State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA

North Carolina Agricultural and Technical State University

Greensboro, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2018

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

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina Agricultural and Technical State University

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

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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State Auditor

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

INDEPENDENT AUDITOR’S REPORT

STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Agricultural and Technical State University
Greensboro, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Agricultural and Technical State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the consolidated financial statements of The North Carolina A&T Real Estate Foundation, Inc., the University's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely on the report 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 consolidated financial statements of The North Carolina A&T Real Estate Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

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

Emphasis of Matter

As discussed in Note 18 to the financial statements, during the year ended June 30, 2018, North Carolina Agricultural and Technical State University 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 5, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 5, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

North Carolina Agricultural and Technical State University (University) provides the following discussion and analysis in order to give the reader a summary of its financial activities and to provide assistance in understanding the financial statements for the fiscal year ended June 30, 2018. Comparative data for the year ended June 30, 2017 is also included. All information provided has been prepared by University staff for the purpose of identifying significant transactions, trends, and events that have had an impact on the fiscal health of the University and that may continue to exert influence in future years. To properly use and interpret the information provided in this discussion and analysis, it is recommended that it be read in conjunction with the related financial statements and the accompanying Notes to the Financial Statements for further explanation and details.

The Financial Statements

The financial statements for the University include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

Each statement has been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, and reflects an economic resource measurement focus and the accrual basis of accounting. The Statement of Cash Flows provides information relative to the University's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Position as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Position. For the purpose of this discussion, we will address the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position using condensed versions. The full-length versions of each of the financial statements are presented as exhibits immediately following the management's discussion and analysis.

In addition to the University's financial statements and accompanying notes, information for a component unit is presented. The Consolidated Statement of Financial Position, Consolidated Statement of Activities, and certain notes for the North Carolina A&T Real Estate Foundation, Inc. (Foundation) are discretely presented alongside the University financial statements; however, the component unit is not included in management's discussion and analysis. More information describing the relationship between the University and its discretely presented component unit can be found in Note 1A, Significant Accounting Policies - Financial Reporting Entity.

Statement of Net Position

The Statement of Net Position presented below summarizes the financial wellness of the University at June 30, 2018. It presents the financial position of the University as defined by the balances of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Assets and liabilities are classified as current or noncurrent. Current assets and liabilities include those resources and obligations that pertain to current operating requirements. Noncurrent assets and liabilities include those resources and obligations that pertain to future operating requirements.

During the current fiscal year, the University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. 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 benefits 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 benefits 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 $265,111,994.00 that reduced the University's overall unrestricted net position balance at June 30, 2017, to a deficit $222,236,979.25. 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 RHBF as well as the University's proportionate share of the State's Pension Plan 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 the Pension Plan obligations at June 30, 2018, was a deficit $276,185,180.02. The difference between the net effect amount reported in Note 10 and the unrestricted net position reported on the financial statements (a deficit $214,666,437.86) is a positive $61,518,742.16. This positive difference represents unrestricted funds held by the University in its institutional trust, special, and investment funds, and also includes any operating state funds authorized for carryforward. More information regarding the GASB 75 change can be located in Note 18 of the Notes to the Financial Statements.

Condensed Statement of Net Position

	2018	2017 (as Restated)	Dollar Change	Percent Change
Assets				
Current Assets	$ 96,672,429.71	$ 90,063,298.55	$ 6,609,131.16	7.34%
Noncurrent Capital Assets, Net	395,196,138.11	366,935,340.58	28,260,797.53	7.70%
Other Noncurrent Assets	78,768,627.58	93,441,137.30	(14,672,509.72)	(15.70%)
Total Assets	570,637,195.40	550,439,776.43	20,197,418.97	3.67%
Deferred Outflows of Resources				
Deferred Loss on Refunding	248,008.53	292,304.87	(44,296.34)	(15.15%)
Deferred Outflows Related to Pensions	18,829,612.92	26,199,333.76	(7,369,720.84)	(28.13%)
Deferred Outflows Related to OPEB	7,007,646.70	6,588,219.00	419,427.70	6.37%
Total Deferred Outflows of Resources	26,085,268.15	33,079,857.63	(6,994,589.48)	(21.14%)
Liabilities				
Current Liabilities	19,946,208.12	17,201,239.91	2,744,968.21	15.96%
Long-Term Liabilities	324,541,196.64	425,324,702.74	(100,783,506.10)	(23.70%)
Other Noncurrent Liabilities	988,351.78	1,105,733.81	(117,382.03)	(10.62%)
Total Liabilities	345,475,756.54	443,631,676.46	(98,155,919.92)	(22.13%)
Deferred Inflows of Resources				
Deferred Inflows Related to Pensions	1,050,456.00	1,753,205.00	(702,749.00)	(40.08%)
Deferred Inflows Related to OPEB	89,580,532.00		89,580,532.00	
Total Deferred Inflows of Resources	90,630,988.00	1,753,205.00	88,877,783.00	5069.45%
Net Position				
Net Investment in Capital Assets	302,442,526.82	293,854,376.58	8,588,150.24	2.92%
Restricted-Nonexpendable	41,099,238.24	37,802,736.13	3,296,502.11	8.72%
Restricted-Expendable	31,740,391.81	28,714,619.14	3,025,772.67	10.54%
Unrestricted	(214,666,437.86)	(222,236,979.25)	7,570,541.39	3.41%
Total Net Position	$ 160,615,719.01	$ 138,134,752.60	$ 22,480,966.41	16.27%

Current assets were $96,672,429.71 at June 30, 2018, an increase of $6,609,131.16 over the prior year. The major component of the change in current assets was an increase in cash of $6,464,324.61 primarily due to the following:

- Current unrestricted cash increased $5,951,310.20 primarily due to an increase in operating revenue related to student tuition and fees.
- Current restricted cash increased $513,014.41 primarily due to an increase in capital improvement resources held in current cash to meet the current liabilities for contracts and retainage payable.

Total noncurrent capital assets, net of accumulated depreciation, increased $28,260,797.53, primarily due to an increase in the construction in progress component of nondepreciable capital assets. Construction expenditures for the new student center were the major factor, accounting for $22,770,584.22 of the new additions, while $3,981,401.85 was expended for the new engineering complex.

Other noncurrent assets decreased during the year by $14,672,509.72. The decrease was the net of a decrease in cash offset by increases in restricted investments and accounts receivable. Noncurrent restricted cash decreased $22,319,388.88 primarily from expenditures made on construction of the new student center. Endowment investments increased $6,160,396.15 as a result of a strong financial market performance as well as receiving $3,310,662.14 in additions to endowments during the year. Outstanding pledges made to athletic programs increased noncurrent accounts receivable by $1,732,744.29.

The University recorded deferred outflows related to pensions and deferred outflows related to other postemployment benefits in the amount of $18,829,612.92 and $7,007,646.70, respectively at June 30, 2018. The deferred outflows related to pensions decreased $7,369,720.84 due to differences between actual and projected earnings and actuarial assumptions. Approximately $7.5 million of the total deferred outflow will reduce the net pension liability for the year ending June 30, 2019. The deferred outflow related to other postemployment benefits is new this year due to the implementation of GASB 75. Approximately all of this outflow will reduce the other postemployment benefits liability for the year ending June 30, 2019. For more information about the University's deferred outflows related to pensions and other postemployment benefits, refer to Notes 13 and 14 of the Notes to the Financial Statements.

Current liabilities increased $2,744,968.21 due primarily to increases in contract retainage and accounts payable for construction projects related to the new student center and the new engineering complex.

Long-term liabilities decreased by $100,783,506.10. The net pension and OPEB liabilities decreased $97,363,018.00 due to changes in actuarial assumptions and projections. Outstanding bonds and notes decreased $3,396,003.39 due to principal payments made during the year.

The University recorded deferred inflows related to pensions and deferred inflows related to other postemployment benefits in the amount of $1,050,456.00 and $89,580,532.00, respectively at June 30, 2018. This represents the net amount of the University's pension and other postemployment benefits deferrals that impact pension and other postemployment benefits expenses in fiscal years 2019 to 2023. For more information about the University's deferred inflows related to pensions and other postemployment benefits, refer to Notes 13 and 14 of the Notes to the Financial Statements.

