

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



UNIVERSITY OF NORTH CAROLINA WILMINGTON

WILMINGTON, 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



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STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of the University of North Carolina Wilmington 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.

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



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State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4
BASIC FINANCIAL STATEMENTS	
UNIVERSITY EXHIBITS	
A-1 STATEMENT OF NET POSITION.....	19
A-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	21
A-3 STATEMENT OF CASH FLOWS	22
NOTES TO THE FINANCIAL STATEMENTS.....	24
REQUIRED SUPPLEMENTARY INFORMATION	
B-1 SCHEDULE OF THE PROPORTIONATE NET PENSION LIABILITY (Teachers' and State Employees' Retirement System).....	66
B-2 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (Teachers' and State Employees' Retirement System).....	67
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (Teachers' and State Employees' Retirement System)	68
B-3 SCHEDULE OF THE PROPORTIONATE NET OPEB LIABILITY OR ASSET (Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans)	69
B-4 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans)	70
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans)	71
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	72
ORDERING INFORMATION	74



INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
University of North Carolina Wilmington
Wilmington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the University of North Carolina Wilmington (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the UNCW Corporation, the UNCW Corporation II, and the UNCW Research Foundation, which collectively represent less than 1 percent of the assets and revenues of the University. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for blended component units, is 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 blended component units were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

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 financial position of the University of North Carolina Wilmington, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

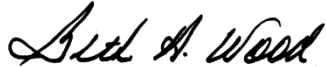
As discussed in Note 19 to the financial statements, during the year ended June 30, 2018, the University of North Carolina Wilmington adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 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, CPA
State Auditor

Raleigh, North Carolina

December 10, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The University of North Carolina Wilmington (University or UNCW) provides the following Management's Discussion and Analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2018. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the previous year is presented to provide a better understanding of the financial information.

Using the Financial Statements

The University's financial report includes three basic comprehensive financial statements that depict the financial activity and fiscal condition of the University for the current year: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles. The accrual basis of accounting has been used to prepare the statements. This method of accounting requires that revenues and assets be recognized when the service is provided. Expenses and liabilities are recognized when others provide services, regardless of when cash is exchanged.

The Statement of Net Position includes all University assets, deferred outflows and inflows, and liabilities. The University's net position (the monetary difference between total assets and deferred outflows of resources, and total liabilities and deferred inflows of resources) is one indicator of the University's financial viability. Over time, changes in net position provide information on the improvement or erosion of the University's financial condition when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the fiscal year. Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 classifies state appropriations and gifts as nonoperating revenues. With state appropriations and gifts being classified as nonoperating revenues, most public institutions will report an operating deficit.

An important factor to consider when evaluating the financial viability of the University is the ability to meet financial obligations as they mature. The Statement of Cash Flows presents information that allows the reader to evaluate the University's ability to meet its financial obligations on a current basis.

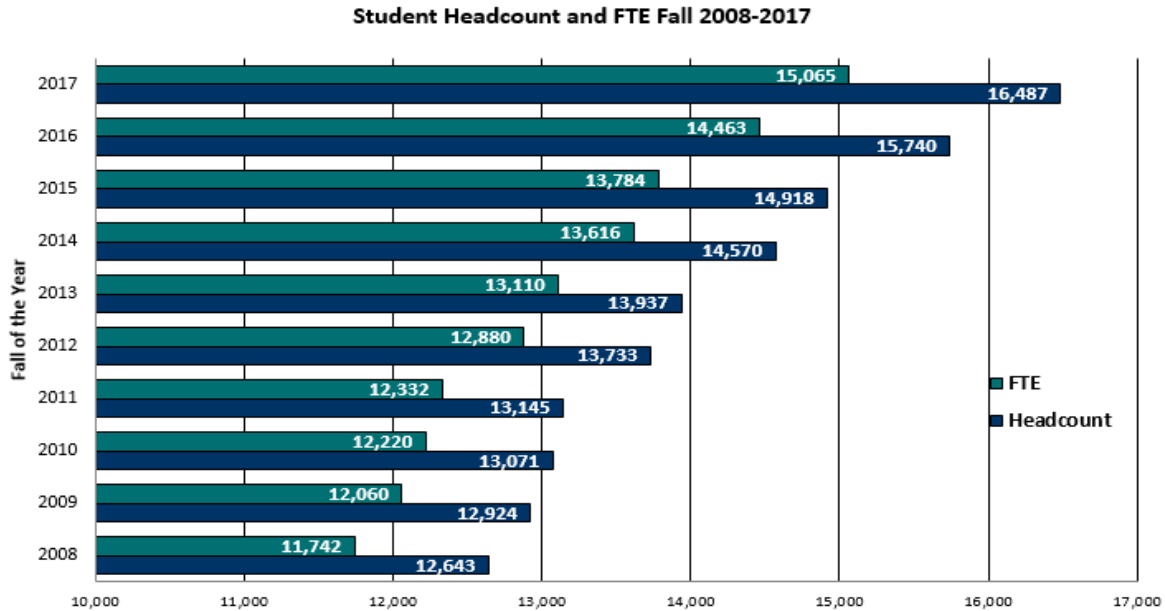
Financial Highlights

Effective June 30, 2018, UNCW implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), which significantly impacted unrestricted net position as further discussed in the Statement of Net Position section below.

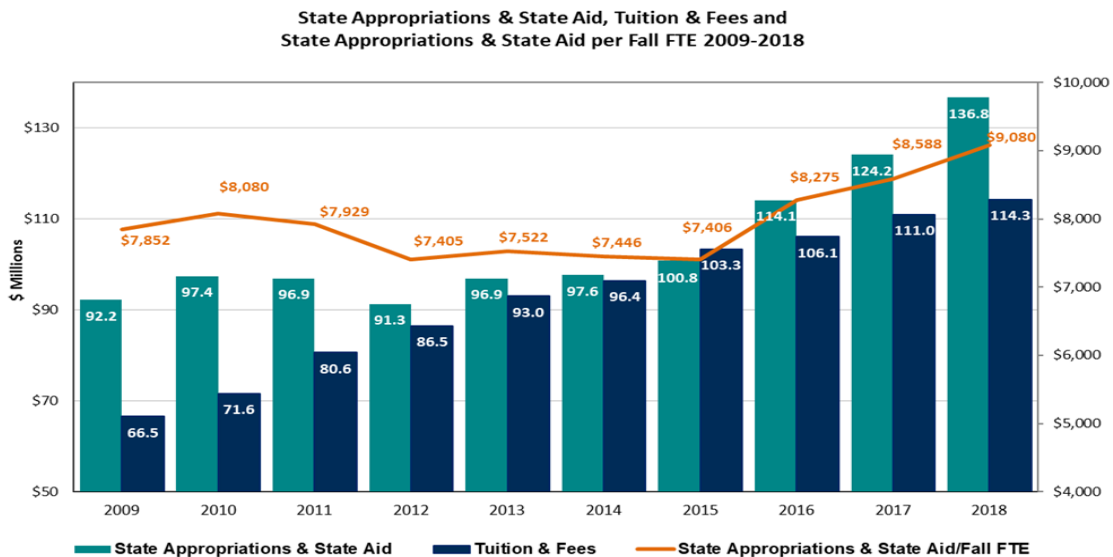
As of fiscal year 2018, each campus in the UNC System received enrollment growth funding based on actual census data. UNCW requested appropriations for enrollment growth of \$8.2 million for fiscal year ending June 30, 2018. Based on fall 2017 census data, the North Carolina General Assembly (General Assembly) approved permanent state appropriations for UNCW's enrollment growth of \$11.0 million with no budget cut.

The General Assembly approved a \$1,000 permanent legislative increase and three days of bonus leave for eligible employees' subject to the State Human Resources Act (SHRA). Eligible employees exempt from the State Human Resources Act (EHRA) received a permanent increase up to 4.99% based on performance. The University received permanent funding of \$715 thousand for SHRA employees and \$1.5 million for EHRA employees to support the legislative salary increases.

In fiscal year 2018, UNCW received \$1.9 million for repairs and renovations for capital appropriations used for system renovations in Dobo Hall.

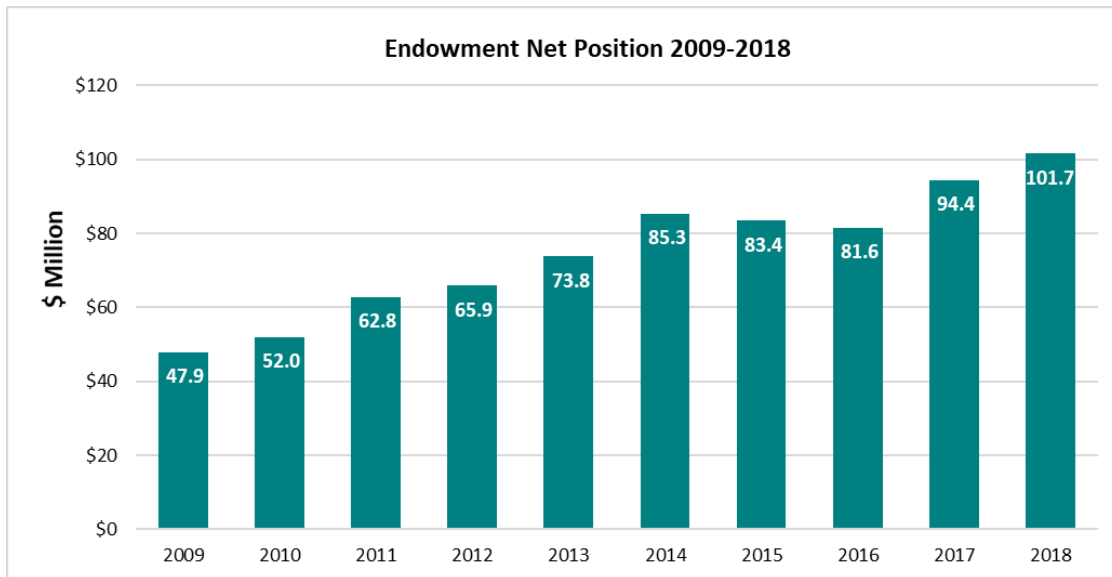


UNCW's fall 2017 full-time equivalent (FTE) of 15,065 was an increase of 4.2% over fall 2016. UNCW has experienced steady growth with a continuing focus on quality as demonstrated by the average incoming student Scholastic Assessment Test score of 1248 for fall 2017.



Additional state appropriations from enrollment growth funding increased state appropriations and state aid per fall student FTE in 2018 to \$9,080, the highest amount per FTE since 2009. The increase in state appropriations alone could not fund the increased cost of instruction per FTE without an increase in tuition and fees. Tuition and fee rates increased 2.0% for resident undergraduates, 1.1% for non-resident undergraduates, 3.3% for resident graduates, and 6.3% for non-resident graduates. Tuition and fee revenue increased 3.0% as compared to state appropriations increase of 10.1% in fiscal year 2018.

