2044		34,220,000	1,850,000	32,370,000
Oak Hall Renovations	2014	3.00%-5.00%	2044		8,765,000	475,000	8,290,000
Holshouser Hall Renovations	2014	3.00%-5.00%	2044		15,760,000	855,000	14,905,000
Residence Hall Phase 14	2015	3.00%-5.00%	2045		39,045,000	725,000	38,320,000
Campus Infrastructure Phase 2	2015	3.00%-5.00%	2045		32,075,000	1,660,000	30,415,000
Refi-2006 Parking Bonds	2015	3.00%-5.00%	2036		7,970,000	285,000	7,685,000
Refi-2007-B Student Union Bonds	2015	3.00%-5.00%	2037		37,060,000	165,000	36,895,000
2017 Refi Multiple Projects (Tax-Exempt)	2017-A	4.00%-5.00%	2041		77,865,000	655,000	77,210,000
2017 Refi Multiple Projects (Taxable)	2017-B	1.91%-3.63%	2041		26,140,000	1,640,000	24,500,000
Health & Wellness Center	2017	4.00%-5.00%	2048		43,990,000		43,990,000
Scott Hall Renovation	2017	4.00%-5.00%	2048		15,585,000		15,585,000
Elm, Maple, Pine Renovation	2017	4.00%-5.00%	2048		16,805,000		16,805,000
Total General Revenue Bonds					668,308,099	126,279,035	542,029,064
The University of North Carolina System Pool Revenue Bonds							
Refinance Balance of SAC 1995 Bonds	2005-A	5.00%-5.25%	2021		11,855,000	6,690,000	5,165,000
2nd Partial Refund of Housing Phase 7	2009-B	4.00%-4.25%	2021		6,185,000	3,595,000	2,590,000
Partial Refund of Housing Phase 8	2010-B1	3.00%-4.00%	2020		13,770,000	11,680,000	2,090,000
Refund of Parking Series 2002 Bonds	2010-B1	3.00%-4.00%	2020		6,300,000	5,930,000	370,000
Total The University of North Carolina System Pool Revenue Bonds					38,110,000	27,895,000	10,215,000
Special Indebtedness							
Refi-Greek Village COPs via LOBs	2015	2.32%-4.37%	2035		13,730,000	1,610,000	12,120,000
Total Revenue Bonds Payable and Special Indebtedness (principal only)					$ 720,148,099	$ 155,784,035	564,364,064
Plus: Unamortized Premium							38,587,943
Less: Unamortized Discount							(403,343)
Total Revenue Bonds Payable and Special Indebtedness, Net							$ 602,548,664

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

** For the qualified energy conservation bonds, the University receives a cash subsidy from the U.S. Treasury equal to 66.5% of the interest payable on these bonds.

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2018, are as follows:

	Annual Requirements					
	Revenue Bonds Payable		Special Indebtedness		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 17,766,801	$ 24,991,305	$ 540,000	$ 468,362	$ 370,945	$ 32,483
2020	18,661,918	24,302,235	550,000	455,812	386,258	25,545
2021	19,367,151	23,534,758	565,000	441,930	402,022	18,322
2022	17,730,567	22,746,473	580,000	426,099	418,251	10,805
2023	18,317,625	21,953,388	600,000	408,398	323,779	2,987
2024-2028	95,523,955	97,095,230	3,320,000	1,706,008		
2029-2033	106,596,047	74,199,931	4,075,000	958,604		
2034-2038	125,990,000	47,364,874	1,890,000	124,849		
2039-2043	99,020,000	19,734,695				
2044-2048	33,270,000	3,557,350				
Total Requirements	$ 552,244,064	$ 359,480,239	$ 12,120,000	$ 4,990,062	$ 1,901,255	$ 90,142

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

On December 22, 2017, the University issued $26,140,000 in General Revenue Series 2017-B refunding bonds with an average interest rate of 3.27%. A portion of the bonds were issued for a current refunding of $14,560,000 of outstanding Series 2007-A Taxable General Revenue Bonds and Series 2012-B Taxable General Revenue Bonds with an average interest rate of 5.00%. The remaining portion of the 2017-B bonds were issued to advance refund $10,350,000 of Series 2012-A Tax-Exempt General Revenue Bonds and Series 2010-B1 Pooled Revenue Bonds with an average interest rate of 4.75%. The net proceeds of the advanced refunding bonds were used to purchase U.S. government securities. The U.S. government securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. The refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. The refunding was undertaken to reduce total debt service payments by $2,328,187 over the next 24 years and resulted in an economic gain of $1,652,482. At June 30, 2018, the outstanding balance was $10,350,000 for the defeased Series 2012-A Tax-Exempt General Revenue Bonds and Series 2010-B1 Pooled Revenue Bonds.

