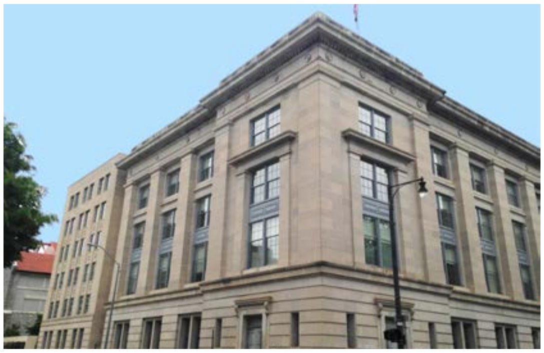
State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA



Western Carolina University

Cullowhee, 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

NC OSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Western Carolina 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
Office of the State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Western Carolina University
Cullowhee, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Western Carolina University Foundation, which represent 6.59 percent and 5.12 percent, respectively, of the assets and revenues of the University; nor the financial statements of Western Carolina University Research and Development Corporation, which represent 0.53 percent and 0.01 percent, respectively, of the assets and revenues of the University. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Western Carolina University Foundation and Western Carolina University Research and Development Corporation were not audited in accordance with *Government Auditing Standards*.

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

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

<u>Opinion</u>

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Western Carolina University, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

<u>Emphasis of Matter</u>

As discussed in Note 20 to the financial statements, during the year ended June 30, 2018, Western Carolina 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.

<u>Other Matters – Required Supplementary Information</u>

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.

<u>Other Reporting Required by *Government Auditing Standards*</u>

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 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

October 23, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Western Carolina University's (University) financial report includes three financial statements and the *Notes to the Financial Statements*. The *Statement of Net Position* presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the institution as of the end of the fiscal year; the *Statement of Revenues, Expenses, and Changes in Net Position* reflects revenues and expenses recognized during the fiscal year; and the *Statement of Cash Flows* provides information on all of the institution's cash inflows and outflows during the fiscal year by major category. These financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements, which establish standards for external financial reporting for public colleges and universities. GASB standards require that financial statements be presented on a consolidated basis in order to focus on the University as a whole. The financial activities of Western Carolina University Foundation (Foundation) and Western Carolina University Research and Development Corporation (Corporation) are blended in the University's financial statements. The Corporation also includes the activity of the Corporation for Entrepreneurship and Innovation, LLC. See Note 19 to the financial statements for the condensed combining information for the University's blended component units. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Statement of Net Position

The *Statement of Net Position* presents assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the date of the fiscal year end (June 30). This statement assists in the determination of the financial condition of the University. Data presented in the *Statement of Net Position* helps readers determine the assets available to continue the operations of the University and how much the University owes vendors and lending institutions. In addition, the net position section of the statement reflects the residual value of the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and classifies their availability for expenditure. Effective for the University's 2018 fiscal year financials, GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. As part of the implementation of this statement, a net other postemployment benefits (OPEB) asset, a deferred outflow for OPEB, a net OPEB liability, and a deferred inflow for OPEB have been recorded. Prior year amounts in the *Statement of Net Position* have been restated to reflect this change in accounting standards. See Note 21 to the financial statements for details on this restatement. Also see Note 11 to the financial statements for details on the impact of this statement to net position.