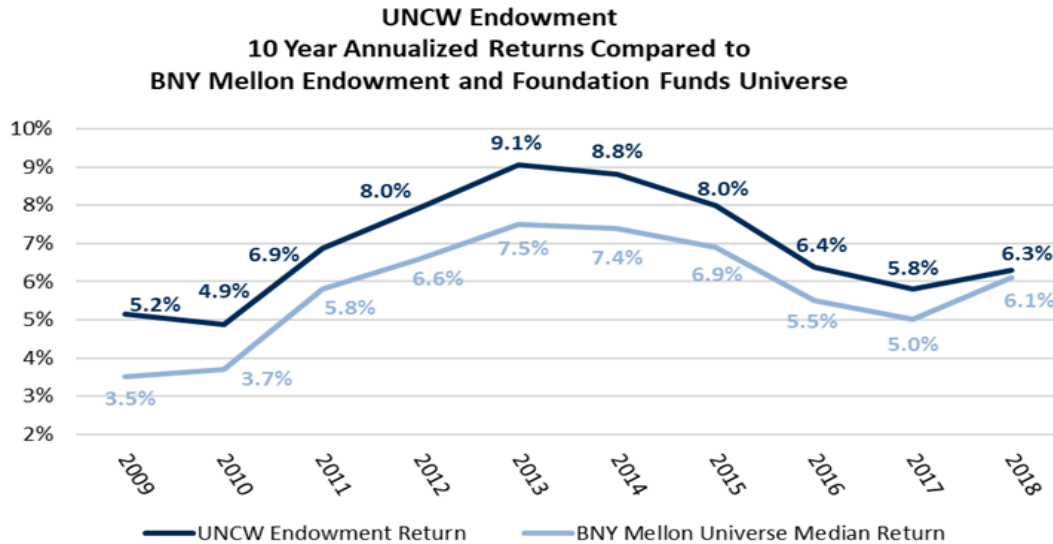
Capital construction-in-progress increased \$6.7 million, primarily due to initial construction costs for Veterans Hall and the administrative annex building as well as renovations to campus housing. General infrastructure increased \$7.5 million with the completion of the project for outdoor enhancements of student recreational facilities and two new surface parking lots.



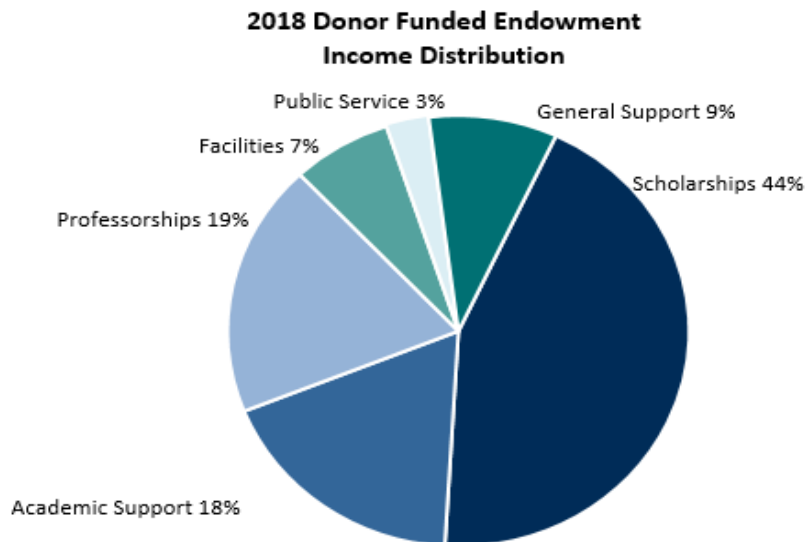
Total endowment net position was \$101.7 million at June 30, 2018, which represents an increase of 7.8% from June 30, 2017. This increase is the net result of \$2.4 million in gifts and other funds added to investments, plus realized and unrealized investment earnings of \$9.7 million, which were reduced by investment and other administrative expenses of \$1.2 million and fund distributions of \$3.5 million.

For fiscal year 2018, the Endowment returned 11.2%. The return exceeded the benchmarks of both the Strategic Policy Portfolio (SIPP) return of 8.8% and the Global 70/30 Portfolio return of 7.4% while achieving the University's primary objective of earning a long-term real rate of return of at least 4.5%, plus inflation.

Over a longer-term horizon, the Endowment's three-year, five-year, ten-year, fifteen-year and twenty-year annualized performance of 7.5%, 8.9%, 6.3%, 8.9% and 7.1%, respectively, has exceeded the primary objective of providing an average annual real rate of return of at least 4.5% plus inflation. During all of these time periods, with the exception of the ten-year, the Endowment's performance ranks in the top quartile of the BNY Mellon Endowment and Foundation Funds Universe.



Over the ten-year period 2009-2018, the University's annualized returns averaged 6.3%. The Endowment's performance remains strong relative to the median return of its peers as reflected in the BNY Mellon Endowment and Foundation Funds Universe.



In fiscal year 2018, the Endowment primarily supported scholarships (44%), professorships (19%), and academic support (18%).

Statement of Net Position

The Statement of Net Position presents assets (current and noncurrent), deferred outflows, liabilities (current and noncurrent), deferred inflows, and net position (total assets plus deferred outflows minus total liabilities and deferred inflows) of the University. This statement provides a fiscal snapshot of the University's financial position as of June 30, 2018. This statement

includes information on assets available for continuing operations and amounts due to vendors, investors, and lending institutions.

Condensed Statement of Net Position
June 30, as Indicated

	2018	2017 (as Restated)	Change	% Change
Assets				
Current Assets	\$ 164,354,310	\$ 150,043,777	\$ 14,310,533	9.5%
Capital Assets, Net	522,894,552	509,106,538	13,788,014	2.7%
Other Noncurrent Assets	110,778,899	110,101,643	677,256	0.6%
Total Assets	798,027,761	769,251,958	28,775,803	3.7%
Deferred Outflows of Resources				
Deferred Loss on Refunding	7,689,618	8,186,633	(497,015)	-6.1%
Deferred Outflows Related to Pensions	16,651,045	22,745,996	(6,094,951)	-26.8%
Deferred Outflows Related to OPEB	8,622,578	6,953,645	1,668,933	24.0%
Total Deferred Outflows of Resources	32,963,241	37,886,274	(4,923,033)	-13.0%
Liabilities				
Current Liabilities	24,624,202	21,467,972	3,156,230	14.7%
Long-Term Liabilities, Net	478,399,692	598,300,210	(119,900,518)	-20.0%
Other Noncurrent Liabilities	11,831,470	12,667,812	(836,342)	-6.6%
Total Liabilities	514,855,364	632,435,994	(117,580,630)	-18.6%
Deferred Inflows of Resources				
Deferred Gain on Refunding	528,130	586,812	(58,682)	-10.0%
Deferred Inflows Related to Pensions	1,104,728	1,867,618	(762,890)	-40.8%
Deferred Inflows Related to OPEB	108,070,109		108,070,109	100.0%
Total Deferred Inflows of Resources	109,702,967	2,454,430	107,248,537	4369.6%
Net Position				
Net Investment in Capital Assets	320,268,162	298,892,701	21,375,461	7.2%
Restricted - Nonexpendable	59,477,388	57,882,793	1,594,595	2.8%
Restricted - Expendable	45,689,162	44,630,837	1,058,325	2.4%
Unrestricted	(219,002,041)	(229,158,523)	10,156,482	4.4%
Total Net Position	\$ 206,432,671	\$ 172,247,808	\$ 34,184,863	19.8%

On June 30, 2018, total University assets were \$798.0 million. The largest asset categories were the University's cash and cash equivalents of \$168.4 million, endowment investments of \$93.9 million, and net capital assets of \$522.9 million.

The increase in unrestricted and restricted pooled cash accounts for the majority of the \$14.3 million increase in current assets. The increase in unrestricted cash primarily resulted from an increase in reserves for campus space management (\$4.0 million), as well as increases in reserves for education and technology initiatives (\$2.1 million), strategic initiatives (\$1.6 million), and administrative initiatives (\$1.5 million). The increase in restricted cash reserves was largely attributed to the \$3.1 million increase in capital improvement projects, namely campus housing renovations and Veterans Hall.

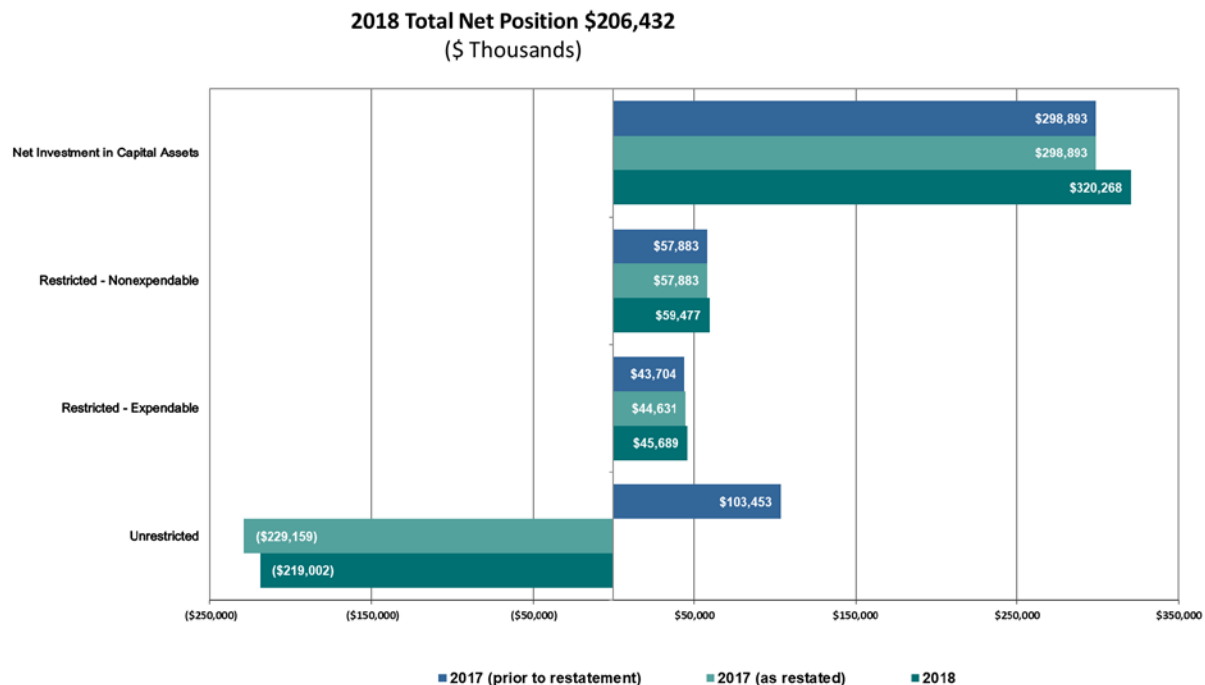
The increase in capital assets of \$13.8 million included the completion of student recreational artificial and natural turf fields (\$5.1 million), two nanosatellites (\$2.3 million), the indoor hitting facility (\$2.0 million), two new parking lots (\$1.6 million), Boseman Pressbox (\$1.1 million), and various building renovations on campus.

In fiscal year 2018, deferred outflows for pensions decreased \$6.1 million due mainly to investment earnings outperforming projections. Deferred outflows related to other postemployment benefits increased by \$1.7 million based on the net change in contributions from fiscal year 2017 to fiscal year 2018.

Current liabilities increased by \$3.2 million due in part to accounts payable related to capital projects including renovations to campus housing and new construction for Veterans Hall.

Long-term liabilities decreased \$119.9 million largely due to UNCW's reduced proportionate share of the state's net OPEB liability of \$108.7 million during fiscal year 2018.

In fiscal year 2018, deferred inflows related to other postemployment benefits increased 100% or \$108.1 million largely due to changes in actuarial assumptions of \$63.4 million, the net change in contributions from fiscal year 2017 to fiscal year 2018 of \$28.0 million, and the difference between actual and expected experience of \$16.5 million.



The 7.2% increase in Net Investment in Capital Assets was largely the result of construction projects for Veterans Hall, campus housing renovation, and the administrative annex building.