Net position at year-end was $160,615,719.01, an increase of $22,480,966.41 over the prior year, as restated for GASB 75. The increase was composed of the following: an increase of $8,588,150.24 in net investment in capital assets; increases in restricted nonexpendable and expendable net positions of $3,296,502.11 and $3,025,772.67, respectively; and an increase of $7,570,541.39 in unrestricted net position.

- Net investment in capital assets increased $8,588,150.24 due primarily to an increase in construction in progress for the new student center and the future engineering facility.
- Restricted nonexpendable net position increased $3,296,502.11 primarily due to additions to endowments gifted in fiscal year 2018 totaling $3,310,662.14.
- Restricted expendable net position increased $3,025,772.67. The net position increases were primarily due to the following: (1) endowment earnings, net of management fees, increased $4,541,370.11, the result of strong market performance

in fiscal year 2018; (2) receipt of two large restricted gifts of $1,451,789.70. These increases of $5,993,159.81 were primarily offset by (1) endowment spending on scholarships and professorships totaling $1,026,826.64 and (2) overhead reimbursement receipts from prior years totaling $2,320,759.24 that were transferred to unrestricted funds.

- The unrestricted net position increase of $7,570,541.39 is primarily due to an increase in student enrollment and tuition and fee rates and other operating revenues totaling $8,285,921.85. See below for further discussion of these revenues.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reports the activity of the University during the year and is divided into four major components: operating revenues; operating expenses; nonoperating revenues (expenses); and other revenues, expenses, gains or losses. Revenues are reported by major source and expenses are reported by natural classification. Intra-departmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded.

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

	2018	2017*	Dollar Change	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 71,108,701.45	$ 64,582,415.45	$ 6,526,286.00	10.11%
Federal Appropriations	9,066,200.23	7,931,654.09	1,134,546.14	14.30%
Grants and Contracts	26,461,358.88	27,590,814.91	(1,129,456.03)	(4.09%)
Sales and Services, Net	28,776,430.98	25,210,058.85	3,566,372.13	14.15%
Other Operating Revenues	4,363,479.79	2,603,610.37	1,759,869.42	67.59%
Total Operating Revenues	139,776,171.33	127,918,553.67	11,857,617.66	9.27%
Operating Expenses				
Salaries and Benefits	170,065,645.61	167,626,173.35	2,439,472.26	1.46%
Supplies and Materials	17,352,235.97	13,390,468.53	3,961,767.44	29.59%
Services	59,199,827.69	51,953,425.31	7,246,402.38	13.95%
Scholarships and Fellowships	18,890,926.05	18,585,424.21	305,501.84	1.64%
Utilities	6,076,997.58	5,660,332.89	416,664.69	7.36%
Depreciation	12,296,725.96	11,698,729.04	597,996.92	5.11%
Total Operating Expenses	283,882,358.86	268,914,553.33	14,967,805.53	5.57%
Operating Loss	(144,106,187.53)	(140,995,999.66)	(3,110,187.87)	2.21%
Nonoperating Revenues (Expenses)				
State Appropriations	92,315,804.18	92,518,300.40	(202,496.22)	(0.22%)
Noncapital Grants and Gifts	60,345,407.86	52,969,116.91	7,376,290.95	13.93%
Interest and Fees on Debt	(4,052,168.43)	(3,846,685.13)	(205,483.30)	5.34%
Other Nonoperating Expenses	(284,828.48)	(193,689.22)	(91,139.26)	47.05%
Other Nonoperating Revenues	6,590,314.19	7,123,195.72	(532,881.53)	(7.48%)
Net Nonoperating Revenues	154,914,529.32	148,570,238.68	6,344,290.64	4.27%
Income Before Other Revenues	10,808,341.79	7,574,239.02	3,234,102.77	42.70%
Other Revenues				
Capital Appropriations and Grants	6,945,645.42	2,559,605.74	4,386,039.68	171.36%
Capital Gifts	1,416,317.06	72,695.00	1,343,622.06	1848.30%
Additions to Endowments	3,310,662.14	3,396,887.21	(86,225.07)	(2.54%)
Total Other Revenues	11,672,624.62	6,029,187.95	5,643,436.67	93.60%
Total Increase in Net Position	22,480,966.41	13,603,426.97	8,877,539.44	65.26%
Net Position - Beginning of the Year	138,134,752.60	388,877,395.63	(250,742,643.03)	(64.48%)
Restatement		(264,346,070.00)	264,346,070.00	
Net Position - End of the year	$ 160,615,719.01	$ 138,134,752.60	$ 22,480,966.41	16.27%

**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.*

The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in net position at year-end of $22,480,966.41, which is an increase of $8,877,539.44 from the prior fiscal year. Total revenues were $310,700,322.18 compared to $286,558,354.65 from the previous year, and total expenses were $288,219,355.77 compared to $272,954,927.68 from the previous year. Highlights of the significant changes are as follows:

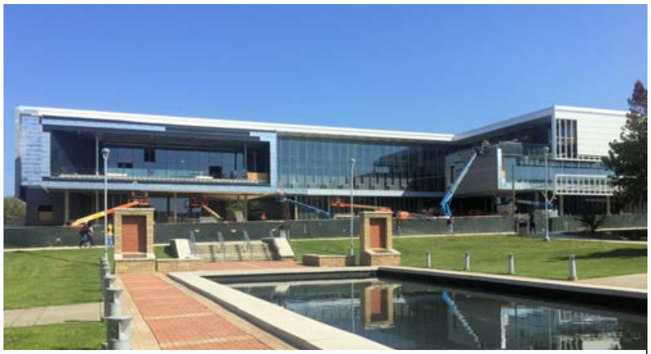
- Total operating revenues increased by $11,857,617.66. This change was due to an increase in tuition and fees of $6,526,286.00, attributable to an increase in enrollment as well as increases in tuition and fees rates. Sales and services increased by $3,566,372.13, also due to increased enrollment and rates for student auxiliaries.
- Total operating expenses increased $14,967,805.53 or 5.57%. Salaries and benefits increased $2,439,472.26 due to the following factors: Salaries increased $4,602,629.40, the result of new employees and a salary cost of living increase during the fiscal year. These increases were offset by a decrease in benefits of $2,148,989.14 due primarily to $1,261,369.55 in adjustments for pension and benefit plans as well as a decrease of $1,109,433.42 in worker compensation payments. Supplies and materials increased $3,961,767.44 due to the cost of non-capitalized equipment and building maintenance costs. Services increased $7,246,402.38 primarily due to increases in several areas: (1) $1,562,815.48 food services and security contracts; (2) $699,901.57 in general repair costs and facility enhancements; (3) $2,874,848.78 in building rental; (4) $552,450.79 in marketing and advertising; and (5) $809,667.39 in student services and campus life.
- The University experienced an increase in net nonoperating revenues of $6,344,290.64. Noncapital grants and gifts increased $7,376,290.95 primarily due to an increase in noncapital grants of $3,817,448.07, increase in noncapital grants related to student financial aid of $2,874,829.85, and an increase in noncapital gifts of $684,013.03. Noncapital grants increased due to $3,949,745.85 in grants received for the enhancement of campus IT infrastructure and PhD programs in engineering and sciences. Noncapital grants related to student financial aid increased due to an increase in Pell grant funds of $2,890,501.54 as a result of increases in enrollment and student eligibility. Noncapital gifts increased primarily due to pledges of $451,743.05 for athletic programs.
- Other revenues increased by $5,643,436.67, due primarily to an increase in capital funding for the new engineering facility of $4,151,267.55 and an increase in capital gifts of $1,326,512.06 for improvements to the football stadium.

The University presents operating expenses by natural classification in the Statement of Revenues, Expenses, and Changes in Net Position. Salaries and benefits accounted for 59.91% of operating expenses, followed by services at 20.86%, scholarships and fellowships at 6.65%, supplies and materials at 6.11%, depreciation at 4.33%, and utilities expense at 2.14%.

Capital Assets and Debt Administration

Major capital projects included in construction in progress are the new student center which will be completed in the fall of 2018, the Engineering Research and Innovations Center (ERIC), and the Multi-Purpose Farm Pavilion.

The University's new student center, funded with a bond issuance of $82,955,000.00, is essentially complete and will open in the fall of 2018. Principal debt outstanding on the student center, $79,855,000.00 at June 30, 2018, was financed through available resources for a period of 30 years.



New student center under construction.