On December 22, 2017, the University issued $77,865,000 in General Revenue Series 2017-A refunding bonds with an average interest rate of 4.31%. The bonds were issued to advance refund $78,985,000 of outstanding Series 2012-A Tax-Exempt General Revenue Bonds and Series 2010-B1 Pooled Revenue Bonds with an average interest rate of 4.83%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. The substitution of these securities with monetary assets that are not essentially risk-free is not prohibited. The U.S. government securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by $11,225,458 over the next 24 years and resulted in an economic gain of $7,573,995. At June 30, 2018, the outstanding balance was $78,985,000 for the defeased Series 2012-A Tax-Exempt General Revenue Bonds and Series 2010-B1 Pooled Revenue Bonds.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp	1.84%	2/14/2023	$ 2,685,726	$ 784,471	$ 1,901,255

Component Unit

On September 5, 2013, the Foundation entered into a line of credit agreement allowing it to borrow up to $5,000,000. As of June 30, 2018, there were no outstanding draws on this line of credit. The credit line carries a variable interest rate of interest equal to one-month London Interbank Offered Rate (LIBOR) plus 1.10% (3.19% as of June 30, 2018). The line of credit expires on September 5, 2019. The loan agreement contains a liquidity covenant and also requires the Foundation maintain a minimum average deposit account balance of $200,000 with the lender.

There was no interest expense during 2018.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for classroom and warehouse space, parking spaces, heavy equipment, copiers, and fiber optic cable. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	$ 306,428
2020	251,195
2021	223,173
2022	208,965
2023	212,100
2024-2028	323,723
Total Minimum Lease Payments	$ 1,525,584

Rental expense for all operating leases during the year was $725,798.

NOTE 10 - NET POSITION

The deficit in unrestricted net position of $389,487,415 has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources. A summary of the balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
Deferred Outflows Related to Pensions	$ 32,562,392	$ 0	$ 32,562,392
Deferred Outflows Related to OPEB		15,449,061	15,449,061
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	55,702,950		55,702,950
Net OPEB Liability		451,110,687	451,110,687
Deferred Inflows Related to Pensions	1,822,334		1,822,334
Deferred Inflows Related to OPEB		193,114,252	193,114,252
Net Effect on Unrestricted Net Position	$ (24,962,892)	$ (628,775,878)	$ (653,738,770)

See Notes 13 and 14 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

NOTE 11 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees, Net	$ 268,501,008	$ 103,578	$ 52,263,828	$ 957,903	$ 215,175,699
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 48,920,528	$ 616,805	$ 9,742,864	$ 114,712	$ 38,446,147
Dining	24,867,253	79,479	4,441,815	72,829	20,273,130
Student Union Services	4,874,302	1,088,120			3,786,182
Health Services	2,482,715	34,788		2,520	2,445,407
Parking	11,321,018	448,149			10,872,869
Athletic	6,531,463	17,763			6,513,700
Facilities	22,484,728	21,461,621			1,023,107
Telecommunications	3,004,384	2,963,085			41,299
Other	3,098,158	805,070			2,293,088
Sales and Services of Education and Related Activities	2,038,237	888,640			1,149,597
Total Sales and Services, Net	$ 129,622,786	$ 28,403,520	$ 14,184,679	$ 190,061	$ 86,844,526