During the current fiscal year, the University implemented GASB 75. 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 plan's net OPEB liabilities/(assets), deferred outflows of resources, deferred inflows of resources and OPEB benefit expense, specifically for the Disability Income Plan of North Carolina (DIPNC) and the Retiree Health Benefit Fund (RHBF). For the purpose of reporting actuarial determined OPEB benefit expense for fiscal year 2018, the Statement of Net Position was restated as of June 30, 2017. The amounts for the restatement as well as the amounts for June 30, 2018 were based on the allocated proportionate shares from the State's Plans as determined by actuarial valuation and the deferred outflows for current contributions as determined by the participating entity.

Significant to this reporting change was that the OPEB restatement for the RHBF resulted in a significant decrease in the University's June 30, 2017 unrestricted net position by \$332.6 million that reduced the University's overall unrestricted net position balance at June 30, 2017 to a negative \$229.2 million. To understand the continuing impact of the GASB 75 change as of June 30, 2018 and the effect of reporting the proportionate share of the Retiree Health Benefit Fund (RHBF) as well as the University's proportionate share of the Teachers' and State Employees' Retirement System pension plan (TSERS) on unrestricted net position, Note 10 - Net Position has been added to the Notes to the Financial Statements. As reported in Note 10, the total impact from reporting the RHBF as well as TSERS obligations at June 30, 2018 was a negative \$344.3 million. The difference between the net effect amount reported in Note 10 and the unrestricted net position reported on financial statements (a negative \$219.0 million) is a positive \$125.3 million. This positive difference represents unrestricted funds held by the University in its institutional trust, debt, and investment funds, as well as any unrestricted funds held by the University's blended component units, and also includes any operating state funds authorized for carryforward.

More information regarding the GASB 75 change can be located in the Notes to the Financial Statements Note 14 – Other Postemployment Benefits.

After the implementation of the GASB 75 accounting change, the University's unrestricted net position increased 4.4% or \$10.2 million. The primary drivers of the net position increase were enrollment growth funding, increased student enrollment, and market appreciation for investments. In accordance with the university's strategic plan, \$11.6 million of unrestricted net position was reserved for campus space needs to accommodate the growth of faculty and academic staff positions resulting from enrollment growth.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position includes the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, both operating and nonoperating, as well as any other revenues, expenses, gains, and losses received or expended by the University.

Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided; examples include state appropriations, noncapital grants and gifts, and investment income. Nonoperating expenses include interest and fees on debt, loss on sale of assets, and other expenses not involved in the normal operations of the University.

MANAGEMENT'S DISCUSSION AND ANALYSIS

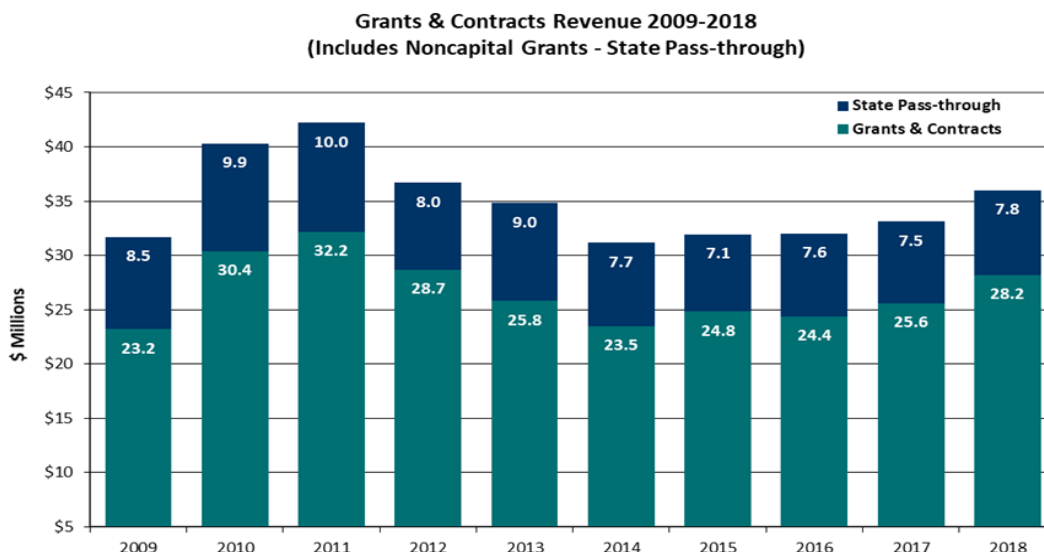
Condensed Statement of Revenues, Expenses, and Changes in Net Position For Year Ended June 30, as Indicated

	2018	2017 *	Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 114,344,826	\$ 111,043,411	\$ 3,301,415	3.0%
Sales and Service, Net	49,993,468	48,236,477	1,756,991	3.6%
Grants and Contracts	8,348,478	8,536,256	(187,778)	-2.2%
Other Operating Revenues	3,297,270	7,100,435	(3,803,165)	-53.6%
Total Operating Revenues	175,984,042	174,916,579	1,067,463	0.6%
Operating Expenses				
Salaries and Benefits	195,218,223	183,154,450	12,063,773	6.6%
Supplies and Materials	26,611,596	21,990,924	4,620,672	21.0%
Services	61,805,881	59,051,369	2,754,512	4.7%
Scholarships and Fellowships	20,208,747	17,603,566	2,605,181	14.8%
Utilities	7,335,943	7,751,968	(416,025)	-5.4%
Depreciation	12,541,397	11,248,332	1,293,065	11.5%
Total Operating Expenses	323,721,787	300,800,609	22,921,178	7.6%
Operating Loss	(147,737,745)	(125,884,030)	(21,853,715)	17.4%
Nonoperating Revenues (Expenses)				
State Appropriation	136,796,170	124,217,703	12,578,467	10.1%
Noncapital Grants and Gifts	30,378,011	31,594,985	(1,216,974)	-3.9%
Investment Income, Net	11,764,740	10,636,097	1,128,643	10.6%
Interest and Fees on Debt	(8,703,357)	(8,768,588)	(65,231)	-0.7%
Federal Interest Subsidy on Debt	690,487	693,815	(3,328)	-0.5%
Other Nonoperating Revenues (Expenses)	245,668	(661,247)	906,915	-137.2%
Other Revenues				
Capital Appropriations	1,913,915	1,185,683	728,232	61.4%
Capital Grants and Gifts	7,209,469	1,450,742	5,758,727	397.0%
Additions to Endowments	1,627,505	2,814,635	(1,187,130)	-42.2%
Total Net Nonoperating and Other Revenues	181,922,608	163,163,825	18,758,783	11.5%
Increase in Net Position	34,184,863	37,279,795	(3,094,932)	-8.3%
Net Position - Beginning of Year	172,247,808	466,653,116	(294,405,308)	-63.1%
Net Position - End of Year Prior to Restatement	206,432,671	503,932,911	(297,500,240)	-59.0%
Restatement to record the University's Net Other Postemployment Benefit (OPEB) Liability and Related Deferred Outflows and Inflows of Resources per GASB No. 75 Requirements		(331,685,103)	331,685,103	100.0%
Net Position and Net Position as Restated	\$ 206,432,671	\$ 172,247,808	\$ 34,184,863	19.8%
Reconciliation of Change in Net Position				
Total Revenues	\$ 366,610,007	\$ 347,510,239	\$ 19,099,768	5.5%
Less: Total Expenses	332,425,144	310,230,444	22,194,700	7.2%
Increase in Net Position	\$ 34,184,863	\$ 37,279,795	\$ (3,094,932)	-8.3%

* 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.

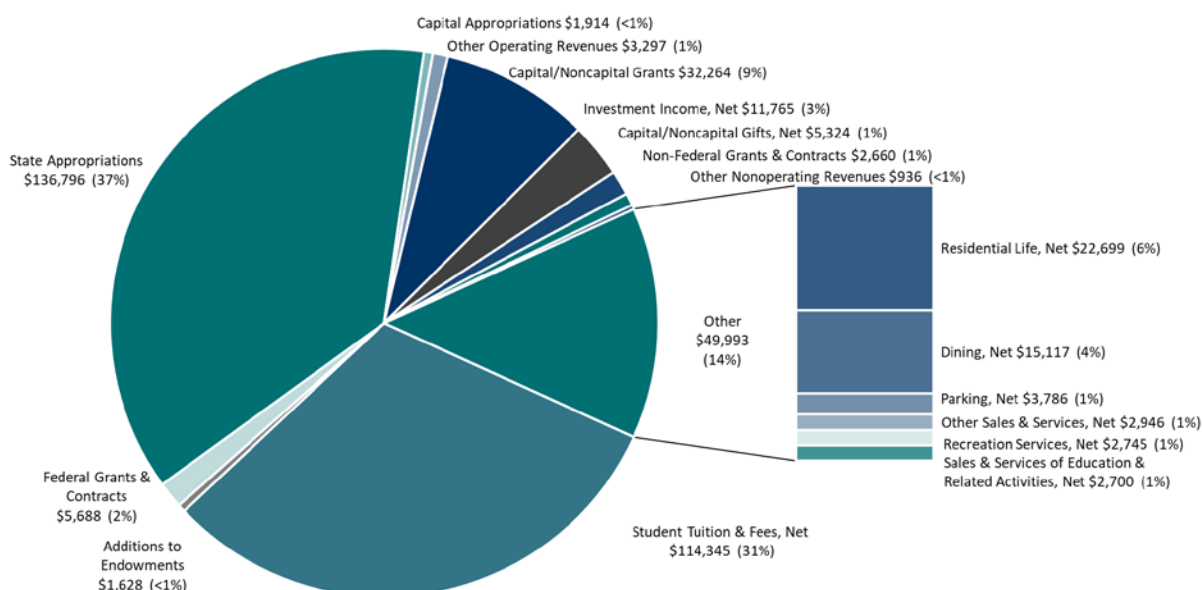
Student tuition and fees increased 3.0% largely due to an increase in enrollment for undergraduate and graduate students, which generated a \$2.3 million increase in tuition and a \$1.0 million increase in fees during fiscal year 2018.

Mandatory health insurance offered to students in fiscal year 2018 was recorded as a pass through revenue and expense. This resulted in a decrease in other operating revenues and services of \$3.7 million when compared to fiscal year 2017.



Grants and contracts revenue, excluding state pass-through revenue, increased \$2.6 million in fiscal year 2018 mostly due to an increase in federal Pell grants used to fund student financial aid. Noncapital gifts decreased \$4.3 million due to a drop in pledged revenue as compared to the previous year.

2018 Revenue by Source \$366,610
(\$ Thousands)



State appropriations increased 10.1% or \$12.6 million to \$136.8 million. The University had no budget cuts in fiscal year 2018 and received \$11.0 million in enrollment growth funding, \$715 thousand for SHRA employees' \$1,000 salary increases, and \$1.5 million for EHRA employees' performance based salary increases.

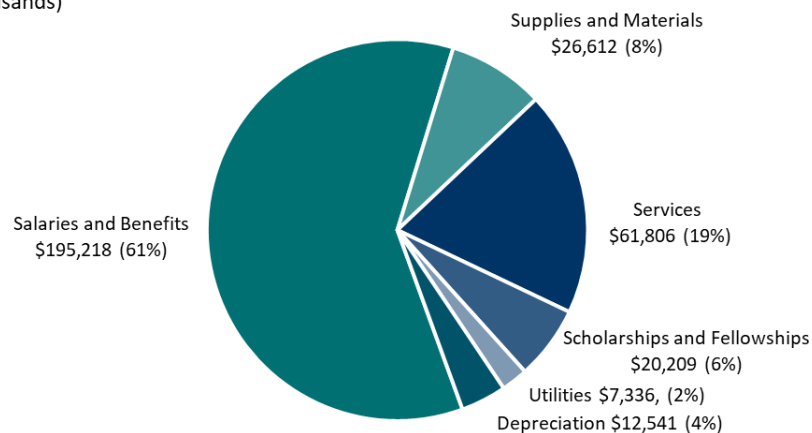
Investment income increased 10.6% or \$1.1 million in fiscal year 2018 due to a performance return of approximately 11.2%.