The ERIC is in the design phase, and is funded by the "Connect NC Bond" in the amount of $90,000,000.00. This Center will facilitate the discovery and transfer of knowledge from academia to industry and other government agencies and will further interdisciplinary research projects.

Construction has begun on the Multi-Purpose Farm Pavilion after a groundbreaking ceremony that took place on July 11, 2018. The facility is budgeted at approximately $5,000,000.00 and will expand the University's capacity for education, research, and community outreach. The 17,000 square foot facility will include an auditorium, labs, a 50-person classroom, a demonstration kitchen, and a 400-person conference room. There are other projects such as the student and community garden and the Cooperative Extension Innovation Station (mobile STEM lab) that will allow the University to continually expand its level of community outreach and service. These projects will be funded with US Department of Agriculture 1890s facilities funds.

The University's statement of net position reflects total investment in capital assets, net of accumulated depreciation and debt, as of June 30, 2018, of $302,442,526.82. This amount includes land, plant (facilities), equipment, and construction in progress, net of related debt. For more information about the University's capital assets, refer to Note 6 of the Notes to the Financial Statements.

Total debt for capital assets at June 30, 2018 in the amount of $108,451,490.91 consisted primarily of the student center debt of $79,855,000.00, $9,095,000.00 from the 2013-2014 health center construction, and $5,085,283.11 in long-term notes, the result of two energy projects undertaken to provide long-term utility cost savings. For additional information on debt administration, see Note 8 in the Notes to the Financial Statements.

Future Outlook

The financial health of the University is strong, as evidenced by its $22,480,966.41 increase in net position from operating and nonoperating activities in fiscal year 2018. The North Carolina economy is continuing to grow modestly, but state appropriation support did not follow. State appropriations were relatively flat, and in fact decreased slightly by 0.22%. However, tuition revenue gains were a robust 10.11% and operating revenues overall were up 9.27%.

Exhibiting support for the University's strong science, technology, engineering, and mathematics (STEM) programs and research, the State provided $90,000,000.00 from its 2016 Connect NC bond issuance to build a new engineering research and innovation center (ERIC) on campus that will be an excellent complement to the well-established nanoscience and nanoengineering facility. Not to be overlooked is this land-grant University's esteemed agricultural programs and 492-acre research farm. The USDA National Institute for Food and Agriculture (NIFA) is providing financial support for four structures (the first of which is noted above) that will help further the College of Agriculture and Environmental Sciences' mission to achieve excellence in the food, agricultural, family, and environmental sciences as well as foster economic and development benefits for the East Greensboro corridor where it is located.

Another significant source of revenue comes in the form of sponsored program, grant, and contract awards. Recognized by the Carnegie Foundation as a high research institution, benefits of the academic reorganization are also beginning to be realized in this area. Already the State's third most productive research university, NC A&T garnered $64.26 million in sponsored grant and contract awards in fiscal year 2018, an increase of nearly $2 million over the previous year. University research funding has been on a steady trajectory of growth over the past two decades, adding nearly $46 million in annual research funding since 2001. Those contract and grant monies, which come largely from the highly competitive federal funding sector, support a wide range of projects in areas ranging from food security to bioenergy to computer science and many points in between.

Although revenue growth is essential, there continues to be an enhanced focus, both at the University and at the UNC Board of Governors level, on ensuring that students can afford and earn degrees. For example, in the fall of 2017, a fixed tuition program was instituted for the incoming freshman class that sets a standard tuition rate for eight semesters, providing certainty and stability of tuition rates throughout the four-year degree. However, for fiscal year 2019, the Board of Governors did authorize an increase in mandatory fees, capped at 3%, for all students. The transparency is appreciated by parents and students, and may be one of several reasons student enrollment has been steadily increasing. The FY 2018 enrollment of 11,877 set a historic high mark for the University, establishing the school as the largest HBCU in the nation. Fall 2018 enrollment is expected to exceed 12,000 students.

While acknowledging the debate over the value of national rankings, the University is proud that, in its 2019 survey rankings, *U.S. News & World Report* touted the University as the top public HBCU in the nation. As noted by Chancellor Dr. Harold L. Martin, Sr., "Our disciplined focus in the implementation of our strategic plan is responsible for many gains across the University, including our upward movement in a range of external rankings." The University's attention to tuition costs, faculty-student ratio, class size, and retention rates may positively affect those rankings, but more importantly draw the attention of prospective students and families. Complementing enrollment growth, academically both average GPA and SAT scores of incoming freshmen are on the rise which can only enhance the intellectual climate and academic experience for students.

Because the University is ultimately subject to the same economic variables that affect other financial entities, it is difficult to predict future outcomes. Management is well aware of the challenges but feels that by continuing to pursue its ambitious goals, the University will become even more competitive as a land-grant, doctoral, high-research activity institution that will continue to provide quality instruction, research, and public service to the State of North Carolina and the nation.

FINANCIAL STATEMENTS

North Carolina Agricultural and Technical State University
Statement of Net Position
June 30, 2018

Exhibit A-1
Page 1 of 2

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	59,208,314.20
Restricted Cash and Cash Equivalents		21,000,474.12
Restricted Short-Term Investments		91,740.00
Receivables, Net (Note 5)		14,492,951.67
Prepaid Expenses		587,500.00
Due from University Component Units		403,624.39
Inventories		688,550.24
Notes Receivable		199,275.09
Total Current Assets		96,672,429.71
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		22,181,017.64
Receivables		1,732,744.29
Endowment Investments		54,176,034.77
Restricted Investments		2,125.10
Notes Receivable, Net (Note 5)		320,100.78
Net Other Postemployment Benefits Asset		356,605.00
Capital Assets - Nondepreciable (Note 6)		100,472,627.64
Capital Assets - Depreciable, Net (Note 6)		294,723,510.47
Total Noncurrent Assets		473,964,765.69
Total Assets		570,637,195.40
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding		248,008.53
Deferred Outflows Related to Pensions		18,829,612.92
Deferred Outflows Related to Other Postemployment Benefits (Note 14)		7,007,646.70
Total Deferred Outflows of Resources		26,085,268.15
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		11,508,641.12
Unearned Revenue		3,646,146.06
Interest Payable		1,024,281.67
Long-Term Liabilities - Current Portion (Note 8)		3,767,139.27
Total Current Liabilities		19,946,208.12
Noncurrent Liabilities:		
Funds Held for Others		304,297.74
U. S. Government Grants Refundable		684,054.04
Long-Term Liabilities (Note 8)		324,541,196.64
Total Noncurrent Liabilities		325,529,548.42
Total Liabilities		345,475,756.54
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		1,050,456.00
Deferred Inflows Related to Other Postemployment Benefits (Note 14)		89,580,532.00
Total Deferred Inflows of Resources		90,630,988.00

NET POSITION		
Net Investment in Capital Assets		302,442,526.82
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		26,290,608.43
Endowed Professorships		13,376,242.07
Departmental Uses		1,227,919.46
Loans		204,468.28
Expendable:		
Scholarships and Fellowships		11,729,560.05
Research		324,201.12
Endowed Professorships		8,583,337.09
Departmental Uses		6,577,771.61
Capital Projects		3,806,272.45
Other		719,249.49
Unrestricted		(214,666,437.86)
Total Net Position	$	160,615,719.01

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

North Carolina Agricultural and Technical State University
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)	$	71,108,701.45
Federal Appropriations		9,066,200.23
Federal Grants and Contracts		23,945,683.42
State and Local Grants and Contracts		1,016,841.13
Nongovernmental Grants and Contracts		1,498,834.33
Sales and Services, Net (Note 11)		28,776,430.98
Interest Earnings on Loans		4,246.74
Other Operating Revenues		4,359,233.05
Total Operating Revenues		139,776,171.33
EXPENSES		
Operating Expenses:		
Salaries and Benefits		170,065,645.61
Supplies and Materials		17,352,235.97
Services		59,199,827.69
Scholarships and Fellowships		18,890,926.05
Utilities		6,076,997.58
Depreciation		12,296,725.96
Total Operating Expenses		283,882,358.86
Operating Loss		(144,106,187.53)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		92,315,804.18
Noncapital Grants - Student Financial Aid		43,176,193.29
Noncapital Grants		14,239,699.88
Noncapital Gifts		2,929,514.69
Investment Income		6,590,314.19
Interest and Fees on Debt		(4,052,168.43)
Other Nonoperating Expenses		(284,828.48)
Net Nonoperating Revenues		154,914,529.32
Income Before Other Revenues		10,808,341.79
Capital Appropriations		2,292,115.00
Capital Grants		4,653,530.42
Capital Gifts		1,416,317.06
Additions to Endowments		3,310,662.14
Increase in Net Position		22,480,966.41
NET POSITION		
Net Position - July 1, 2017, as Restated (Note 19)		138,134,752.60
Net Position - June 30, 2018	$	160,615,719.01