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 212,435,921	$ 7,490,327	$ 16,419,909	$ 0	$ 10,879	$ 0	$ 236,357,036
Research	15,954,552	1,669,398	5,237,194		116,300		22,977,444
Public Service	2,291,794	178,576	543,909				3,014,279
Academic Support	34,326,959	8,084,438	10,594,407		120,891		53,126,695
Student Services	17,997,543	2,100,262	4,803,877				24,901,682
Institutional Support	33,956,824	1,934,380	10,204,870		38,783		46,134,857
Operations and Maintenance of Plant	28,241,942	7,592,647	11,460,695		8,587,896		55,883,180
Student Financial Aid				39,888,455			39,888,455
Auxiliary Enterprises	44,625,156	11,342,045	41,835,918		4,006,881		101,810,000
Depreciation/Amortization						31,927,862	31,927,862
Total Operating Expenses	$ 389,830,691	$ 40,392,073	$ 101,100,779	$ 39,888,455	$ 12,881,630	$ 31,927,862	$ 616,021,490

NOTE 13 - PENSION PLANS

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools 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, 2018 was 10.78% of covered payroll. Employee contributions to the pension plan were $6,859,997, and the University's contributions were $12,325,129 for the year ended June 30, 2018.

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 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at https://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 External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and 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 External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2018, the University reported a liability of $55,702,950 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. 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, 2017, the University's proportion was 0.70204%, which was an increase of 0.04102 from its proportion measured as of June 30, 2016, which was 0.66102%.

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	12/31/2016
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.20%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment 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, 2017 (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%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	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. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually 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, 2017 calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20%) or 1-percentage point higher (8.20%) than the current rate:

Net Pension Liability		
1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
$ 114,659,728	$ 55,702,950	$ 6,304,684

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the University recognized pension expense of $16,160,720. At June 30, 2018, 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	$ 1,207,537	$ 1,822,334
Changes of Assumptions	8,800,226	
Net Difference Between Projected and Actual Earnings on Plan Investments	7,538,498	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,691,002	
Contributions Subsequent to the Measurement Date	12,325,129	
Total	$ 32,562,392	$ 1,822,334

The amount of $12,325,129 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as 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
2019	$ 4,150,484
2020	11,417,389
2021	5,864,046
2022	(3,016,990)
Total	$ 18,414,929

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 ORP instead of TSERS. The Board of Governors of the University of North Carolina is responsible for the administration of ORP and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under ORP and approves the form and contents of the contracts and trust agreements.

Participants in ORP are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in 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. Member and employer contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2018, these rates were set at 6% of covered payroll for members and 6.84% of covered payroll for employers. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of $302,521,329, of which $141,023,091 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $8,461,385 and $9,645,979, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. Of the total salaries and benefits expense recognized during the fiscal year, $416,600 was covered with forfeitures.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' 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 2017 *Comprehensive Annual Financial Report.* An electronic version of this report is available on the North Carolina Office of the State Controller's website at https://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. The fiduciary net position of each plan was determined using the same basis as the other postemployment benefit (OPEB) plans.

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit 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 2017 *Comprehensive Annual Financial Report*.

B. Plan Descriptions

1. Health Benefits

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 15. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

The Plan's and RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The University's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The University's contributions to the RHBF were $15,449,061 for the year ended June 30, 2018.

2. Disability Income

Plan Administration: As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the University Employees' ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of $3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than $10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The University's contributions to DIPNC were $357,499 for the year ended June 30, 2018.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2018, the University reported a liability of $451,110,687 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The University's proportion of the net OPEB 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, 2017, the University's proportion was 1.37590%, which was a decrease of 0.10290 from its proportion measured as of June 30, 2016, which was 1.47880%.

Net OPEB Asset: At June 30, 2018, the University reported an asset of $919,196 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The University's proportion of the net OPEB asset 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, 2017, the University's proportion was 1.50392%, which was an increase of 0.14506 from its proportion measured as of June 30, 2016, which was 1.35886%.

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.20%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00% - 5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.
N/A - Not Applicable

The OPEB plans currently use 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 studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through a 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 projects 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (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%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	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. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. 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 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the University's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	Net OPEB Liability (Asset)		
	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
RHBF	$ 538,149,713	$ 451,110,687	$ 382,077,248
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (781,452)	$ (919,196)	$ (1,057,256)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	1% Decrease (Medical - 4.00 - 5.50%, Pharmacy - 4.00 - 6.25%, Med. Advantage - 3.00 - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00 - 6.50%, Pharmacy - 5.00 - 7.25%, Med. Advantage - 4.00 - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00 - 7.50%, Pharmacy - 6.00 - 8.25%, Med. Advantage - 5.00 - 6.00%, Administrative - 4.00%)
RHBF Net OPEB Liability	$ 368,516,282	$ 451,110,687	$ 560,890,327
DIPNC Net OPEB Asset	N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the University recognized OPEB expense of $15,091,880 for RHBF and $466,092 for DIPNC. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 0	$ 252,027	$ 252,027
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		201,480	201,480
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions			
Contributions Subsequent to the Measurement Date	15,449,061	357,499	15,806,560
Total	$ 15,449,061	$ 811,006	$ 16,260,067