UNCW received capital appropriations funding of \$1.9 million in fiscal year 2018 used for repairs and renovations in Dobo Hall. This was a 61.4% increase or \$728 thousand.

In fiscal year 2018, capital grants and gifts revenue increased \$5.8 million. Capital grants included \$3.4 million in NC Connect Bonds used for the construction of Veterans Hall. Capital gifts increased \$1.8 million as a result of athletic program donations for the construction of the indoor hitting facility and donations including the Boseman Pressbox, fencing, and stadium seating.

Additions to endowments decreased 42.2% or \$1.2 million as larger one-time gifts dropped off in fiscal year 2018.

2018 Operating Expense by Nature \$323,722
(\$ Thousands)



In fiscal year 2018, expenditures for salaries and benefits increased 6.6% due to an increase in salaries of \$9.9 million and employee benefits of \$2.2 million including the impact of GASB 75 other postemployment retirement benefits.

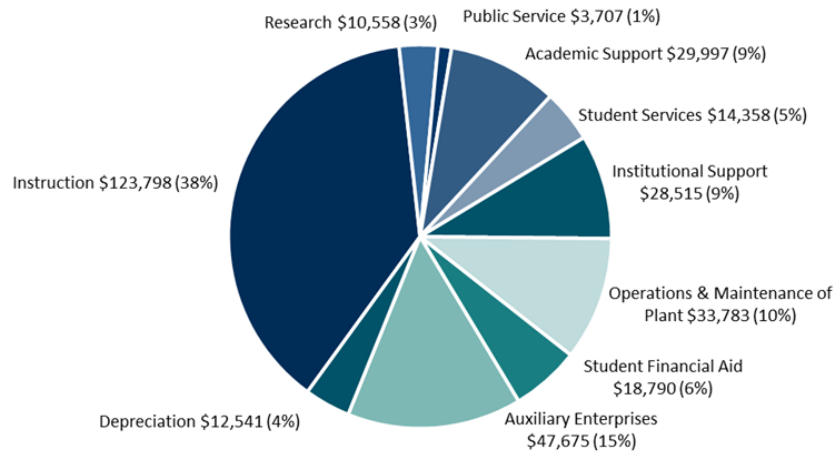
Supplies and materials expense increased 21% this fiscal year. The largest expenses were server software costs, which accounted for \$1.3 million of this increase, along with library purchases of \$1.0 million and non-educational furniture of \$519 thousand.

Scholarships and fellowships increased 14.8% or \$2.6 million in fiscal year 2018 largely due to a net increase in federal Pell awards of \$1.1 million, an increase in distinguished merit scholarships of \$627 thousand, and an increase in need based scholarships of \$326 thousand.

The University reported other nonoperating revenue in fiscal year 2018 of \$246 thousand whereas in fiscal year 2017, the University reported other nonoperating expense of

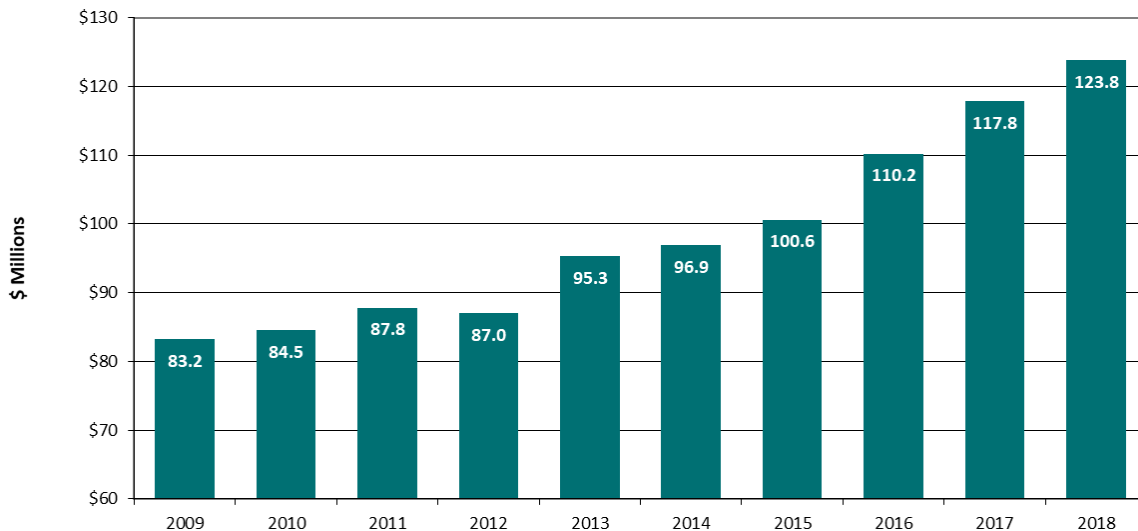
\$661 thousand. Fiscal year 2017 included larger expenses for bond issuance costs and the loss on the sale of the University's Oleander property.

2018 Operating Expense by Function \$323,722
(\$ Thousands)



Instruction expense of \$123.8 million remains the largest expense by function as it grew 5.1% or \$6.0 million. The largest component of instruction expense was salaries and benefits, which increased as a result of additional faculty to support enrollment growth, the \$1,000 permanent salary increase for eligible SHRA employees, and the permanent performance increase for eligible EHRA employees. As reflected in the following graph, instruction expense continues to increase as a result of the University's continuing growth in enrollment over the last ten years.

Instruction Expense 2009-2018*



*Instruction expense in fiscal years 2015 through 2018 includes the accounting change for GASB 68 for TSERS pension plan. Fiscal year 2018 also includes the accounting change for GASB 75 for OPEB.

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. The Statement of Cash Flows also helps users assess the University's:

- Ability to generate future net cash flows;
- Ability to meet its obligations as they come due;
- Need for external financing.

Condensed Statement of Cash Flows
For Year Ended June 30, as Indicated

	2018	2017	Change	% Change
Cash Provided (Used) by:				
Operating Activities	\$ (135,348,806)	\$ (112,328,666)	\$ (23,020,140)	20.5%
Noncapital Financing Activities	169,591,140	154,633,885	14,957,255	9.7%
Capital Financing Activities	(29,029,925)	(31,185,006)	2,155,081	-6.9%
Investing Activities	1,248,471	4,773,958	(3,525,487)	-73.8%
Net Change In Cash	6,460,880	15,894,171	(9,433,291)	-59.4%
Cash Beginning of Year	161,943,436	146,049,265	15,894,171	10.9%
Cash Ending of Year	\$ 168,404,316	\$ 161,943,436	\$ 6,460,880	4.0%

Operating Activities

Major cash sources of \$172.9 million were generated from student tuition and fees, sales and services, and contracts and grants. Major cash uses were compensation to employees of \$195.1 million, payments to vendors and suppliers for goods and services of \$96.6 million, and disbursements to students for scholarships and fellowships of \$20.2 million.

Noncapital Financial Activities

The largest cash inflow was state appropriations of \$136.8 million. While GASB standards require that this revenue be classified as nonoperating, these funds were essentially used to maintain operations. Other noncapital inflows included grants and gifts of \$31.2 million.

Capital Financing Activities

Cash provided included \$1.9 million in capital appropriations and \$5.7 million in capital grants and gifts. Cash used was primarily for the acquisition of capital assets of \$21.4 million and the repayment of principal and interest on capital debt of \$16.2 million.

Investing Activities

Cash provided included sales and maturities of investments of \$1.1 million and investment income of \$4.4 million. Cash used reflected the purchase of investments and related fees of \$4.2 million.

Capital Assets and Debt Administration

Capital Assets

The University had \$522.9 million invested in capital assets at June 30, 2018, as reported in the table below, an increase of \$13.8 million from 2017.

Capital Assets Net of Depreciation
June 30, as Indicated

	2018	2017	Change
Land and Permanent Easements	\$ 9,808,502	\$ 9,808,502	\$ 0
Art, Literature, and Artifacts	1,827,548	1,820,606	6,942
Construction In Progress	21,894,633	15,208,160	6,686,473
Buildings, Net	439,249,021	440,545,212	(1,296,191)
Machinery and Equipment, Net	23,103,811	21,332,997	1,770,814
General Infrastructure, Net	27,011,037	20,391,061	6,619,976
Total Capital Assets	\$ 522,894,552	\$ 509,106,538	\$ 13,788,014

Construction in progress increased \$6.7 million pending the completion of large projects such as the campus housing renovation project of \$5.4 million, Veterans Hall of \$3.8 million, and the administrative annex building of \$3.0. The increase in construction in progress was offset by the completion of projects such as the student recreational artificial and natural turf fields and two nanosatellites.

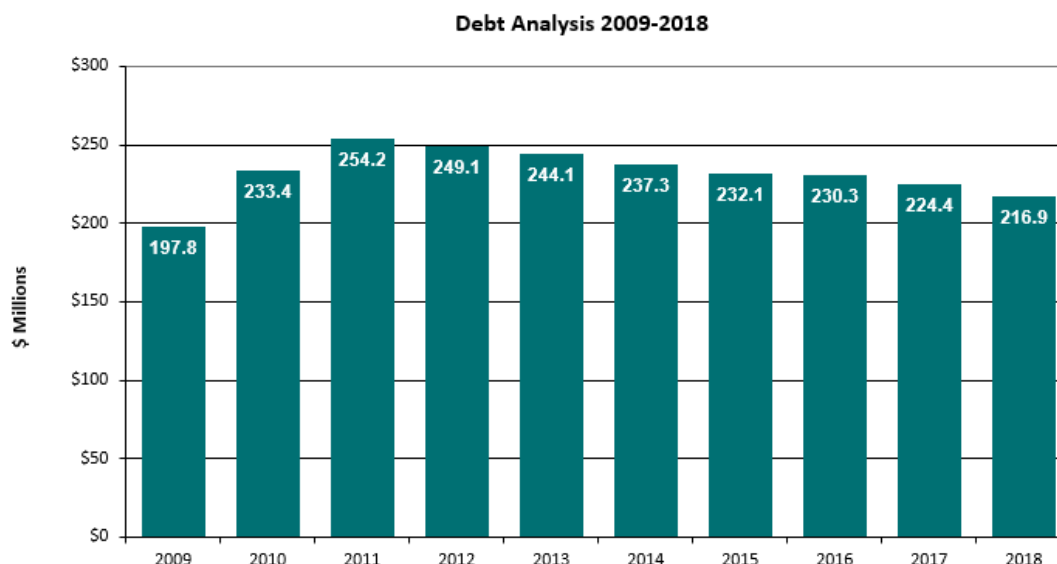
Annual building depreciation offset the completion of various building renovations and the completion and occupancy of three new buildings in fiscal year 2018 – the \$2.0 million indoor hitting facility, the \$1.1 million Boseman Pressbox, and the \$891 thousand youth programs modular building.

The increase in machinery and equipment was largely due to the addition of the \$2.3 million nanosatellites.

The general infrastructure increase included the \$1.6 million parking lots 1A and 1B near Wagoner Hall and the \$5.1 million student recreational artificial and natural turf fields.