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

North Carolina Agricultural and Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 137,175,376.65
Payments to Employees and Fringe Benefits	(172,028,874.32)
Payments to Vendors and Suppliers	(82,638,406.82)
Payments for Scholarships and Fellowships	(18,881,165.32)
Loans Issued	(103,487.00)
Collection of Loans	319,088.65
Interest Earned on Loans	4,246.74
Other Receipts	4,359,233.05
Net Cash Used by Operating Activities	(131,793,988.37)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	92,315,804.18
Noncapital Grants - Student Financial Aid	43,445,014.38
Noncapital Grants	13,974,015.24
Noncapital Gifts	2,533,225.65
Additions to Endowments	3,310,662.14
William D. Ford Direct Lending Receipts	91,288,240.00
William D. Ford Direct Lending Disbursements	(91,288,240.00)
Related Activity Agency Receipts	67,289.82
Related Activity Agency Disbursements	(62,805.75)
Net Cash Provided by Noncapital Financing Activities	155,583,205.66
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	2,292,115.00
Capital Grants	4,653,530.42
Acquisition and Construction of Capital Assets	(38,325,792.91)
Principal Paid on Capital Debt	(3,174,261.12)
Interest and Fees Paid on Capital Debt	(4,244,060.09)
Net Cash Used by Capital Financing and Related Financing Activities	(38,798,468.70)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	541,332.48
Investment Income	1,815,615.55
Purchase of Investments and Related Fees	(3,202,760.89)
Net Cash Used by Investing Activities	(845,812.86)
Net Decrease in Cash and Cash Equivalents	(15,855,064.27)
Cash and Cash Equivalents - July 1, 2017	118,244,870.23
Cash and Cash Equivalents - June 30, 2018	$ 102,389,805.96

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

Operating Loss	$	(144,106,187.53)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		12,296,725.96
Allowances, Write-Offs, and Amortizations		36,459.66
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		1,518,896.24
Prepaid Items		48,958.33
Inventories		(196,778.11)
Notes Receivable, Net		181,661.71
Net Other Postemployment Benefits Asset		5,003.00
Deferred Outflows Related to Pensions		7,369,720.84
Deferred Outflows Related to Other Postemployment Benefits		(419,427.70)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(246,052.37)
Due to Primary Government		(48,044.10)
Unearned Revenue		387,232.70
Net Pension Liability		(4,986,832.00)
Net Other Postemployment Benefits Liability		(92,376,186.00)
Compensated Absences		(136,922.00)
Deferred Inflows Related to Pensions		(702,749.00)
Deferred Inflows Related to Other Postemployment Benefits		89,580,532.00
Net Cash Used by Operating Activities	$	(131,793,988.37)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	59,208,314.20
Restricted Cash and Cash Equivalents		21,000,474.12
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		22,181,017.64
Total Cash and Cash Equivalents - June 30, 2018	$	102,389,805.96

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	$	89,085.00
Change in Fair Value of Investments		4,774,666.64
Reinvested Distributions		433,536.76
Loss on Disposal of Capital Assets		(284,828.48)
Amortization of Bond Premiums		221,742.27
Amortization of Deferred Loss on Refunding of Bonds		44,296.34
Increase in Receivables Related to Nonoperating Income		2,192,448.47

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

The North Carolina A&T Real Estate Foundation, Inc.
Consolidated Statement of Financial Position
June 30, 2018 *Exhibit B-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	9,965,089
Investments		11,974,513
Pledges Receivable, Net		65,821
Prepaid Expenses		25,980
Due from NC A&T Alumni Association		5,650
Accounts Receivable		268,503
Total Current Assets		22,305,556
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		6,293,712
Investments		4,861,648
Pledges Receivable, Net		9,567
Cash Surrender Value of Life Insurance		17,237
Property and Equipment, Net		52,415,871
Land Held for Resale		187,900
Total Noncurrent Assets		63,785,935
Total Assets	$	86,091,491
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	757,808
Due to NC A&T State University		403,624
Due to NC A&T Alumni Association		22,457
Funds Held for Others		1,231,873
Current Notes Payable		20,025,624
Bonds Payable - Current Maturities		1,670,000
Total Current Liabilities		24,111,386
Long-Term Liabilities:		
Interest Rate Swap Agreement		288,521
Notes Payable		3,083,254
Bonds Payable, Net - Long-Term		31,791,805
Total Long-Term Liabilities		35,163,580
Total Liabilities		59,274,966
NET ASSETS		
Unrestricted		11,076,143
Temporarily Restricted		11,098,918
Permanently Restricted		4,641,464
Total Net Assets		26,816,525
Total Liabilities and Net Assets	$	86,091,491

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

The North Carolina A&T Real Estate Foundation, Inc.
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2018

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions and Gifts	$ 1,451	$ 3,573,612	$ 72,805	$ 3,647,868
Rental Income	8,720,826			8,720,826
Fee Income	273,856			273,856
Interest and Dividends	138,322	253,956	6,746	399,024
Net Unrealized Gains on Investments	359,219	670,949		1,030,168
Gain on Interest Rate Swap	298,689			298,689
Other Income	140,515	265,887		406,402
Net Assets Released from Restrictions	3,524,198	(3,452,835)	(71,363)	
Total Support and Revenue	13,457,076	1,311,569	8,188	14,776,833
EXPENSES				
Program Services:				
University Support	3,938,848			3,938,848
Student Housing	5,461,870			5,461,870
Total Program Services	9,400,718			9,400,718
Supporting Services:				
Management and General	2,036,160			2,036,160
Total Expenses	11,436,878			11,436,878
Changes in Net Assets	2,020,198	1,311,569	8,188	3,339,955
Net Assets, Beginning of Year	9,055,945	9,787,349	4,633,276	23,476,570
Net Assets, End of Year	$ 11,076,143	$ 11,098,918	$ 4,641,464	$ 26,816,525

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. North Carolina Agricultural and Technical State University (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 unit. 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 unit is discretely presented in the University's financial statements. See below for further discussion of the University's component unit. Other related foundations and similar nonprofit corporations for which the University is not financially accountable or for which the nature of their relationship is not considered significant to the University are not part of the accompanying financial statements.

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

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 10 members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the

Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2018, the Foundation distributed $1,939,468.41 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from 200 North Benbow Road, Greensboro, NC 27411.

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 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 either the average cost of last invoice price or the first in, first out method, depending on the product. In the case of agricultural supplies inventory, the current market value method is applied.

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

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

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

Asset Class	Estimated Useful Life
Buildings	10-50 years
Machinery and Equipment	2-25 years
General Infrastructure	10-50 years

The Heritage Art Center and Art Gallery collections are capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

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

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

Revenue bonds payable are reported net of unamortized premiums. The University amortizes bond premiums over the life of the bonds using the straight-line method that approximates the effective interest method. Deferred gains and losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are aggregated as deferred outflows of resources or deferred inflows of resources on the Statement of Net Position. Issuance costs are expensed in the reporting period in which they are incurred.

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

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

K. **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.

L. 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 inflows related to pensions and deferred inflows related to other postemployment benefits.

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

Net Investment in Capital Assets - This represents the University's total investment in capital assets, net of outstanding 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.

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

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

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

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

P. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as newspaper advertisements. 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 $102,270,297.88, 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 $8,099.00. The carrying amount of the University's deposits not with the State Treasurer was $111,409.08, and the bank balance was $96,492.97. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2018, the University's bank balance was not exposed to custodial credit risk.

B. Investments

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

Additionally, the University has also been delegated authority by the President of the University of North Carolina pursuant to G.S. 116-36.1 and Section 600.2.4.1 of the Policy Manual of the University of North Carolina to invest its trust funds in the same manner as the State Treasurer is required to invest, as discussed below.