Employer Balances of Deferred Inflows of Resources Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 32,345,466	$ 0	$ 32,345,466
Changes of Assumptions	124,233,824		124,233,824
Net Difference Between Projected and Actual Earnings on Plan Investments	167,652		167,652
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	36,367,310	66,829	36,434,139
Total	$ 193,114,252	$ 66,829	$ 193,181,081

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB 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 OPEB Expense:

Year Ended June 30:	RHBF	DIPNC
2019	$ (38,631,233)	$ 112,129
2020	(38,631,233)	112,129
2021	(38,631,233)	112,084
2022	(38,631,233)	50,336
2023	(38,589,320)	
Total	$ (193,114,252)	$ 386,678

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

University employees 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 contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 14, Other Postemployment Benefits, for additional information regarding retiree health benefits.

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% for the current fiscal year.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 14, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance.

Universities are charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $100,000 deductible.

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University mitigated additional risks with the following insurance programs as of June 30, 2018:

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

The University is protected for losses from the risk of a cyber breach for first party cyber claims and Payment Card Industry (PCI) fines with a $3,000,000 annual policy aggregate limit and a $250,000 deductible per claim. Sublimits apply as described in the current policy. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $76,676,033 and on a contract for maintenance of technology assets was $3,237,105 at June 30, 2018.

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

NOTE 17 - RELATED PARTY

The Athletic Foundation of the University of North Carolina at Charlotte, Inc. (Athletic Foundation) is a separately incorporated nonprofit foundation associated with the University.

The Athletic Foundation serves as the primary fundraising arm of the University's Athletic Department 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 University's financial statements do not include the assets, liabilities, net position, or operational transactions of the Athletic Foundation, except for assets invested in the External Investment Pool held in a fiduciary capacity and support from the organization to the University. This support approximated $1,141,625 for the year ended June 30, 2018.

The University contributed services valued at $624,936 for Athletic Foundation financial and administrative support for the year ended June 30, 2018.

NOTE 18 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2018, is presented as follows:

Condensed Statement of Net Position
June 30, 2018

	University	FDC	UNCCIF*	Eliminations	Total
ASSETS					
Current Assets	$ 330,174,151	$ 528,529	$ 10,064,091	$ (10,062,203)	$ 330,704,568
Capital Assets, Net	1,352,359,787	15,535,588			1,367,895,375
Other Noncurrent Assets	138,958,950		197,674,107	(184,784,615)	151,848,442
Total Assets	1,821,492,888	16,064,117	207,738,198	(194,846,818)	1,850,448,385
TOTAL DEFERRED OUTFLOWS OF RESOURCES	52,744,334				52,744,334
LIABILITIES					
Current Liabilities	58,559,960	697,712	30,427	(28,539)	59,259,560
Funds Held in Trust			207,707,771	(194,818,279)	12,889,492
Long-Term Liabilities, Net	1,095,501,493	11,580,000			1,107,081,493
Other Noncurrent Liabilities	4,449,398				4,449,398
Total Liabilities	1,158,510,851	12,277,712	207,738,198	(194,846,818)	1,183,679,943
TOTAL DEFERRED INFLOWS OF RESOURCES	195,003,415	26,862			195,030,277
NET POSITION					
Net Investment in Capital Assets	827,013,496	3,388,884			830,402,380
Restricted - Nonexpendable	46,892,515				46,892,515
Restricted - Expendable	36,675,019				36,675,019
Unrestricted	(389,858,074)	370,659			(389,487,415)
Total Net Position	$ 520,722,956	$ 3,759,543	$ 0	$ 0	$ 524,482,499