Debt

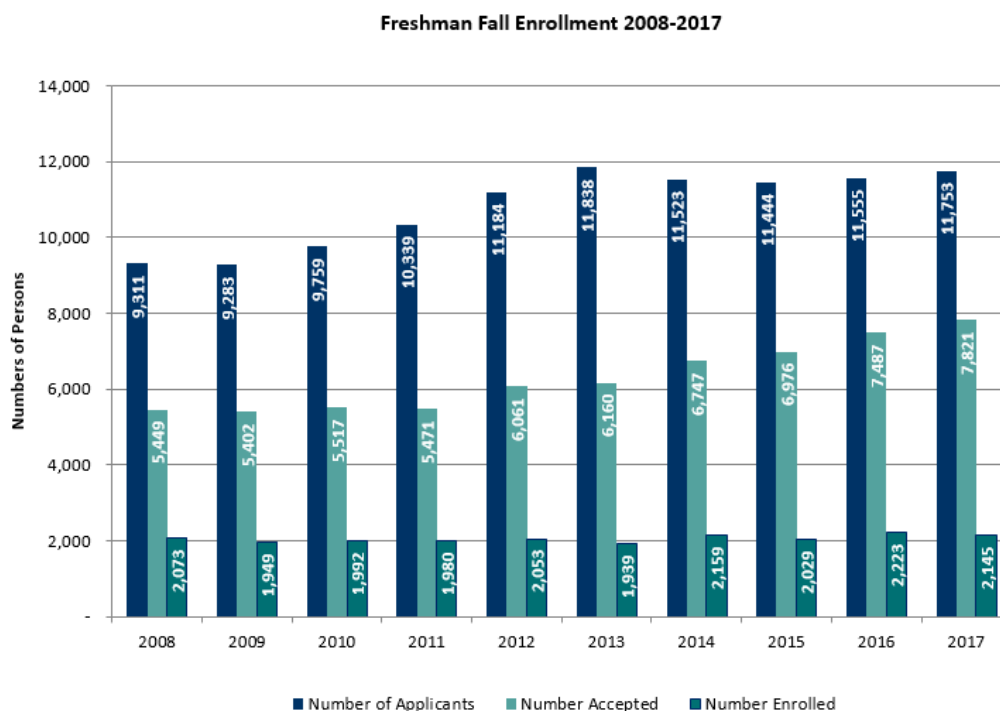
As of June 30, 2018, the University's \$216.9 million in long-term debt included outstanding revenue bonds payable and limited obligation bonds of \$205.9 million, notes payable of \$10.8 million, and capital leases payable of \$217 thousand.



For additional information on capital assets and debt administration, see Notes 6, 8, and 9 of the financial statements.

Economic Forecast

Although freshman applications climbed to 11,753 in fall 2017, the number of enrolled freshman dipped to 2,145. In contrast, graduate enrollment increased by 159 students in fall 2017 to 1,985. Preliminary data shows fall 2018 freshman applications reaching 13,117, an increase of 11.6%, and fall 2018 freshman enrollment rising slightly to 2,161. Preliminary data for fall 2018 also shows graduate enrollment increasing 15.6% to 2,295.



The General Assembly approved \$48.2 million for enrollment growth funding for the UNC System for fiscal year 2019. UNCW requested an enrollment growth allocation of \$3.1 million. The enrollment growth allocation UNCW will receive will be based on fall 2018 census data and a three-year average spring enrollment. UNCW will receive a management flexibility budget cut of \$363 thousand for fiscal year 2019.

The General Assembly approved five days of Special Annual Leave Bonus for all eligible employees and a 2% permanent increase for eligible SHRA employees resulting in an appropriations increase of \$1 million.

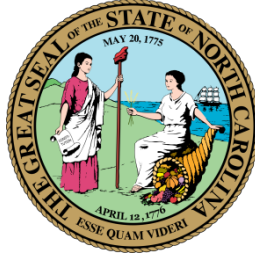
The General Assembly also approved \$5.5 million from the Capital Improvements-Project Reserve Fund for UNCW to fund planning for a library expansion.

The UNC Board of Governors approved tuition and fee increases for fiscal year 2019 consisting of 2% for resident graduates' tuition and 4% for non-resident graduates tuition. The UNC System is operating with a fixed tuition program for undergraduate resident students, which began with the fall 2016 freshman class. Tuition for resident students remains fixed for four years. Each year, the incoming freshman resident cohort will have a fixed tuition rate.

Excellence, integrity, diversity and innovation shape the student-centered learning experience at UNCW. These values, along with our ever-present dedication to community engagement, are among the distinctive qualities that make UNCW one of the best institutions of higher education in the nation as evidenced by the University's partnership with New Hanover County Schools (NHCS). In fiscal year 2019, UNCW partnering with NHCS will create a K-8 laboratory school, D.C. Virgo Preparatory Academy, in Wilmington. The goal is to provide enhanced educational programming to students in this low-performing school.

Contacting the University's Financial Management

This financial report is designed to provide our students, citizens, investors, and creditors with a general overview of the University's finances and demonstrate accountability of all funds. Additional financial information may be obtained by contacting the Controller's Office at (910) 962-3144 or accessing the Controller's Office web page at http://www.uncw.edu/controller/financial_reports.html.



FINANCIAL STATEMENTS

University of North Carolina Wilmington
Statement of Net Position
June 30, 2018

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 134,070,390
Restricted Cash and Cash Equivalents	23,221,682
Receivables, Net (Note 5)	6,224,830
Inventories	387,455
Prepaid Items	239
Notes Receivable, Net (Note 5)	449,714

Total Current Assets	164,354,310
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	11,112,244
Receivables, Net (Note 5)	2,108,557
Endowment Investments	93,910,720
Notes Receivable, Net (Note 5)	3,177,518
Net Other Postemployment Benefits Asset	469,860
Capital Assets - Nondepreciable (Note 6)	33,530,683
Capital Assets - Depreciable, Net (Note 6)	489,363,869

Total Noncurrent Assets	633,673,451
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Total Assets	798,027,761
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	7,689,618
Deferred Outflows Related to Pensions	16,651,045
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	8,622,578

Total Deferred Outflows of Resources	32,963,241
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	7,195,023
Deposits Payable	29,245
Unearned Revenue	7,600,654
Interest Payable	1,635,645
Long-Term Liabilities - Current Portion (Note 8)	8,163,635

Total Current Liabilities	24,624,202
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Noncurrent Liabilities:

Funds Held for Others	2,906,168
Unearned Revenue	5,679,377
U. S. Government Grants Refundable	3,245,925
Long-Term Liabilities, Net (Note 8)	478,399,692

Total Noncurrent Liabilities	490,231,162
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Total Liabilities	514,855,364
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DEFERRED INFLOWS OF RESOURCES

Deferred Gain on Refunding	528,130
Deferred Inflows Related to Pensions	1,104,728
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	108,070,109

Total Deferred Inflows of Resources	109,702,967
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University of North Carolina Wilmington
Statement of Net Position
June 30, 2018

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	320,268,162
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	25,424,333
Research	1,894,276
Endowed Professorships	12,140,417
Departmental Uses	19,023,977
Loans	994,385
Expendable:	
Scholarships and Fellowships	15,903,831
Research	1,285,932
Endowed Professorships	10,252,955
Departmental Uses	13,469,925
Loans	750,079
Capital Projects	3,153,259
Other	873,181
Unrestricted	(219,002,041)
Total Net Position	<u>\$ 206,432,671</u>

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

University of North Carolina Wilmington
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)	\$ 114,344,826
Federal Grants and Contracts	5,688,485
State and Local Grants and Contracts	1,636,364
Nongovernmental Grants and Contracts	1,023,629
Sales and Services, Net (Note 11)	49,993,468
Interest Earnings on Loans	33,640
Other Operating Revenues	3,263,630

Total Operating Revenues	175,984,042
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EXPENSES

Operating Expenses:

Salaries and Benefits	195,218,223
Supplies and Materials	26,611,596
Services	61,805,881
Scholarships and Fellowships	20,208,747
Utilities	7,335,943
Depreciation	12,541,397

Total Operating Expenses	323,721,787
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Operating Loss	(147,737,745)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	136,796,170
Noncapital Grants - Student Financial Aid	27,659,918
Noncapital Gifts	2,718,093
Investment Income (Net of Investment Expense of \$319,295)	11,764,740
Interest and Fees on Debt	(8,703,357)
Federal Interest Subsidy on Debt	690,487
Other Nonoperating Revenues	245,668

Net Nonoperating Revenues	171,171,719
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Income Before Other Revenues	23,433,974
------------------------------	------------

Capital Appropriations	1,913,915
Capital Grants	4,603,820
Capital Gifts	2,605,649
Additions to Endowments	1,627,505

Increase in Net Position	34,184,863
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NET POSITION

Net Position - July 1, 2017, as Restated (Note 20)	172,247,808
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Net Position - June 30, 2018	\$ 206,432,671
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The accompanying notes to the financial statements are an integral part of this statement.

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

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 172,886,802
Payments to Employees and Fringe Benefits	(195,083,659)
Payments to Vendors and Suppliers	(96,585,568)
Payments for Scholarships and Fellowships	(20,208,747)
Loans Issued	(474,517)
Collection of Loans	766,962
Interest Earned on Loans	21,109
Other Receipts	3,328,812
	<hr/>
Net Cash Used by Operating Activities	(135,348,806)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	136,796,170
Noncapital Grants - Student Financial Aid	27,498,172
Noncapital Gifts	3,669,293
Additions to Endowments	1,627,505
William D. Ford Direct Lending Receipts	77,840,825
William D. Ford Direct Lending Disbursements	(77,840,825)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	169,591,140

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Appropriations	1,913,915
Capital Grants	4,603,820
Capital Gifts	1,100,183
Proceeds from Sale of Capital Assets	69,248
Acquisition and Construction of Capital Assets	(21,449,572)
Principal Paid on Capital Debt and Leases	(7,165,096)
Interest and Fees Paid on Capital Debt and Leases	(9,014,860)
Federal Interest Subsidy on Debt Received	690,487
Other Receipts	221,950
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(29,029,925)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	1,070,485
Investment Income	4,422,216
Purchase of Investments and Related Fees	(4,244,230)
	<hr/>
Net Cash Provided by Investing Activities	1,248,471

Net Increase in Cash and Cash Equivalents	6,460,880
Cash and Cash Equivalents - July 1, 2017	161,943,436
	<hr/>
Cash and Cash Equivalents - June 30, 2018	\$ 168,404,316

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

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (147,737,745)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	12,541,397
Allowances and Write-Offs	99
Nonoperating Other Income	214,071
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	533,840
Inventories	(15,470)
Prepaid Items	319
Notes Receivable, Net	292,445
Net Other Postemployment Benefits Asset	(17,014)
Deferred Outflows Related to Pensions	6,094,951
Deferred Outflows Related to Other Postemployment Benefits	(1,668,933)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(417,041)
Unearned Revenue	(948,988)
Net Pension Liability	(3,464,100)
Net Other Postemployment Benefits Liability	(108,709,667)
Funds Held for Others	31,622
Compensated Absences	608,911
Deposits Payable	5,278
Deferred Inflows Related to Pensions	(762,890)
Deferred Inflows Related to Other Postemployment Benefits	108,070,109
Net Cash Used by Operating Activities	<u><u>\$ (135,348,806)</u></u>

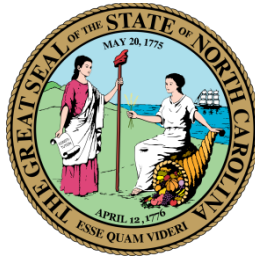
RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 134,070,390
Restricted Cash and Cash Equivalents	23,221,682
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>11,112,244</u>
Total Cash and Cash Equivalents - June 30, 2018	<u><u>\$ 168,404,316</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 3,148,509
Assets Acquired through a Gift	1,719,537
Change in Fair Value of Investments	7,342,524
Amortization of Bond Premiums/Discounts	674,369

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

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

Blended Component Units - Although legally separate, the UNCW Corporation (Corporation), the UNCW Corporation II (Corporation II), the UNCW Research Foundation (Research Foundation), and the Donald R. Watson Foundation, Inc. (Watson Foundation), component units of the University, are reported as if they were part of the University.