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

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

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

Investments of 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 unitized method. Under this method, each participating fund's investment balance is determined on number of units purchased multiplied by the current unit market value. 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

		Investment Maturities (in Years)	
	Amount	1 to 5	6 to 10
Investment Type			
Debt Securities			
Debt Mutual Funds	$ 4,675,307.09	$ 1,167,843.62	$ 3,507,463.47
Other Securities			
UNC Investment Fund	30,977,808.69		
Equity Mutual Funds	18,407,518.99		
Investments in Real Estate	115,400.00		
Total Long-Term Investment Pool	$ 54,176,034.77		

At June 30, 2018, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AA Aa	A
Debt Mutual Funds	$ 4,675,307.09	$ 2,106,229.10	$ 2,569,077.99

Rating Agency: Morningstar

UNC Investment Fund, LLC - At June 30, 2018, the University's investments include $30,977,808.69, 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 Type	
Domestic Stocks	$ 2,125.10
Other - Insurance Policy Surrender Value	91,740.00
Total Non-Pooled Investments	$ 93,865.10

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

	Amount
Investment Type	
Debt Securities	
Debt Mutual Funds	$ 4,675,307.09
Other Securities	
UNC Investment Fund	30,977,808.69
Equity Mutual Funds	18,407,518.99
Investments in Real Estate	115,400.00
Domestic Stocks	2,125.10
Other - Insurance Policy Surrender Value	91,740.00
Total Investments	$ 54,269,899.87

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

		Amount
Investment Type		
Debt Securities	$	1,422,152
UNC Investment Fund		9,806,711
Domestic Stocks		3,344,308
Foreign Stocks		2,254,957
Limited Partnership		8,033
Total Investments	$	16,836,161

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	$	8,099.00
Amount of Deposits with Private Financial Institutions		111,409.08
Deposits in the Short-Term Investment Fund		102,270,297.88
Long-Term Investment Pool		54,176,034.77
Non-Pooled Investments		93,865.10
Total Deposits and Investments	$	156,659,705.83
Deposits		
Current:		
Cash and Cash Equivalents	$	59,208,314.20
Restricted Cash and Cash Equivalents		21,000,474.12
Noncurrent:		
Restricted Cash and Cash Equivalents		22,181,017.64
Total Deposits		102,389,805.96
Investments		
Current:		
Restricted Short-Term Investments		91,740.00
Noncurrent:		
Endowment Investments		54,176,034.77
Restricted Investments		2,125.10
Total Investments		54,269,899.87
Total Deposits and Investments	$	156,659,705.83

NOTE 3 - FAIR VALUE MEASUREMENTS

University

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

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

Level 1 — Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2 — Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, either directly or indirectly.

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

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

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
		Fair Value Measurements Using		
Investments by Fair Value Level				
Debt Securities				
Debt Mutual Funds	$ 4,675,307.09	$ 4,675,307.09	$ 0.00	$ 0.00
Other Securities				
Equity Mutual Funds	18,407,518.99	18,407,518.99		
Investments in Real Estate	115,400.00			115,400.00
Domestic Stocks	2,125.10	2,125.10		
Other - Insurance Policy Surrender Value	91,740.00			91,740.00
Total Investments by Fair Value Level	23,292,091.18	$ 23,084,951.18	$ 0.00	$ 207,140.00
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	102,270,297.88			
UNC Investment Fund	30,977,808.69			
Total Investments as a Position in an External Investment Pool	133,248,106.57			
Total Investments Measured at Fair Value	$ 156,540,197.75			

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.

Investments in Real Estate - The University currently holds a parcel of land for resale value at $115,400.00, which is classified in Level 3. The real estate was donated to the University to be sold and is measured at fair value by comparing the value to the county tax value.

Insurance Policy Surrender Value - Other investments include an insurance policy with a cash surrender value of $91,740.00. This investment is classified

Insurance Policy Surrender Value - Other investments include an insurance policy with a cash surrender value of $91,740.00. This investment is classified in Level 3. The University uses the value that is supplied by the insurer and is based on the amount available in cash upon cancellation of the insurance policy before maturity.

Component Unit

Because the Foundation reports under the FASB reporting model, the disclosure of fair value measurements differ from the GASB reporting model used by the University.

FASB ASC 820-10, *Fair Value Measurements and Disclosures*, provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair-value hierarchy are described as below:

Level 1	Quoted prices in active markets for identical assets or liabilities at the measurement date;
Level 2	Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
Level 3	Unobservable inputs that are supported by little or no market activity and that reflect the Foundation's own assumptions about market prices.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to FASB ASC 820-10.

In determining the fair value, the Foundation uses various valuation approaches within the FASB ASC 820-10 fair value measurement framework. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy:

Equities: Equity securities and equity mutual funds listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy.

Limited Partnership: Ownership interest in the limited partnership is typically valued using the member's equity valuation provided by the partnership.

Investment in the limited partnership is included in Level 3 of the valuation hierarchy.

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June 30, 2018:

	Total Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
Type				
Debt Securities	$ 1,422,152	$ 1,422,152	$ 0	$ 0
UNC Investment Fund	9,806,711			9,806,711
Domestic Stocks	3,344,308	3,344,308		
Foreign Stocks	2,254,957	2,254,957		
Limited Partnership	8,033			8,033
Total Investments Measured at Fair Value	$ 16,836,161	$ 7,021,417	$ 0	$ 9,814,744

The following table reconciles the beginning and ending balances of financial and nonfinancial assets and liabilities at fair value on a recurring basis using significant unobservable (Level 3) inputs during the year ended June 30, 2018:

	Amount
Beginning Balance	$ 8,082
Investment Purchases	9,758,000
Realized and Unrealized Gains/Losses	48,662
Ending Balance	$ 9,814,744

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 not more than 5% of the endowment average market value at June 30th for the prior twelve quarters. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2018, net appreciation of $16,480,584.20 was available to be spent, of which $14,859,980.11 was classified in net position as restricted expendable for scholarships, professorships, and departmental uses as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2018 the amount of investment losses reported against the nonexpendable endowment balances was $11,195.17.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 2,928,114.67	$ 586,070.40	$ 2,342,044.27
Intergovernmental	9,751,465.88		9,751,465.88
Pledges	459,704.18		459,704.18
Interest on Loans	221,281.33		221,281.33
Pending Trades	1,280,000.00		1,280,000.00
Other	438,456.01		438,456.01
Total Current Receivables	$ 15,079,022.07	$ 586,070.40	$ 14,492,951.67
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 1,063,550.39	$ 743,449.61	$ 320,100.78

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	$ 10,757,515.41	$ 471,056.85	$ 0.00	$ 11,228,572.26
Art, Literature, and Artifacts	2,538,797.00			2,538,797.00
Construction in Progress	59,270,019.56	28,049,472.77	614,233.95	86,705,258.38
Total Capital Assets, Nondepreciable	72,566,331.97	28,520,529.62	614,233.95	100,472,627.64
Capital Assets, Depreciable:				
Buildings	372,897,129.26	1,762,398.20		374,659,527.46
Machinery and Equipment	69,226,167.82	10,209,831.05	1,503,652.52	77,932,346.35
General Infrastructure	19,250,530.14	963,827.05		20,214,357.19
Total Capital Assets, Depreciable	461,373,827.22	12,936,056.30	1,503,652.52	472,806,231.00
Less Accumulated Depreciation for:				
Buildings	123,505,477.28	8,038,398.19		131,543,875.47
Machinery and Equipment	35,122,280.92	3,566,394.63	1,218,824.04	37,469,851.51
General Infrastructure	8,377,060.41	691,933.14		9,068,993.55
Total Accumulated Depreciation	167,004,818.61	12,296,725.96	1,218,824.04	178,082,720.53
Total Capital Assets, Depreciable, Net	294,369,008.61	639,330.34	284,828.48	294,723,510.47
Capital Assets, Net	$ 366,935,340.58	$ 29,159,859.96	$ 899,062.43	$ 395,196,138.11

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (agreement) dated September 1, 2014. The carrying value of the energy savings improvement assets associated with the agreement is $1,296,137.95 and is subject to security provisions in the agreement to ensure timely debt service payments. Additional information regarding the agreement can be found in Note 8.