Condensed Statement of Net Position

	2018	2017 (as Restated)	$ Change	% Change
Assets				
Current Assets	$ 128,892,632.14	$ 116,023,303.46	$ 12,869,328.68	11.09%
Capital Assets, Net	427,246,748.58	418,128,046.85	9,118,701.73	2.18%
Other Noncurrent Assets	146,455,985.04	83,093,962.40	63,362,022.64	76.25%
Total Assets	702,595,365.76	617,245,312.71	85,350,053.05	13.83%
Total Deferred Outflows of Resources	24,339,489.65	29,821,698.91	(5,482,209.26)	-18.38%
Liabilities				
Current Liabilities	21,653,011.60	18,240,280.97	3,412,730.63	18.71%
Long-Term Liabilities, Net	366,483,276.77	405,785,054.87	(39,301,778.10)	-9.69%
Other Noncurrent Liabilities	7,249,390.85	7,401,573.03	(152,182.18)	-2.06%
Total Liabilities	395,385,679.22	431,426,908.87	(36,041,229.65)	-8.35%
Total Deferred Inflows of Resources	104,091,109.12	24,452,614.99	79,638,494.13	325.68%
Net Position				
Net Investment in Capital Assets	273,646,084.64	268,078,585.27	5,567,499.37	2.08%
Restricted – Nonexpendable	49,211,631.27	43,556,088.36	5,655,542.91	12.98%
Restricted – Expendable	57,556,023.24	41,205,236.66	16,350,786.58	39.68%
Unrestricted	(152,955,672.08)	(161,652,422.53)	8,696,750.45	-5.38%
Total Net Position	$ 227,458,067.07	$ 191,187,487.76	$ 36,270,579.31	18.97%

Assets

Current assets, which consist primarily of cash, accounts and notes receivable, and operating inventories, increased by almost $12.9 million. This increase was due in great part to an approximate $9.3 million increase in unrestricted cash and cash equivalents. Auxiliary administration reserves increased $2.8 million through an effort to build a surplus to fund campus services and small capital projects on campus. Certain unspent technology and program fees collected in trust funds accounted for a $2.5 million increase in unrestricted cash. Dining reserves increased almost $1.0 million. The University continued to build the housing reserve with a $0.7 million increase this fiscal year through an increase in revenues. Other auxiliary operations saw a modest increase of $1.3 million, which include a bookstore increase of $0.5 million from increased sales and rental fees, and unspent student activity fees of $0.8 million. Other unrestricted University programs accounted for the remaining increase of $1.0 million, including two funds which are funded by interest earnings which saw a modest increase this year. Current restricted cash increased by almost $3.1 million as the result of an increase in the amount of noncurrent restricted cash reclassified as current restricted to pay for plant fund current liabilities resulting from the construction of the upper campus residence hall and the natural science (STEM) building, offset by a $0.4 million reduction in current restricted cash for grant funds. Receivables decreased by approximately $0.2 million resulting from a slight increase in student receivables and pledges receivable, offset by a higher decrease in other receivables. Inventories increased by almost $0.7 million, mainly because of an increase of bookstore and book rental inventories, electrical supplies, and physical plant supplies.

Net capital assets increased $9.1 million. The University purchased additional land, resulting in an increase of almost $0.7 million. Other capital asset additions included infrastructure of $1.5 million, equipment and furnishings of $2.1 million, buildings of $0.3 million, and a minimal amount of artwork near $0.1 million. Construction in progress increased $15.3 million because of two major capital projects under construction, the upper campus residence hall and the STEM building. The additions were offset by disposals as follows: buildings of $0.5 million, infrastructure of almost $1.0 million, and equipment and furnishings of $2.5 million. Depreciation and amortization expense was $9.0 million for the year. Depreciation on disposals totaled $2.1 million. See Note 6 to the financial statements for additional details related to capital assets.

Other noncurrent assets increased approximately $63.3 million. Noncurrent cash increased $47.9 million. The cash increase consists of almost $44.7 million of unspent bond proceeds received for the upper campus residence hall project. Allotted and unallotted cash for capital projects increased $5.4 million. Reserves in the State Treasurer's Short-Term Investment Fund increased by almost $0.7 million. Endowment cash increased $0.3 million. Minor increases in other components of noncurrent cash make up the balance of the change. Offsetting noncurrent cash was an additional $3.5 million which had to be reclassified to current restricted cash this year to cover additional current plant fund liabilities. Endowment investments and restricted investments increased approximately $11.3 million and approximately $3.3 million, respectively, as a result of an increase in market value and additions to permanent endowments. There was an increase in notes receivable, net, of $0.2 million because of an increase in student loans. Receivables, net, increased by $0.6 million because of an increase in pledge activity.