The Corporation was organized to enhance the University of North Carolina Wilmington's educational mission, including overseeing and assisting in the acquisition and financing of capital assets for the University. The Corporation is a public not-for-profit organization that reports its financial results under Governmental Accounting Standards Board (GASB) Statements. The Corporation is governed by a six-member board of which three are delegates of the University. The remaining three positions are filled by persons external to the University's operations and business functions and are appointed by the UNCW Chancellor to serve on the board. As the Corporation's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

The Corporation II includes the activities of the single member entities, UNCW Corporation Oleander One, LLC (Oleander One), and UNCW Corporation College Station, LLC (College Station). The Corporation II was organized to enhance the University of North Carolina Wilmington's educational mission, including constructing or managing facilities for the University. These entities acquire real property that is used solely by the University for auxiliary support, off-campus parking, or other

agreed upon activities. The Corporation II is a public not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements. The Corporation II is governed by a seven-member board of which four are delegates of the University. The remaining three positions are filled by persons external to the University's operations and business functions and are appointed by the UNCW Chancellor to serve on the board. As the Corporation II's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

The Research Foundation includes the activities of the single member entities, UNCW Corporation Research I, LLC, MARBIONC Development Group, LLC, The CREST Millennial Campus, LLC, the UNCW Center for Innovation and Entrepreneurship, LLC, and the UNCW Innovation Coalition Corporation. The Research Foundation was organized to enhance the University of North Carolina Wilmington's educational mission. These entities, through collaborative research relationships, pursue commercialization opportunities and the economic development of research discoveries, materials and intellectual properties for the benefit of the University. The Research Foundation is a public not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements. The Research Foundation is governed by a four-member board, all of which are delegates of the University. As the Research Foundation's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

The Watson Foundation was organized to support charitable, religious, scientific and educational institutions located in the State of North Carolina provided that each supported organization is tax exempt and eligible to receive charitable donations. The Watson Foundation is a public not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. The Watson Foundation is governed by a five-member board of which three are appointed by the Board of Trustees, and two are appointed by the benefactor. Because a majority of the directors of the Watson Foundation are appointed by the members of the University of North Carolina Wilmington's Board of Trustees and the Watson Foundation's primary purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

Separate financial statements for the Corporation, the Corporation II, the Research Foundation and the Watson Foundation may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC 28403-5934, or by calling (910) 962-3139.

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

- 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.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out method.
- H. Prepaid Items** - Prepaid items are comprised of prepayments of royalties to be written off in future periods.
- I. 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.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-100 years
Machinery and Equipment	2-50 years
General Infrastructure	10-50 years

The Randall Library Special collections are capitalized at cost or acquisition value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

- J. 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.
- 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, limited obligation bonds, notes payable, and capital leases payable. Other long-term liabilities include: compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

Revenue bonds payable and limited obligation bonds 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 disaggregated 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 the University has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

- M. Deferred Outflows/Inflows of Resources** - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The University has the following items that qualify for reporting in this category: deferred loss on refunding, 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The University has the following items that qualify for reporting in this category: deferred 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 physical plant, copy centers, 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 \$167,830,921, 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 \$20,375. The carrying amount of the University's deposits not with the State Treasurer was \$553,020, and the bank balance was \$465,218. 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 exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$111,804.

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

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

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

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

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

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

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

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

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

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit value method. Under this method, the pool uses a unit basis to determine each participating fund's market value and to distribute the fund's earnings. The investment strategy, including the selection of investment managers, is based on the directives of the Board of Trustees of the Endowment Fund.

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

Long-Term Investment Pool

	Amount
Investment Type	
UNC Investment Fund	\$ 78,402,676
Equity Mutual Funds	13,973,722
Total Long-Term Investment Pool	<u>\$ 92,376,398</u>

UNC Investment Fund, LLC - At June 30, 2018, the University's investments include \$78,402,676, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. 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.

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)	
		1 to 5	6 to 10
Investment Type			
Debt Securities			
Debt Mutual Funds	\$ 407,323	<u>\$ 118,603</u>	<u>\$ 288,720</u>
Other Securities			
Equity Mutual Funds	<u>1,126,999</u>		
Total Non-Pooled Investments	<u><u>\$ 1,534,322</u></u>		

At June 30, 2018, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	\$ 407,323	\$ 197,576	\$ 22,953	\$ 48,711	\$ 70,666	\$ 63,570	\$ 3,847

Rating Agency: Standard & Poor's

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

	Amount
Investment Type	
Debt Securities	
Debt Mutual Funds	\$ 407,323
Other Securities	
UNC Investment Fund	78,402,676
Equity Mutual Funds	<u>15,100,721</u>
Total Investments	<u><u>\$ 93,910,720</u></u>

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	\$	20,375
Amount of Deposits with Private Financial Institutions		553,020
Deposits in the Short-Term Investment Fund		167,830,921
Long-Term Investment Pool		92,376,398
Non-Pooled Investments		<u>1,534,322</u>
Total Deposits and Investments	\$	<u>262,315,036</u>
Deposits		
Current:		
Cash and Cash Equivalents	\$	134,070,390
Restricted Cash and Cash Equivalents		23,221,682
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>11,112,244</u>
Total Deposits		<u>168,404,316</u>
Investments		
Noncurrent:		
Endowment Investments		<u>93,910,720</u>
Total Investments		<u>93,910,720</u>
Total Deposits and Investments	\$	<u>262,315,036</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

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.
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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				
Debt Securities				
Debt Mutual Funds	\$ 407,323	\$ 407,323	\$ 0	\$ 0
Other Securities				
Equity Mutual Funds	15,100,721	15,100,721		
Total Investments by Fair Value Level	15,508,044	\$ 15,508,044	\$ 0	\$ 0
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	167,830,921			
UNC Investment Fund	78,402,676			
Total Investments as a Position in an External Investment Pool	246,233,597			
Total Investments Measured at Fair Value	\$ 261,741,641			

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

Debt and Equity Securities - Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. 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 4.5% of the average market value of the endowment over three previous years. To the extent that the total return for the current year exceeds the payout, the excess is reinvested with principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2018, net appreciation of \$43,049,693 was available to be spent, of which \$30,483,498 was classified in net position restricted for specific purposes, including scholarships and fellowships, research, endowed professorships, and departmental and other uses. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,525,028	\$ 250,316	\$ 2,274,712
Accounts	1,276,860	2,211	1,274,649
Intergovernmental	1,062,201		1,062,201
Pledges	1,533,663	86,683	1,446,980
Interest on Loans	166,288		166,288
Total Current Receivables	\$ 6,564,040	\$ 339,210	\$ 6,224,830
Noncurrent Receivables:			
Pledges	\$ 2,201,885	\$ 110,069	\$ 2,091,816
Other Receivables	16,741		16,741
Total Noncurrent Receivables	\$ 2,218,626	\$ 110,069	\$ 2,108,557
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 403,385	\$ 35,336	\$ 368,049
Institutional Student Loan Programs	81,665		81,665
Total Notes Receivable - Current	\$ 485,050	\$ 35,336	\$ 449,714
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 3,209,218	\$ 320,922	\$ 2,888,296
Institutional Student Loan Programs	289,222		289,222
Total Notes Receivable - Noncurrent	\$ 3,498,440	\$ 320,922	\$ 3,177,518

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 Permanent Easements	\$ 9,808,502	\$ 0	\$ 0	\$ 9,808,502
Art, Literature, and Artifacts	1,820,606	6,942		1,827,548
Construction in Progress	15,208,160	21,257,432	14,570,959	21,894,633
Total Capital Assets, Nondepreciable	26,837,268	21,264,374	14,570,959	33,530,683
Capital Assets, Depreciable:				
Buildings	607,630,540	6,524,094		614,154,634
Machinery and Equipment	48,792,415	5,627,996	273,779	54,146,632
General Infrastructure	34,036,395	7,529,436		41,565,831
Total Capital Assets, Depreciable	690,459,350	19,681,526	273,779	709,867,097
Less Accumulated Depreciation for:				
Buildings	167,085,328	7,820,285		174,905,613
Machinery and Equipment	27,459,418	3,811,652	228,249	31,042,821
General Infrastructure	13,645,334	909,460		14,554,794
Total Accumulated Depreciation	208,190,080	12,541,397	228,249	220,503,228
Total Capital Assets, Depreciable, Net	482,269,270	7,140,129	45,530	489,363,869
Capital Assets, Net	\$ 509,106,538	\$ 28,404,503	\$ 14,616,489	\$ 522,894,552

During the year ended June 30, 2018, the University incurred \$8,692,081 in interest costs related to the acquisition and construction of capital assets. Of this total, \$8,683,448 was charged in interest expense, and \$8,633 was capitalized.

Donated assets were recorded using the actual cost of acquisition or construction costs provided to us by the donor.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,578,033
Accounts Payable - Capital Assets	4,012,503
Accrued Payroll	815,247
Contract Retainage	789,240
Total Current Accounts Payable and Accrued Liabilities	\$ 7,195,023

NOTE 8 - LONG-TERM LIABILITIES**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 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	\$ 85,030,478	\$ 0	\$ 5,140,592	\$ 79,889,886	\$ 5,593,435
Limited Obligation Bonds	114,750,000		1,310,000	113,440,000	1,505,000
Plus: Unamortized Premium	13,209,153		674,369	12,534,784	
Total Revenue Bonds Payable and Limited Obligation Bonds, Net	212,989,631		7,124,961	205,864,670	7,098,435
Notes Payable	11,411,174		605,834	10,805,340	644,945
Capital Leases Payable		326,011	108,670	217,341	108,670
Total Long-Term Debt	224,400,805	326,011	7,839,465	216,887,351	7,852,050
Other Long-Term Liabilities					
Compensated Absences	9,081,739	7,106,635	6,497,724	9,690,650	311,585
Net Pension Liability	33,067,499		3,464,100	29,603,399	
Net Other Postemployment Benefit Liability	339,091,594		108,709,667	230,381,927	
Total Other Long-Term Liabilities	381,240,832	7,106,635	118,671,491	269,675,976	311,585
Total Long-Term Liabilities, Net	\$ 605,641,637	\$ 7,432,646	\$ 126,510,956	\$ 486,563,327	\$ 8,163,635

Additional information regarding capital lease obligations is included in Note 9.

Additional information regarding the net pension liability is included in Note 13.