The University entered into an installment financing agreement to fund energy savings equipment and improvements on April 8, 2014. The total cost of the equipment and improvements purchased under this agreement is $4,463,503.11. At June 30, 2018, accumulated depreciation on these assets totaled $557,937.90, resulting in a net book value of $3,905,565.21. The equipment and improvements are pledged to secure the debt based on provisions of the financing agreement. Additional information regarding the Energy Performance Contract can be found in Note 8.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

		Amount
Current Accounts Payable and Accrued Liabilities		
Accounts Payable	$	2,899,818.14
Accounts Payable - Capital Assets		5,036,705.35
Accrued Payroll		899,382.23
Contract Retainage		2,407,276.88
Intergovernmental Payables		265,458.52
Total Current Accounts Payable and Accrued Liabilities	$	11,508,641.12

NOTE 8 - LONG-TERM LIABILITIES

University

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

	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 100,750,000.00	$ 0.00	$ 2,730,000.00	$ 98,020,000.00	$ 2,795,000.00
Plus: Unamortized Premium	5,567,950.07		221,742.27	5,346,207.80	
Total Revenue Bonds Payable	106,317,950.07		2,951,742.27	103,366,207.80	2,795,000.00
Notes Payable	5,529,544.23		444,261.12	5,085,283.11	465,176.27
Total Long-Term Debt	111,847,494.30		3,396,003.39	108,451,490.91	3,260,176.27
Other Long-Term Liabilities					
Compensated Absences	8,964,960.00	6,853,121.00	6,990,043.00	8,828,038.00	506,963.00
Net Pension Liability	37,095,928.00		4,986,832.00	32,109,096.00	
Net Other Postemployment Benefits Liability	271,295,897.00		92,376,186.00	178,919,711.00	
Total Other Long-Term Liabilities	317,356,785.00	6,853,121.00	104,353,061.00	219,856,845.00	506,963.00
Total Long-Term Liabilities	$ 429,204,279.30	$ 6,853,121.00	$ 107,749,064.39	$ 328,308,335.91	$ 3,767,139.27

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Revenue Bonds Payable						
The University of North Carolina Revenue Bonds						
Student Health Center	2013	2.00%-5.00%	10/01/2037	$ 10,210,000.00	$ 1,115,000.00	$ 9,095,000.00
Parking System	2015A	2.00%-5.00%	10/01/2033	4,760,000.00	145,000.00	4,615,000.00
Student Center	2015A	3.00%-5.00%	10/01/2045	72,220,000.00		72,220,000.00
Student Center	2015B	0.80%-3.169%	10/01/2022	10,735,000.00	3,100,000.00	7,635,000.00
Dining System	2017	1.48%	10/01/2020	2,655,000.00	645,000.00	2,010,000.00
Total The University of North Carolina Revenue Bonds				100,580,000.00	5,005,000.00	95,575,000.00
The University of North Carolina System Pool Revenue Bonds						
Stadium System	(A)	2.00%-4.50%	10/01/2031	3,365,000.00	920,000.00	2,445,000.00
Total Revenue Bonds Payable (principal only)				$ 103,945,000.00	$ 5,925,000.00	98,020,000.00
Plus: Unamortized Premium						5,346,207.80
Total Revenue Bonds Payable						$ 103,366,207.80

(A) The University of North Carolina System Pool Revenue Bonds, Series 2011C

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

	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2019	$ 2,795,000.00	$ 4,016,906.08	$ 465,176.27	$ 155,738.49
2020	2,880,000.00	3,955,069.28	486,629.05	143,644.67
2021	2,955,000.00	3,883,742.25	508,810.46	130,970.11
2022	2,390,000.00	3,809,234.35	531,747.74	117,694.11
2023	2,465,000.00	3,735,724.95	470,195.28	103,795.15
2024-2028	14,160,000.00	16,993,465.71	1,288,458.73	374,189.24
2029-2033	17,730,000.00	13,775,546.89	1,334,265.58	111,669.29
2034-2038	18,965,000.00	9,688,525.00		
2039-2043	19,705,000.00	5,011,825.00		
2044-2046	13,975,000.00	853,300.00		
Total Requirements	$ 98,020,000.00	$ 65,723,339.51	$ 5,085,283.11	$ 1,137,701.06

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
Energy Performance Contract	Capital One Public Funding, LLC	3.68%	09/01/2032	$ 4,183,984.78	$ 556,857.16	$ 3,627,127.62
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp.	1.84%	02/14/2023	2,059,801.00	601,645.51	1,458,155.49
Total Notes Payable				$ 6,243,785.78	$ 1,158,502.67	$ 5,085,283.11

Component Unit

Bonds Payable

Bonds payable as of June 30, 2018 consist of the following:

North Carolina Capital Facilities Finance Agency (NCCFFA):	Interest Rate Ranges	Final Maturity (serially)	Original Issue	Principal Outstanding
(A) Variable Rate Student Housing Revenue Bonds, Series 2004B	3.00%-5.00%	2035	$ 21,000,000	$ 12,940,000
(B) Student Housing Revenue Refunding Bonds, Series 2015A	3.00%-5.00%	2035	22,495,000	22,020,000
Total Bonds Payable (principal only)			$ 43,495,000	34,960,000
Plus: Unamortized Premium				1,566,553
Less: Bond Issuance Costs				(3,064,748)
Total Bonds Payable, Net				$ 33,461,805

(A) Series 2004B Bonds were issued August 10, 2004 to finance the construction, equipping, and installation of student housing facilities, a fitness facility, and a conference and special events facility.

The Series 2004B Bonds consist of serial bonds which mature in varying amounts from 2005 to 2035. Semi-annual interest payments are due December 1 and June 1, and annual principal payments are due June 1. Series 2004B Bonds are subject to extraordinary redemption at any time by the NCCFFA, at the discretion of the Foundation, in the event of damage to, destruction or condemnation of, or taking under power of eminent domain of a substantial portion of the Foundation's premises.

As security for the payment of the 2004B Bonds, the Bond Indenture grants to the Trustee a lien upon and security interest in all of the Foundation's rights, title, and interest in assets of the Housing Foundation.

The agreements require the Foundation to maintain two debt service reserve funds. If there is a deficiency in the bond fund when Bond principal and interest payments become due, the Bond Indenture provides for the amount of the deficiency to be made up from other Trust funds in the and interest payments become due, the Bond Indenture provides for the amount of the deficiency to be made up from other Trust funds in the following order: (1) Pledged Revenue Fund; (2) Surplus Fund; (3) Replacement Fund; (4) Operation and Maintenance Fund; (5) Operating Reserve Fund; (6) Project Fund; and (7) Debt Service Reserve Fund.

The Operating Reserve Fund requires a minimum deposit balance of $500,000 and additional deposits are not required unless the Foundation's debt service coverage ratio falls below 1.30. The Foundation was not required to make additional deposits to the Operating Reserve Fund during the year ended June 30, 2018.

The Surplus Fund shall be used to make up any deficiency in other funds, and to pay certain recipients in the following order of priority: Rebate Fund, Operation and Maintenance Fund, 50% of the student housing management fee, the Replacement Fund, and the Operating Reserve Fund. The Surplus Fund shall also be used to pay any exchange termination payment due to any qualified counterparty or post any collateral required under a credit support annex of a qualified exchange agreement. The Trustee permits distributions from the Surplus Fund to the Foundation provided the Foundation's debt service coverage ratio, based on audited and unaudited financial statements, is not less than 1.25 for the fiscal year end. The Debt Service Coverage Ratio for the fiscal year ended June 30, 2018 was 2.20 which is in compliance with the trust agreement.

(B) Series 2015A Bonds in the amount of $22,495,000 were issued October 1, 2015 to: (a) refund the entire outstanding amount of NCCFFA Student Housing Revenue Refunding Bonds Series 2004A and a portion ($2,000,000) of the Series 2004B Bonds; (b) fund the related debt service reserve fund; (c) pay the premium for a financial guaranty policy; and (d) pay certain expenses incurred in connection with the issuance of the 2015A Bonds.

The refunding also remarketed the 2004B variable rate bonds, replacing the six months Letter of Credit (LOC) with a three-year Letter of Credit and novating the existing SWAP with an extended term while lowering the interest rate without extension of the final bond maturity.

The series 2015A Bonds consist of Serial and Variable Rate Bonds which mature in varying amounts from 2017 through 2035 and bear interest at rates that range from 3.0% to 5.0%. Series 2015A Bonds are subject to extraordinary redemption at any time by NCCFFA, at the discretion of the Foundation, in the event of damage to, destruction or condemnation of, or taking under power of eminent domain of a substantial portion of the Foundation’s premises. Series 2015A Bonds maturing on or after June 1, 2026 are also subject to option redemption by NCCFFA, at the discretion of the Foundation from available funds.