*UNCCIF amounts include the portion that is attributable to the Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented in Exhibit B-1 of the financial statements. This discretely presented portion is also removed from the financial statement totals via eliminations.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

	University	FDC	UNCCIF*	Eliminations	Total
OPERATING REVENUES					
Student Tuition and Fees, Net	$ 215,175,699	$ 0	$ 0	$ 0	$ 215,175,699
Grants and Contracts	40,213,200				40,213,200
Sales and Services, Net	85,827,890	1,016,636			86,844,526
Other Operating Revenues	4,535,554				4,535,554
Total Operating Revenues	345,752,343	1,016,636			346,768,979
OPERATING EXPENSES					
Operating Expenses	583,990,572	103,056			584,093,628
Depreciation/Amortization	31,687,001	240,861			31,927,862
Total Operating Expenses	615,677,573	343,917			616,021,490
Operating Income (Loss)	(269,925,230)	672,719			(269,252,511)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	251,101,387				251,101,387
Grants and Gifts	78,673,640				78,673,640
Investment Income (Net of Investment Expense)	10,480,908	5,257	15,208,672	(15,208,672)	10,486,165
Interest and Fees on Debt	(19,648,370)	(473,285)			(20,121,655)
Allocation to Owners			(15,208,672)	15,208,672	
Other	(721,560)				(721,560)
Net Nonoperating Revenues (Expenses)	319,886,005	(468,028)			319,417,977
Capital Contributions	9,773,257				9,773,257
Additions to Endowments	56,531				56,531
Increase in Net Position	59,790,563	204,691			59,995,254
NET POSITION					
Net Position, July 1, 2017 (as Restated)	460,932,393	3,554,852			464,487,245
Net Position, June 30, 2018	$ 520,722,956	$ 3,759,543	$ 0	$ 0	$ 524,482,499

*UNCCIF amounts include the portion that is attributable to the Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented in Exhibit B-1 of the financial statements. This discretely presented portion is also removed from the financial statement totals via eliminations.

Condensed Statement of Cash Flows
June 30, 2018

	University	FDC	Total
Net Cash Provided (Used) by Operating Activities	$ (236,572,398)	$ 912,523	$ (235,659,875)
Net Cash Provided by Noncapital Financing Activities	328,714,484		328,714,484
Net Cash Used by Capital and Related Financing Activities	(51,548,264)	(1,008,152)	(52,556,416)
Net Cash Provided by Investing Activities	4,375,966	5,153	4,381,119
Net Increase (Decrease) in Cash and Cash Equivalents	44,969,788	(90,476)	44,879,312
Cash and Cash Equivalents, July 1, 2017	309,303,939	556,502	309,860,441
Cash and Cash Equivalents, June 30, 2018	$ 354,273,727	$ 466,026	$ 354,739,753

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2018, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

GASB Statement No. 85, *Omnibus 2017*

GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

NOTE 20 - NET POSITION RESTATEMENT

As of July 1, 2017, net position as previously reported was restated as follows:

		Amount
July 1, 2017 Net Position as Previously Reported	$	1,091,848,338
Restatement:		
Record the University's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.		(627,361,093)
July 1, 2017 Net Position as Restated	$	464,487,245

REQUIRED SUPPLEMENTARY INFORMATION

The University of North Carolina at Charlotte
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Five Fiscal Years — *Exhibit C-1*

	2017	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.70204%	0.66102%	0.67044%	0.67809%	0.66110%
Proportionate Share of TSERS Collective Net Pension Liability	$ 55,702,950	$ 60,754,566	$ 24,707,041	$ 7,950,070	$ 40,135,507
Covered Payroll	$ 109,431,980	$ 101,985,427	$ 98,002,228	$ 96,704,555	$ 95,240,521
Net Pension Liability as a Percentage of Covered Payroll	50.90%	59.57%	25.21%	8.22%	42.14%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	94.64%	98.24%	90.60%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as amended.