Deferred Outflows of Resources

The University has three deferred outflows of resources. The first outflow is in the amount of approximately $4.8 million for a deferred loss on refunding. This deferred outflow is amortized as a component of interest and fees on debt over the shorter of the remaining life of the refunded debt or the life of the new debt. It decreased by $0.3 million because of normal amortization. The second deferred outflow is almost $13.7 million for a deferred outflow for pensions. This outflow decreased $5.5 million because of differences between actual and projected earnings and actuarial assumptions. Approximately $5.0 million of this deferred outflow will reduce the net pension liability for the year ending June 30, 2019. The third deferred outflow is for OPEB, new this year given the implementation of GASB 75. At June 30, 2018, this outflow was $5.8 million, having increased from a restated beginning balance of almost $5.5 million based on a change of actuarial assumptions and differences between actual and projected earnings. Approximately $5.6 million of this outflow will reduce the net OPEB liability for the year ending June 30, 2019.

Liabilities

Current liabilities increased by $3.4 million. The increase resulted because of an accounts payable increase of almost $4.4 million driven by construction on the upper campus residence hall, offset by a decrease in other accrued liabilities of $1.1 million. Unearned revenue decreased by almost $0.7 million due to a drop in grant unearned revenue. Interest payable increased $0.5 million because of the issuance of bonds during the fiscal year for the construction of the upper campus residence hall. The current portion of long-term liabilities increased almost $0.3 million because of an increase in principal repayments due in the next year on existing debt.

Long-term liabilities, net, decreased by $39.3 million. A significant portion of this decrease resulted from a change in actuarial assumptions for the OPEB liability. The beginning of the fiscal year restated amount for the OPEB liability was $248.1 million and decreased by $82.1 million, ending the fiscal year at $166.0 million. The pension liability decreased $3.0 million. A bond issuance of $46.3 million took place during the fiscal year. There were repayments of $2.6 million in bond principal indebtedness and $1.8 million in limited obligation bond repayment. Unamortized bond premiums increased $5.2 million as a result of the revenue bond issuance, but was offset by approximately $0.4 million because of normal amortization. Principal repayments were made of almost $0.9 million for capital leases and notes payable. Compensated absences increased $0.3 million because of an increase in employee salaries. The remaining change resulted from an increase in the current portion of long-term liabilities. See Note 9 to the financial statements for additional details related to long-term liabilities.

Other noncurrent liabilities decreased by a nominal amount.

Deferred Inflows of Resources

Deferred inflows of resources has three components this year. The first component is deferred inflows related to pensions. This amount decreased by almost $0.5 million to a balance of nearly $.8 million at June 30, 2018. The reduction is based on actuarial calculations and differences between actual and projected earnings. The second deferred inflow is a deferred inflow under a service concession arrangement. This deferred inflow resulted from the capitalization of Noble Hall during the prior fiscal year. This inflow is amortized over the life of the service concession arrangement. At year-end, the balance of the inflow was almost $22.7 million, a decrease of $0.5 million. With the implementation of GASB 75 this year, a deferred inflow related to OPEB had a balance of $80.6 million at year end. Much like deferred inflows related pensions, this amount will be adjusted annually based on actuarial calculations taking into account differences between projected and actual investment earnings.

Net Position

Net position represents residual interest in the University's assets and deferred outflows of resources after all liabilities and deferred inflows of resources are deducted. For reporting purposes, net position is divided into three major components:

- "Net Investment in Capital Assets" represents the University's investment in capital assets such as movable equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and amortization and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets, together with any deferred inflows of resources related to such acquisition. Additionally, deferred outflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position. At June 30, 2018, $273.6 million of the $227.4 million in net position was attributable to the University's investment in capital assets.
- Restricted net position is subject to externally imposed restrictions governing use and is further divided into two categories: nonexpendable and expendable. "Restricted - Nonexpendable" net position primarily includes the University's permanent endowment funds received from donors for the purpose of creating present and future income. These funds must be held inviolate and in perpetuity and are, therefore, not expendable. Earnings on these funds support various programs determined by donors. The nonexpendable category makes up $49.2 million of the $227.4 million net position total. "Restricted - Expendable" net position is available for expenditure in accordance with externally imposed restrictions. Examples include funds for scholarships, debt service, and capital projects. At June 30, 2018, expendable net position totaled approximately $57.5 million.
- "Unrestricted" net position is not subject to externally imposed restrictions, although management has designated these funds for various academic, institutional, and research programs and initiatives, as well as capital projects. This year, unrestricted net position totaled a deficit of approximately $152.9 million. Note that unrestricted net

position was significantly affected by the implementation of GASB 75 which required the University to report the net OPEB liability and the related deferred inflows and outflows. See Note 11 to the financial statements for additional details of this deficit in unrestricted net position.