The loan agreement contains various covenants, which among other things, place restrictions on the Foundation's ability to incur additional indebtedness and require the Foundation to maintain certain financial ratios. The Foundation is in compliance with these covenants at June 30, 2018.

For the year ended June 30, 2018, the Foundation recorded interest expense of approximately $1,413,482.

Minimum maturities on all bonds of the Foundation at June 30, 2018 are detailed as follows:

Fiscal Year	Amount
2019	$ 1,670,000
2020	1,745,000
2021	1,815,000
2022	1,905,000
2023	1,985,000
Thereafter	25,840,000
Total (principal only)	$ 34,960,000

The Foundation has complied with all covenants of the Bond Indenture.

Notes Payable

During the year, the Foundation purchased property, located at 1120 E. Bessemer Ave. The purchase price was $3,500,000 with $250,000 due at closing and the balance of $3,250,000 to be seller financed with a promissory note and deed of trust. The term of the note is 17 years, with the first payment commencing on June 30, 2018.

On June 20, 2018, the Foundation completed the purchase of a student housing facility known as "Campus Evolution Villages." Located at 801 Homeland Avenue, the facility consists of approximately 360 beds in nine apartment buildings. In order to finance the purchase, the Foundation has undertaken an interim loan in the amount of $19,871,564 from PNC Bank, National Association, as interim financing, until the Foundation can obtain permanent financing through the issuance of bonds. Interest is paid monthly through June 20, 2019. At that date, the total principal of $19,871,564 is due in full.

Minimum maturities of notes payable at June 30, 2018 are detailed as follows:

Fiscal Year	Amount
2019	$ 20,025,624
2020	158,113
2021	162,274
2022	166,543
2023	170,926
Thereafter	2,425,398
Total (principal only)	$ 23,108,878

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for equipment and property. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	$ 940,758.91
2020	663,143.69
2021	641,337.00
2022	587,500.00
2023	587,500.00
2024-2028	1,762,500.00
Total Minimum Lease Payments	$ 5,182,739.60

Rental expense for all operating leases during the year was $1,518,176.92.

NOTE 10 - NET POSITION

The deficit in unrestricted net position of $214,666,437.86 has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources. A summary of the balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
Deferred Outflows Related to Pensions	$ 18,829,612.92	$ 0.00	$ 18,829,612.92
Deferred Outflows Related to OPEB		6,645,002.06	6,645,002.06
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	32,109,096.00		32,109,096.00
Net OPEB Liability		178,919,711.00	178,919,711.00
Deferred Inflows Related to Pensions	1,050,456.00		1,050,456.00
Deferred Inflows Related to OPEB		89,580,532.00	89,580,532.00
Net Effect on Unrestricted Net Position	$ (14,329,939.08)	$ (261,855,240.94)	$ (276,185,180.02)

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	$ 108,681,501.84	$ 0.00	$ 37,154,798.61	$ 418,001.78	$ 71,108,701.45
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 14,795,946.98	$ 0.00	$ 4,819,264.42	$ 112,698.85	$ 9,863,983.71
Dining	17,739,068.19		5,997,395.18	146,188.96	11,595,484.05
Health, Physical Education, and Recreation Services	12,847.12				12,847.12
Bookstore	985,759.95				985,759.95
Parking	1,587,248.90				1,587,248.90
Athletic	3,730,304.28				3,730,304.28
Other	810,388.75				810,388.75
Sales and Services of Education and Related Activities	1,826,827.94	1,636,413.72			190,414.22
Total Sales and Services, Net	$ 41,488,392.11	$ 1,636,413.72	$ 10,816,659.60	$ 258,887.81	$ 28,776,430.98

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	$ 72,622,995.82	$ 3,731,726.41	$ 2,296,612.73	$ 1,594,942.76	$ 10,003.80	$ 0.00	$ 80,256,281.52
Research	18,980,605.91	1,992,812.91	7,549,072.53	2,672,350.71			31,194,842.06
Public Service	5,451,999.55	234,457.80	1,723,984.94	73,118.52	160.46		7,483,721.27
Academic Support	18,416,410.82	5,269,971.89	5,108,534.01	2,533,721.96	75.00		31,328,713.68
Student Services	5,909,355.84	508,672.22	1,587,094.00	93,212.14			8,098,334.20
Institutional Support	19,556,538.96	1,434,577.32	8,809,296.96	287,475.51	5,171.93		30,093,060.68
Operations and Maintenance of Plant	9,889,111.10	1,179,283.13	5,476,739.95		4,866,275.64		21,411,409.82
Student Financial Aid	247,785.36	7,910.30	201,647.57	7,041,851.40	42.61		7,499,237.24
Auxiliary Enterprises	18,990,842.25	2,992,823.99	26,446,845.00	4,594,253.05	1,195,268.14		54,220,032.43
Depreciation						12,296,725.96	12,296,725.96
Total Operating Expenses	$ 170,065,645.61	$ 17,352,235.97	$ 59,199,827.69	$ 18,890,926.05	$ 6,076,997.58	$ 12,296,725.96	$ 283,882,358.86

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 $4,166,235.98, and the University's contributions were $7,485,337.30 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 $32,109,096.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the University's proportion was 0.40468%, which was an increase of 0.00107 from its proportion measured as of June 30, 2016, which was 0.40361%.

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

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

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2017 calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20%) or 1-percentage point higher (8.20%) than the current rate:

Net Pension Liability		
1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
$ 66,093,811.00	$ 32,109,096.00	$ 3,634,237.00

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 $9,144,617.00. 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	$ 696,066.00	$ 1,050,456.00
Changes of Assumptions	5,072,753.00	
Net Difference Between Projected and Actual Earnings on Plan Investments	4,345,450.00	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,230,006.62	
Contributions Subsequent to the Measurement Date	7,485,337.30	
Total	$ 18,829,612.92	$ 1,050,456.00

The amount of $7,485,337.30 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

Year Ended June 30:	Amount
2019	$ 2,247,770.00
2020	6,532,224.00
2021	3,252,921.00
2022	(1,739,095.00)
Total	$ 10,293,820.00

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 $135,414,298.89, of which $40,397,478.51 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $2,423,848.71 and $2,763,187.53, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of $274,142.30.

The Federal Retirement System is a multiple-employer system. University extension employees participate in the Civil Service Retirement System (CSRS), a program for participants employed prior to January 1, 1987. Participants contributed 7% of their salary to CSRS and the University match was 7%. For the year ended June 30, 2018, covered payroll was $152,574.43 and total employer and employee contributions were $10,680.21 each.

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 $6,645,002.06 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 $153,768.64 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 $178,919,711.00 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 0.54571%, which was a decrease of 0.07791 from its proportion measured as of June 30, 2016, which was 0.62362%.

Net OPEB Asset: At June 30, 2018, the University reported an asset of $356,605.00 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 0.58345%, which was an increase of 0.00115 from its proportion measured as of June 30, 2016, which was 0.58230%.

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	$ 213,441,151.00	$ 178,919,711.00	$ 151,539,629.00
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (303,166.00)	$ (356,605.00)	$ (410,165.00)

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	$ 146,161,073.00	$ 178,919,711.00	$ 222,460,542.00
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 $3,388,249.00 for RHBF and $200,443.00 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	$ 0.00	$ 97,775.00	$ 97,775.00
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		78,165.00	78,165.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		32,936.00	32,936.00
Contributions Subsequent to the Measurement Date	6,645,002.06	153,768.64	6,798,770.70
Total	$ 6,645,002.06	$ 362,644.64	$ 7,007,646.70

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 12,828,872.00	$ 0.00	$ 12,828,872.00
Changes of Assumptions	49,273,671.00		49,273,671.00
Net Difference Between Projected and Actual Earnings on Plan Investments	66,494.00		66,494.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	27,411,495.00		27,411,495.00
Total	$ 89,580,532.00	$ 0.00	$ 89,580,532.00

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended

June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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

Year Ended June 30:	RHBF	DIPNC
2019	$ (17,919,431.00)	$ 63,122.00
2020	(17,919,431.00)	63,122.00
2021	(17,919,431.00)	63,104.00
2022	(17,919,431.00)	19,528.00
2023	(17,902,808.00)	
Total	$ (89,580,532.00)	$ 208,876.00

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

University employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 14, Other Postemployment Benefits, for additional information regarding retiree health benefits.