The University of North Carolina at Charlotte
Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years ***Exhibit C-2***

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 12,325,129	$ 10,921,312	$ 9,331,667	$ 8,967,204	$ 8,403,626
Contributions in Relation to the Contractually Determined Contribution	12,325,129	10,921,312	9,331,667	8,967,204	8,403,626
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 114,333,290	$ 109,431,980	$ 101,985,427	$ 98,002,228	$ 96,704,555
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 7,933,535	$ 6,735,742	$ 4,461,891	$ 3,138,757	$ 2,853,451
Contributions in Relation to the Contractually Determined Contribution	7,933,535	6,735,742	4,461,891	3,138,757	2,853,451
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 95,240,521	$ 90,534,160	$ 90,504,892	$ 87,920,362	$ 84,924,137
Contributions as a Percentage of Covered Payroll	8.33%	7.44%	4.93%	3.57%	3.36%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

The University of North Carolina at Charlotte
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

2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%

Changes of assumptions. In 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 discount rate for Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation.

The Board of Trustees also adopted a new asset valuation method for the Teachers' and State Employees' Retirement System. For determining plan funding requirements, these plans now use a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina’s 2017 *Comprehensive Annual Financial Report* .

The University of North Carolina at Charlotte
Required Supplementary Information
Schedule of the Proportionate Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Two Fiscal Years — *Exhibit C-3*

	2017	2016
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	1.37590%	1.47880%
Proportionate Share of Collective Net OPEB Liability	$ 451,110,687	$ 643,328,264
Covered Payroll	$ 243,798,332	$ 226,082,790
Net OPEB Liability as a Percentage of Covered Payroll	185.03%	284.55%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%
Disability Income Plan of North Carolina		
Proportionate Share Percentage of Collective Net OPEB Asset	1.50392%	1.35886%
Proportionate Share of Collective Net OPEB Asset	$ 919,196	$ 843,852
Covered Payroll	$ 243,798,332	$ 226,082,790
Net OPEB Asset as a Percentage of Covered Payroll	0.38%	0.37%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	116.23%	116.06%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* .

The University of North Carolina at Charlotte
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years — *Exhibit C-4*

Retiree Health Benefit Fund	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 15,449,061	$ 14,168,417	$ 12,660,636	$ 11,738,557	$ 10,996,246
Contributions in Relation to the Contractually Determined Contribution	15,449,061	14,168,417	12,660,636	11,738,557	10,996,246
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 255,356,381	$ 243,798,332	$ 226,082,790	$ 213,817,074	$ 203,634,194
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%

	2013	**2012**	**2011**	**2010**	**2009**
Contractually Required Contribution	$ 10,338,012	$ 9,213,710	$ 8,854,753	$ 8,088,140	$ 7,254,140
Contributions in Relation to the Contractually Determined Contribution	10,338,012	9,213,710	8,854,753	8,088,140	7,254,140
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 195,056,825	$ 184,274,209	$ 180,709,249	$ 179,736,446	$ 176,930,231
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%

Disability Income Plan of North Carolina	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 357,499	$ 926,434	$ 926,939	$ 876,650	$ 895,990
Contributions in Relation to the Contractually Determined Contribution	357,499	926,434	926,939	876,650	895,990
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 255,356,381	$ 243,798,332	$ 226,082,790	$ 213,817,074	$ 203,634,194
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%

	2013	**2012**	**2011**	**2010**	**2009**
Contractually Required Contribution	$ 858,250	$ 958,226	$ 939,688	$ 934,630	$ 920,037
Contributions in Relation to the Contractually Determined Contribution	858,250	958,226	939,688	934,630	920,037
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 195,056,825	$ 184,274,209	$ 180,709,249	$ 179,736,446	$ 176,930,231
Contributions as a Percentage of Covered Payroll	0.44%	0.52%	0.52%	0.52%	0.52%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the OPEB RSI tables.

The University of North Carolina at Charlotte
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Changes of Benefit Terms: Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for three of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the Retiree Health Benefit Fund. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina. See Note 14 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's 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 Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan adopted a number of new actuarial assumptions and methods for the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina. 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 and rates of termination from active employment were reduced to more closely reflect actual experience.

In 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the Retiree Health Benefit Fund were reduced based upon the plan's most recent experience.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report* .

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Charlotte (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 unit, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 29, 2018. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the consolidated financial statements of the discretely presented component unit, as described in our report on the University's financial statements. The financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the consolidated financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 29, 2018

ORDERING INFORMATION

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For additional information contact:
Brad Young
Director of External Affairs
919-807-7513

This audit required 700 hours at an approximate cost of $72,100.