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. Given a public university's dependency on revenues such as state appropriations, gifts, and investment income, which are prescribed by GASB as nonoperating revenues, operating expenses will exceed operating revenues, resulting in an operating loss. Net nonoperating revenues and expenses are integral components in determining the increase or decrease in net position.

Generally speaking, operating revenues are generated through the provision of goods and services, and include tuition and fees, contract and grant revenue, interest earnings on student loans, and sales and services revenue generated by student housing, the bookstore, and other enterprises. Operating expenses are the costs incurred to acquire or produce the goods and services provided and to conduct the affairs of the institution.

Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations, while budgeted for operations, are reported as nonoperating revenue because they are provided by the state legislature without the legislature directly receiving commensurate goods and services in return for those revenues. Nonoperating expenses include interest expense, extraordinary items, and other expenses not incurred in the normal operations of the University.

Capital appropriations, capital gifts, and additions to permanent endowments are considered neither operating nor nonoperating revenues and are reported on the statement after "Income Before Other Revenues."

The following is a condensed *Statement of Revenues, Expenses, and Changes in Net Position* for the University as of June 30, 2018, with comparative data for 2017.

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

	2018	2017*	$ Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	$ 62,706,855.57	$ 60,200,292.11	$ 2,506,563.46	4.16%
Grants and Contracts	4,933,272.70	4,284,913.09	648,359.61	15.13%
Sales and Services, Net	45,457,031.76	42,487,351.26	2,969,680.50	6.99%
Other Operating Revenues	2,677,536.23	3,003,783.66	(326,247.43)	-10.86%
Total Operating Revenues	115,774,696.26	109,976,340.12	5,798,356.14	5.27%
Operating Expenses				
Salaries and Benefits	132,888,591.66	129,005,630.69	3,882,960.97	3.01%
Supplies and Materials	21,415,814.28	22,757,814.40	(1,342,000.12)	-5.90%
Services	42,649,698.20	40,502,102.11	2,147,596.09	5.30%
Scholarships and Fellowships	12,255,488.96	11,979,010.55	276,478.41	2.31%
Utilities	5,031,646.57	4,554,182.72	477,463.85	10.48%
Depreciation/Amortization	9,037,704.61	8,610,626.98	427,077.63	4.96%
Total Operating Expenses	223,278,944.28	217,409,367.45	5,869,576.83	2.70%
Operating Loss	(107,504,248.02)	(107,433,027.33)	(71,220.69)	0.07%
Nonoperating Revenues (Expenses)				
State Appropriations	95,829,052.59	89,333,308.85	6,495,743.74	7.27%
Noncapital Grants - Student Financial Aid	26,316,077.16	24,807,950.10	1,508,127.06	6.08%
Noncapital Grants	131,740.00	224,956.24	(93,216.24)	-41.44%
Noncapital Gifts, Net	5,759,762.20	5,168,185.68	591,576.52	11.45%
Investment Income, Net	8,306,318.54	8,176,666.52	129,652.02	1.59%
Interest and Fees on Debt	(4,617,099.54)	(4,115,015.62)	(502,083.92)	12.20%
Other Nonoperating Expenses	(1,804,047.63)	(643,937.51)	(1,160,110.12)	180.16%
Net Nonoperating Revenues	129,921,803.32	122,952,114.26	6,969,689.06	5.67%
Income Before Other Revenues	22,417,555.30	15,519,086.93	6,898,468.37	44.45%
Capital Appropriations	7,751,684.58	3,925,255.16	3,826,429.42	97.48%
Capital Gifts	431,381.67	640,000.00	(208,618.33)	-32.60%
Additions to Permanent Endowments	5,669,957.76	1,803,979.04	3,865,978.72	214.30%
Total Other Revenues	13,853,024.01	6,369,234.20	7,483,789.81	117.50%
Increase in Net Position	36,270,579.31	21,888,321.13	14,382,258.18	65.71%
Beginning Net Position, Prior to Restatement	191,187,487.76	411,619,074.99	(220,431,587.23)	-53.55%
GASB 75 Restatement (Note 21)		(242,319,908.36)	242,319,908.36	100.00%
Ending Net Position, As Restated	$ 227,458,067.07	$ 191,187,487.76	$ 36,270,579.31	18.97%
Reconciliation of Increase in Net Position				
Total Revenues	$ 265,970,670.76	$ 244,056,641.71	$ 21,914,029.05	8.98%
Total Expenses	229,700,091.45	222,168,320.58	7,531,770.87	3.39%
Increase in Net Position	$ 36,270,579.31	$ 21,888,321.13	$ 14,382,258.18	65.71%