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

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

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

Auxiliary and other operations not supported by the State's General Fund purchased extended or broad form coverage through the Fund. Broad form coverage on buildings and contents totaled $182,900,772 for residence halls, the Campus Rec Center, and the Environmental Health and Safety facility. The University purchased extended coverage and fire insurance for both the building and contents for Williams Cafeteria in the amount of $55,913,962. The University also carried fire insurance on the building and broad form coverage on the contents of Brown Hall which houses the ticket office, mail center, and the bookstore, excluding the bookstore contents, in the amount of $7,148,776.

Basic coverage for buildings and contents was carried on the New Student Health Center, the stadium complex, the Aggie Skybox, the Bryan Fitness and Wellness Center, and the parking deck in the amount of $45,630,500.

All risk insurance in the amount of $4,521,988 was purchased for certain equipment located in the Paul Robeson Theatre, the research center in Kannapolis, the Bryan Fitness and Wellness Center, the Child Development Lab, and the motor sports program. The research and motors sports equipment are housed in leased facilities. Losses covered for each of these items is subject to a $5,000 deductible per occurrence.

The University is required to maintain all risk replacement cost insurance for equipment that is leased from Kitchens To Go as provided in the lease agreement, in the amount of $1,554,400. The University was also required to insure the leased Sprung Instant Structure (The Aggie Dome) for occupancy liability hazards for the amount of the full purchase price of $446,326, for any loss due to physical damage to the structure. Contents of the dome that are owned by the University were insured for $418,550. These leases will expire with the completion of the new Student Center which will open in the fall of 2018.

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. Professional medical liability coverage has been purchased for physicians and non-physician staff members. Individual policies provide coverage of $1 million per person, with a $3 million total.

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 $9,068,227.18 and on other purchases were $20,815,454.32 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
Pledges to Endowments	$ 7,849,291.52

NOTE 17 - RELATED PARTIES

The University and The University of North Carolina at Greensboro have formed a jointly governed nonprofit organization, Gateway University Research Park, Inc., which is also a component unit of the State of North Carolina. The purpose of this organization is to provide a collaborative research environment that fosters academic enrichment, research growth, technology transfer, commercialization, and discovery while encouraging and promoting regional economic development. During the fiscal year, the University paid $100,000.00 in management fees, $250,000.00 for enhancements to the Joint School of Nanoengineering and Nanotechnology facility, and $1,505,481.00 in operations and maintenance funds to Gateway University Research Park, Inc.

NOTE 18 - 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 19 - NET POSITION RESTATEMENT

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

	Amount
July 1, 2017 Net Position as Previously Reported	$ 402,480,822.60
Restatement:	
Record the University's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	(264,346,070.00)
July 1, 2017 Net Position as Restated	$ 138,134,752.60

NOTE 20 - SUBSEQUENT EVENT

One of the missions of the North Carolina A&T Real Estate Foundation, Inc. is to supplement student housing for the University. On June 20, 2018, the Foundation's LLC secured financing in the amount of $19,871,564 to purchase a student housing facility, known as Campus Evolution Village, through an interim term loan agreement with a June 20, 2019 maturity date. On November 14, 2018, the interim term loan agreement was amended to include a $6,000,000 taxable non-revolving line of credit that also matures on June 20, 2019. Proceeds from the line of credit will be used to enhance Campus Evolution Village, upfront design costs of a new dormitory on the campus of the University, and to purchase a 110-bed student housing facility, known as Campus Edge, located a few blocks from the campus.

REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

	2017	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.40468%	0.40361%	0.39925%	0.41276%	0.42120%
Proportionate Share of TSERS Collective Net Pension Liability	$ 32,109,096.00	$ 37,095,928.00	$ 14,713,153.00	$ 4,839,285.00	$ 25,571,132.00
Covered Payroll	$ 66,669,178.36	$ 64,194,369.39	$ 64,055,133.27	$ 64,416,518.84	$ 66,743,118.20
Net Pension Liability as a Percentage of Covered Payroll	48.16%	57.79%	22.97%	7.51%	38.31%
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.

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

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 7,485,337.30	$ 6,653,584.00	$ 5,873,784.80	$ 5,861,044.69	$ 5,597,795.49
Contributions in Relation to the Contractually Determined Contribution	7,485,337.30	6,653,584.00	5,873,784.80	5,861,044.69	5,597,795.49
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 69,437,266.26	$ 66,669,178.36	$ 64,194,369.39	$ 64,055,133.27	$ 64,416,518.84
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 5,559,701.75	$ 4,988,312.34	$ 3,566,826.96	$ 2,523,015.42	$ 2,263,691.30
Contributions in Relation to the Contractually Determined Contribution	5,559,701.75	4,988,312.34	3,566,826.96	2,523,015.42	2,263,691.30
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 66,743,118.20	$ 67,047,208.84	$ 72,349,431.21	$ 70,672,700.79	$ 67,371,764.86
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.

Changes of Benefit Terms:

Cost of Living Increase

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

Changes of assumptions. In 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. The discount rate for Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation.

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

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

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

	2017	2016
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	0.54571%	0.62362%
Proportionate Share of Collective Net OPEB Liability	$ 178,919,711.00	$ 271,295,897.00
Covered Payroll	$ 105,081,359.60	$ 102,305,367.37
Net OPEB Liability as a Percentage of Covered Payroll	170.27%	265.18%
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	0.58345%	0.58230%
Proportionate Share of Collective Net OPEB Asset	$ 356,605.00	$ 361,608.00
Covered Payroll	$ 105,081,359.60	$ 102,305,367.37
Net OPEB Asset as a Percentage of Covered Payroll	0.34%	0.35%
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* .

North Carolina Agricultural and Technical State University
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years ***Exhibit C-4***

Retiree Health Benefit Fund

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 6,645,002.06	$ 6,105,226.99	$ 5,729,100.57	$ 5,586,742.25	$ 5,671,902.69
Contributions in Relation to the Contractually Determined Contribution	6,645,002.06	6,105,226.99	5,729,100.57	5,586,742.25	5,671,902.69
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 109,834,744.77	$ 105,081,359.60	$ 102,305,367.37	$ 101,762,153.99	$ 105,035,234.93
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	$ 5,672,455.41	$ 5,259,208.44	$ 5,260,358.30	$ 4,748,108.32	$ 4,298,029.38
Contributions in Relation to the Contractually Determined Contribution	5,672,455.41	5,259,208.44	5,260,358.30	4,748,108.32	4,298,029.38
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 107,027,460.49	$ 105,184,168.87	$ 107,354,251.11	$ 105,513,518.24	$ 104,829,984.76
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%

Disability Income Plan of North Carolina

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 153,768.64	$ 399,309.17	$ 419,452.01	$ 417,224.83	$ 462,155.03
Contributions in Relation to the Contractually Determined Contribution	153,768.64	399,309.17	419,452.01	417,224.83	462,155.03
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 109,834,744.77	$ 105,081,359.60	$ 102,305,367.37	$ 101,762,153.99	$ 105,035,234.93
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	$ 470,920.83	$ 546,957.68	$ 558,242.11	$ 548,670.29	$ 545,115.92
Contributions in Relation to the Contractually Determined Contribution	470,920.83	546,957.68	558,242.11	548,670.29	545,115.92
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 107,027,460.49	$ 105,184,168.87	$ 107,354,251.11	$ 105,513,518.24	$ 104,829,984.76
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.

North Carolina Agricultural and Technical State University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

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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
North Carolina Agricultural and Technical State University
Greensboro, 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 North Carolina Agricultural and Technical State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 5, 2018. Our report includes a reference to other auditors who audited the consolidated financial statements of The North Carolina A&T Real Estate Foundation, Inc., as described in our report on the University's financial statements. The consolidated financial statements of The North Carolina A&T Real Estate Foundation, Inc. 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 this entity.

Internal Control Over Financial Reporting

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

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

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

<u>Compliance and Other Matters</u>

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.*

<u>Purpose of this Report</u>

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 5, 2018

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For additional information contact:
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This audit required 740 hours at an approximate cost of $76,220.