Additional information regarding the net other postemployment benefit liability is included in Note 14.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Revenue Bonds Payable						
UNCW General Revenue Bonds						
Construct MARBIONC Facility	2010	4.0 - 5.97 *	01/01/2040	\$ 15,750,000	\$ 2,680,000	\$ 13,070,000
Schwartz/Suites & Wagoner Renovation Projects	2011	3.64	03/01/2026	9,000,000	3,621,114	5,378,886
Refund 2003A Union	2012	2.84	01/01/2028	11,755,000	260,000	11,495,000
Refund 2006A	2016	2.17	10/01/2033	11,484,000	878,000	10,606,000
Total UNCW General Revenue Bonds				47,989,000	7,439,114	40,549,886
The University of North Carolina System Pool Revenue Bonds						
Refund Series J and Recreation (2005A)	(A)	5.25	04/01/2019	12,630,000	11,875,000	755,000
Refund Series 2002A & 2003A; Rec Ctr Exp (2010C)	(B)	3.0 - 5.25	10/01/2026	32,170,000	14,245,000	17,925,000
Recreation Center Expansion (2010D)	(C)	6.627 - 6.727 *	10/01/2039	20,660,000		20,660,000
Total The University of North Carolina System Pool Revenue Bonds				65,460,000	26,120,000	39,340,000
Limited Obligation Bonds						
Student Housing-Seahawk Village & Seahawk Landing	2015	3.0 - 5.0	06/01/2037	59,550,000	3,345,000	56,205,000
Student Housing-Seahawk Crossing & Parking Deck	2016	2.0 - 5.0	06/01/2038	57,235,000		57,235,000
Total Limited Obligation Bonds				116,785,000	3,345,000	113,440,000
Total Revenue Bonds Payable and Limited Obligation Bonds (principal only)				\$ 230,234,000	\$ 36,904,114	193,329,886
Plus: Unamortized Premium						12,534,784
Total Revenue Bonds Payable and Limited Obligation Bonds, Net						\$ 205,864,670

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

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

(C) The University of North Carolina System Pool Revenue Bonds, Series 2010D

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

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

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Limited Obligation Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest*
2019	\$ 5,593,435	\$ 3,635,595	\$ 1,505,000	\$ 4,681,075	\$ 644,945	\$ 368,059
2020	5,005,036	3,418,391	1,725,000	4,635,925	692,650	344,692
2021	5,188,423	3,232,169	3,845,000	4,566,925	728,553	319,749
2022	5,393,625	3,020,293	4,410,000	4,393,625	772,919	293,463
2023	5,240,672	2,827,002	4,905,000	4,196,775	697,431	267,029
2024-2028	22,422,695	11,645,490	27,765,000	17,717,175	3,871,472	965,081
2029-2033	12,592,000	7,768,728	34,150,000	11,314,050	3,397,370	275,088
2034-2038	12,799,000	4,005,372	35,135,000	3,669,200		
2039-2040	5,655,000	421,580				
Total Requirements	<u>\$ 79,889,886</u>	<u>\$ 39,974,620</u>	<u>\$ 113,440,000</u>	<u>\$ 55,174,750</u>	<u>\$ 10,805,340</u>	<u>\$ 2,833,161</u>

*Interest on the variable rate College Station note payable is based on Libor plus 2.05% calculated at 3.96% at June 30, 2018.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
College Station	BB&T	Variable	11/05/2022	\$ 1,394,730	\$ 746,518	\$ 648,212
Energy Conservation Loan	BB&T	3.47%	03/01/2030	4,542,387	801,547	3,740,840
Energy Conservation Loan	PNC Equipment Finance, LLC	3.42%	06/30/2033	6,846,011	429,723	6,416,288
Total Notes Payable				<u>\$ 12,783,128</u>	<u>\$ 1,977,788</u>	<u>\$ 10,805,340</u>

NOTE 9 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to a modular building are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	\$ 124,208
2020	124,208
Total Minimum Lease Payments	248,416
Amount Representing Interest (7% Rate of Interest)	31,075
Present Value of Future Lease Payments	<u>\$ 217,341</u>

The modular building acquired under capital lease amounted to \$750,219 at June 30, 2018.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$25,007 at June 30, 2018.

- B. Operating Lease Obligations** - The University entered into operating leases for \$1,358,112 for an aquaculture facility, land, IT server, printers, and landscape equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 137,515
2020	82,962
2021	78,321
2022	74,447
2023	64,867
2024-2028	200,000
2029-2033	200,000
2034-2038	200,000
2039-2043	200,000
2044-2046	120,000
Total Minimum Lease Payments	\$ 1,358,112

Rental expense for all operating leases during the year was \$207,773.

NOTE 10 - NET POSITION

The deficit in unrestricted net position of \$219,002,041 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:

	<u>TSERS</u>	<u>Retiree Health Benefit Fund</u>	<u>Total</u>
Deferred Outflows Related to Pensions	\$ 16,651,045	\$ 0	\$ 16,651,045
Deferred Outflows Related to OPEB		8,200,987	8,200,987
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	29,603,399		29,603,399
Net OPEB Liability		230,381,927	230,381,927
Deferred Inflows Related to Pensions	1,104,728		1,104,728
Deferred Inflows Related to OPEB		108,051,839	108,051,839
Net Effect on Unrestricted Net Position	<u>\$ (14,057,082)</u>	<u>\$ (330,232,779)</u>	<u>\$ (344,289,861)</u>

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	\$ 134,295,481	\$ 0	\$ 19,906,375	\$ 44,280	\$ 114,344,826
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 26,796,749	\$ 209,733	\$ 3,857,968	\$ 29,944	\$ 22,699,104
Dining	17,032,306	89,555	1,818,986	7,149	15,116,616
Physical Plant	4,938,309	4,854,102			84,207
Parking	3,892,058	99,933		5,598	3,786,527
Communications	3,075,583	3,075,583			
Recreation Services	2,827,726	53,079		29,316	2,745,331
Printing and Duplicating	1,477,897	1,317,855			160,042
Bookstore	1,071,198				1,071,198
Postal Services	396,759	188,625		555	207,579
Other	3,084,522	1,638,734		22,654	1,423,134
Sales and Services of Education and Related Activities	4,664,367	1,961,450		3,187	2,699,730
Total Sales and Services, Net	\$ 69,257,474	\$ 13,488,649	\$ 5,676,954	\$ 98,403	\$ 49,993,468

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	Total
Instruction	\$ 105,880,020	\$ 5,544,025	\$ 12,212,151	\$ 159,277	\$ 2,559	\$ 0	\$ 123,798,032
Research	7,214,580	164,995	2,998,938	179,477	242		10,558,232
Public Service	2,210,319	272,756	1,159,333	63,715	1,113		3,707,236
Academic Support	17,001,087	8,522,533	4,463,602	7,975	1,220		29,996,417
Student Services	10,178,990	1,040,403	3,071,269	66,725	312		14,357,699
Institutional Support	23,109,837	819,861	4,569,408	13,800	2,369		28,515,275
Operations and Maintenance of Plant	16,857,793	7,747,885	4,240,017		4,937,591		33,783,286
Student Financial Aid				18,789,921			18,789,921
Auxiliary Enterprises	12,765,597	2,499,138	29,091,163	927,857	2,390,537		47,674,292
Depreciation						12,541,397	12,541,397
Total Operating Expenses	\$ 195,218,223	\$ 26,611,596	\$ 61,805,881	\$ 20,208,747	\$ 7,335,943	\$ 12,541,397	\$ 323,721,787

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 \$3,735,165, and the University's contributions were \$6,710,846 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 \$29,603,399 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 .37310%, which was an increase of .01332 from its proportion measured as of June 30, 2016, which was .35978%.

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 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%)
\$ 60,936,050	\$ 29,603,399	\$ 3,350,632

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 \$8,030,759. 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	\$ 641,747	\$ 968,482
Changes of Assumptions	4,676,891	
Net Difference Between Projected and Actual Earnings on Plan Investments	4,006,344	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	615,217	136,246
Contributions Subsequent to the Measurement Date	6,710,846	
Total	\$ 16,651,045	\$ 1,104,728

The amount of \$6,710,846 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:

<u>Year Ended June 30:</u>	<u>Amount</u>
2019	\$ 1,717,360
2020	5,844,135
2021	2,877,358
2022	<u>(1,603,382)</u>
Total	<u>\$ 8,835,471</u>

- B. Defined Contribution Plan** - The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and staff of the University may join 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 \$156,931,866, of which \$73,300,758 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$4,398,045 and \$5,013,772, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of \$278,282 recognized during the reporting period.

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 \$8,200,987 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 \$189,775 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 \$230,381,927 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 .70267%, which was a decrease of .07679 from its proportion measured as of June 30, 2016, which was .77946%.

Net OPEB Asset: At June 30, 2018, the University reported an asset of \$469,860 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 .76875%, which was an increase of .03953 from its proportion measured as of June 30, 2016, which was .72922%.

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	\$ 274,832,225	\$	230,381,927	\$	195,126,259
	1% Decrease (2.75%)		Current Discount Rate (3.75%)		1% Increase (4.75%)
DIPNC	\$ (399,450)	\$	(469,860)	\$	(540,431)

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	\$ 188,200,695	\$ 230,381,927	\$ 286,445,822
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 \$5,821,711 for RHBF and \$243,546 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	\$ 128,827	\$ 128,827
Net Difference Between Projected and Actual Earnings on Plan Investments		102,989	102,989
Contributions Subsequent to the Measurement Date	8,200,987	189,775	8,390,762
Total	\$ 8,200,987	\$ 421,591	\$ 8,622,578

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 16,518,808	\$ 0	\$ 16,518,808
Changes of Assumptions	63,446,131		63,446,131
Net Difference Between Projected and Actual Earnings on Plan Investments	85,620		85,620
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	28,001,280	18,270	28,019,550
Total	\$ 108,051,839	\$ 18,270	\$ 108,070,109

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:

<u>Year Ended June 30:</u>	RHBF	DIPNC
2019	\$ (21,614,649)	\$ 62,613
2020	(21,614,649)	62,613
2021	(21,614,649)	62,590
2022	(21,614,649)	25,730
2023	(21,593,243)	
Total	\$ (108,051,839)	\$ 213,546

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 \$25,000 per occurrence deductible.

The University maintains all-risk coverage for all of its buildings and the contents located within those buildings. The University attempts to cover all buildings and contents based on their replacement values. The University has covered all building and content losses subject to a \$25,000 per occurrence deductible.

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Policies include cyber, boiler and machinery, crime, oceanographic equipment, watercraft and watercraft pollution coverage, and professional liability.

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 \$15,793,153 and on other purchases were \$3,987,233 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.
- C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end are as follows:

Purpose	Amount
Endowment Pledges	\$ 1,819,783

NOTE 17 - RELATED PARTIES

Foundations - There are four separately incorporated nonprofit foundations associated with the University. These foundations are the UNCW Student Aid Association, Inc. (Student Aid), the Foundation of the University of North Carolina at Wilmington, Inc. (Foundation), the Alumni Association of the University of North Carolina at Wilmington (Alumni), and the Friends of the University of North Carolina at Wilmington, Inc. (Friends).

Student Aid fosters and promotes the education of student athletes by obtaining donations for the scholarship program at the University. The association also raises funds for the improvement and construction of physical facilities used by the University for athletic purposes, for the University's athletic scholarship fund, and to provide operational and supplementary support for the entire sports program. In addition, the association exists to encourage a fraternal spirit of loyalty and interest in the University by alumni, friends, and benefactors. Direct support from Student Aid totaled \$2,111,868 for the year ended June 30, 2018. The University maintains a cash balance for Student Aid. This liability, or funds held for others, due to Student Aid was \$1,648,932, as of June 30, 2018.

The Foundation assists the University by soliciting and receiving private gifts from individuals, corporations, and other organizations. These gifts support the University by providing scholarships, fellowships, faculty salary supplements,

and unrestricted funds for academic programs. In addition, the Foundation can accept and liquidate non-cash gifts for the University and acquire property on the University's behalf. The Foundation's direct support to the University totaled \$300,187 for the year ended June 30, 2018. The University maintains a cash balance for the Foundation. This liability, or funds held for others, due to the Foundation was \$380,511, as of June 30, 2018.

Alumni serves to connect and involve alumni, students, and friends in the promotion and advancement of the University. Occasionally donations are made from Alumni to the University. This support totaled \$4,250 for the year ended June 30, 2018. The University maintains a cash balance for Alumni. This liability, or funds held for others, due to Alumni was \$326,178, as of June 30, 2018.

Friends contributes gifts to the University based on grant requests and may at a donor's request, contribute to a University academic scholarship fund. This support totaled \$12,032 for the year ended June 30, 2018. The University maintains a cash balance for Friends. This liability, or funds held for others, due to Friends was \$19,812, as of June 30, 2018.

All of these foundations are self-sustaining; however, the University does support their operations through donated administrative services. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. Separate financial statements for these foundations may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC 28403-5952, or by calling (910) 962-3139.

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	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Eliminations*	Total
ASSETS							
Current Assets	\$ 163,929,044	\$ 7,096	\$ 0	\$ 2,723	\$ 416,164	\$ (717)	\$ 164,354,310
Capital Assets, Net	521,648,552			1,246,000	17,833	(17,833)	522,894,552
Other Noncurrent Assets	109,244,578	1,534,321					110,778,899
Component Unit Receivable from Primary Government			124,097,601	86,801		(124,184,402)	
Total Assets	794,822,174	1,541,417	124,097,601	1,335,524	433,997	(124,202,952)	798,027,761
TOTAL DEFERRED OUTFLOWS OF RESOURCES	32,963,241		6,380,901			(6,380,901)	32,963,241
LIABILITIES							
Current Liabilities	22,293,439		1,886,609	423,214	20,940		24,624,202
Long-Term Liabilities, Net	355,681,368		122,210,992	507,332			478,399,692
Other Noncurrent Liabilities	11,831,470						11,831,470
Primary Government Payable to Component Unit	124,184,402					(124,184,402)	
Total Liabilities	513,990,679		124,097,601	930,546	20,940	(124,184,402)	514,855,364
TOTAL DEFERRED INFLOWS OF RESOURCES	109,702,967		6,380,901			(6,380,901)	109,702,967
NET POSITION							
Net Investment in Capital Assets	319,583,573			684,589			320,268,162
Restricted - Nonexpendable	58,477,592	999,796					59,477,388
Restricted - Expendable	45,085,616	541,621			61,925		45,689,162
Unrestricted	(219,055,012)			(279,611)	351,132	(18,550)	(219,002,041)
Total Net Position	\$ 204,091,769	\$ 1,541,417	\$ 0	\$ 404,978	\$ 413,057	\$ (18,550)	\$ 206,432,671

*The elimination net position amount of \$18,550 is a result of the Research Foundation having a lower capitalization threshold than the University.

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

	University	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Eliminations*	Total
OPERATING REVENUES							
Student Tuition and Fees, Net	\$ 114,344,826	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 114,344,826
Federal Grants and Contracts	5,688,485						5,688,485
State and Local Grants and Contracts	1,636,364						1,636,364
Nongovernmental Grants & Contracts	1,023,629				8,528	(8,528)	1,023,629
Sales & Services	49,871,598		5,051,913	25,567	214,233	(5,169,843)	49,993,468
Interest Earnings on Loans	33,640						33,640
Other Operating Revenues	3,184,770	1,819	19,101	141,760	192,592	(276,412)	3,263,630
Total Operating Revenues	175,783,312	1,819	5,071,014	167,327	415,353	(5,454,783)	175,984,042
OPERATING EXPENSES							
Operating Expenses	311,144,651	94,961	19,101	23,191	375,672	(477,186)	311,180,390
Depreciation	12,541,397						12,541,397
Total Operating Expenses	323,686,048	94,961	19,101	23,191	375,672	(477,186)	323,721,787
Operating Income (Loss)	(147,902,736)	(93,142)	5,051,913	144,136	39,681	(4,977,597)	(147,737,745)
NONOPERATING REVENUES (EXPENSES)							
State Appropriations	136,796,170						136,796,170
Noncapital Grants - Student Financial Aid	27,659,918						27,659,918
Noncapital Gifts, Net	2,702,074				16,019		2,718,093
Investment Income, Net	11,727,987	108,113				(71,360)	11,764,740
Interest & Fees on Debt	(8,677,790)		(5,051,913)	(25,567)		5,051,913	(8,703,357)
Federal Interest Subsidy on Debt	690,487						690,487
Other Nonoperating Revenues	245,668						245,668
Net Nonoperating Revenues (Expenses)	171,144,514	108,113	(5,051,913)	(25,567)	16,019	4,980,553	171,171,719
Capital Appropriations	1,913,915						1,913,915
Capital Grants	4,603,820						4,603,820
Capital Gifts	2,605,649						2,605,649
Additions to Endowments	1,627,505						1,627,505
Increase in Net Position	33,992,667	14,971		118,569	55,700	2,956	34,184,863
NET POSITION							
Net Position, July 1, 2017 (as Restated)	170,099,102	1,526,446		286,409	357,357	(21,506)	172,247,808
Net Position, June 30, 2018	\$ 204,091,769	\$ 1,541,417	\$ 0	\$ 404,978	\$ 413,057	\$ (18,550)	\$ 206,432,671

*The elimination net position amount of \$18,550 is a result of the Research Foundation having a lower capitalization threshold than the University.

*Condensed Statement of Cash Flows
June 30, 2018*

	University	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Total
Net Cash Provided (Used) by Operating Activities	\$ (141,847,145)	\$ (92,780)	\$ 6,366,185	\$ 159,344	\$ 65,590	\$ (135,348,806)
Net Cash Provided by Noncapital Financing Activities	169,591,140					169,591,140
Net Cash Used by Capital and Related Financing Activities	(22,504,396)		(6,366,185)	(159,344)		(29,029,925)
Net Cash Provided by Investing Activities	1,162,027	86,444				1,248,471
Net Increase (Decrease) in Cash and Cash Equivalents	6,401,626	(6,336)			65,590	6,460,880
Cash and Cash Equivalents, July 1, 2017	161,602,973	13,432			327,031	161,943,436
Cash and Cash Equivalents, June 30, 2018	\$ 168,004,599	\$ 7,096	\$ 0	\$ 0	\$ 392,621	\$ 168,404,316

The consolidated financial statements include the elimination of capital lease transactions for residence halls between the University and the Corporation and between the University and the Corporation II for a financed building and land.

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).

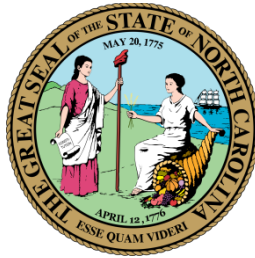
NOTE 20 - NET POSITION RESTATEMENT

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

	<u>Amount</u>
July 1, 2017 Net Position as Previously Reported	\$ 503,932,911
Restatement:	
Record the University's Net OPEB Asset and Liability and OPEB Related	
Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	<u>(331,685,103)</u>
July 1, 2017 Net Position as Restated	<u>\$ 172,247,808</u>

NOTE 21 - SUBSEQUENT EVENT

In September 2018, Hurricane Florence impacted areas of the southeastern United States, including Wilmington, NC, and specifically UNCW's campus. The most significant impact to UNCW's campus has been the excessive level of rainfall during the storm. The impact of the hurricane caused significant damage to our facilities, infrastructure, and grounds. Notwithstanding the damage to campus, UNCW anticipates that the damage to campus and other consequences of Hurricane Florence will not have a long-term impact to the University and its finances and will not materially impair the University's ability to fulfill its mission of instructing its students and meet its financial obligations.



REQUIRED SUPPLEMENTARY INFORMATION

University of North Carolina Wilmington
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Five Fiscal Years

Exhibit B-1

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.37310%	0.35978%	0.35723%	0.36424%	0.38300%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 29,603,399	\$ 33,067,499	\$ 13,164,633	\$ 4,270,426	\$ 23,252,003
Covered Payroll	\$ 57,507,190	\$ 53,596,237	\$ 53,297,118	\$ 52,894,845	\$ 55,820,098
Net Pension Liability as a Percentage of Covered Payroll	51.48%	61.70%	24.70%	8.07%	41.66%
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.

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

Exhibit B-2

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 6,710,846	\$ 5,739,218	\$ 4,904,056	\$ 4,876,686	\$ 4,596,562
Contributions in Relation to the Contractually Determined Contribution	<u>6,710,846</u>	<u>5,739,218</u>	<u>4,904,056</u>	<u>4,876,686</u>	<u>4,596,562</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 62,252,744	\$ 57,507,190	\$ 53,596,237	\$ 53,297,118	\$ 52,894,845
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 4,649,814	\$ 4,220,585	\$ 2,874,128	\$ 2,073,920	\$ 1,970,758
Contributions in Relation to the Contractually Determined Contribution	<u>4,649,814</u>	<u>4,220,585</u>	<u>2,874,128</u>	<u>2,073,920</u>	<u>1,970,758</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 55,820,098	\$ 56,728,297	\$ 58,298,735	\$ 58,092,990	\$ 58,653,497
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.

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

Changes of Benefit Terms:

<u>Cost of Living Increase</u>									
<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
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*.

University of North Carolina Wilmington
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 B-3

	<u>2017</u>	<u>2016</u>
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	0.70267%	0.77946%
Proportionate Share of Collective Net OPEB Liability	\$ 230,381,927	\$ 339,091,594
Covered Payroll	\$ 124,750,663	\$ 118,788,130
Net OPEB Liability as a Percentage of Covered Payroll	184.67%	285.46%
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	0.76875%	0.72922%
Proportionate Share of Collective Net OPEB Asset	\$ 469,860	\$ 452,846
Covered Payroll	\$ 124,750,663	\$ 118,788,130
Net OPEB Asset as a Percentage of Covered Payroll	0.38%	0.38%
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*.

University of North Carolina Wilmington
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Exhibit B-4

	2018	2017	2016	2015	2014
Retiree Health Benefit Fund					
Contractually Required Contribution	\$ 8,200,987	\$ 7,252,952	\$ 6,652,135	\$ 6,275,091	\$ 5,947,985
Contributions in Relation to the Contractually Determined Contribution	<u>8,200,987</u>	<u>7,252,952</u>	<u>6,652,135</u>	<u>6,275,091</u>	<u>5,947,985</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 135,553,502	\$ 124,750,663	\$ 118,788,130	\$ 114,300,390	\$ 110,147,863
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	\$ 5,809,294	\$ 5,322,845	\$ 5,329,549	\$ 4,820,988	\$ 4,403,466
Contributions in Relation to the Contractually Determined Contribution	<u>5,809,294</u>	<u>5,322,845</u>	<u>5,329,549</u>	<u>4,820,988</u>	<u>4,403,466</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 109,609,322	\$ 106,456,906	\$ 108,766,301	\$ 107,133,057	\$ 107,401,622
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%
	2018	2017	2016	2015	2014
Disability Income Plan of North Carolina					
Contractually Required Contribution	\$ 189,775	\$ 474,053	\$ 487,031	\$ 468,632	\$ 484,651
Contributions in Relation to the Contractually Determined Contribution	<u>189,775</u>	<u>474,053</u>	<u>487,031</u>	<u>468,632</u>	<u>484,651</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 135,553,502	\$ 124,750,663	\$ 118,788,130	\$ 114,300,390	\$ 110,147,863
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	\$ 482,281	\$ 553,576	\$ 565,585	\$ 557,092	\$ 558,488
Contributions in Relation to the Contractually Determined Contribution	<u>482,281</u>	<u>553,576</u>	<u>565,585</u>	<u>557,092</u>	<u>558,488</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 109,609,322	\$ 106,456,906	\$ 108,766,301	\$ 107,133,057	\$ 107,401,622
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.

University of North Carolina Wilmington
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

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Office of the 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
University of North Carolina Wilmington
Wilmington, 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 Wilmington (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 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 December 10, 2018. Our report includes a reference to other auditors who audited the financial statements of the UNCW Corporation (Corporation), the UNCW Corporation II (Corporation II), and the UNCW Research Foundation (Research Foundation), as described in our report on the University's financial statements. The financial statements of the Corporation, the Corporation II, and the Research Foundation 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 10, 2018

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