* 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.

Operating Revenues

Operating revenues increased almost $5.8 million, based on the following:

- Student tuition and fees increased by $2.5 million as a result of a slight increase in tuition and fee rates for new students, coupled with Fall 2017 enrollment growth of 228 students as compared to Fall 2016.
- Grants and contracts revenues increased $0.6 million. Federal grants were down $0.1 million, state grants were up $0.3 million, and nongovernmental grants were up $0.4 million. The nature of grant activity is to fluctuate year to year. State and nongovernmental grants were up in part because of the inaugural year of operating a lab school created by legislative action. Receipts from the North Carolina Department of Instruction and the Jackson County Board of Education were treated as grant revenue.
- Sales and services revenue increased almost $3.0 million due to increases in fee rates for housing, dining, and other auxiliary services, coupled with enrollment growth.
- Other operating revenues decreased $0.3 million primarily because of a reduction in rental revenues.

Nonoperating Revenues

Net nonoperating revenues increased by almost $7.0 million, based on the following:

- State appropriations increased by almost $6.5 million as a result of enrollment growth funding, which accounted for almost $5.0 million of the increase.
- Noncapital grants for student financial aid increased by $1.5 million, due to an increase in Pell grants and state scholarships, offset by a decrease in state grants.
- Noncapital gifts, net increased by almost $0.6 million. The NCAA grant increased almost $0.2 million. The remaining increase is the result of gifts to the Foundation for athletic programs, academic programs, and scholarships.
- Investment income increased by $0.1 million because of stability and slightly higher market performance. The total investment income was composed in part by realized gains of almost $1.6 million, and unrealized gains of almost $4.9 million. Realized losses and unrealized losses were minimal. STIF interest income was almost $1.3 million for the year and other investment earnings were $0.1 million. Endowment income was approximately $0.5 million for the year.
- Interest and fees on debt increased by $0.5 million as a result of normal amortization.
- Other nonoperating expenses increased by $1.1 million. This category is composed of loss on the disposal of assets of $1.6 million coupled with $0.2 million in miscellaneous expenses.

Among the University's greatest strengths are the diverse revenue streams that supplement student tuition and fees. These include gifts from individuals, foundations, and corporations, along with state appropriations, investment income, and federal, state, and private grants and contracts. The University has sought and will continue to seek funding from available sources that are consistent with its mission and will continue to prudently manage the financial resources realized from these efforts in order to supplement tuition and fee revenues and fund its operating activities.

Operating Expenses

Operating expenses increased $5.8 million, based on the following:

- Salaries and benefits for the faculty and staff of the University and other payroll costs increased by almost $3.9 million. A portion of the increase was from a $1.5 million increase in pension expense. This increase resulted from a change in actuarial assumptions adopted by the trustees of the pension plan. Salaries and benefits also increased given that the State awarded salary increases of $1,000 to employees. In addition, the University recognized OPEB expense of $3.8 million for the first time. There was also a slight increase in health insurance costs. These amounts were offset by deducting employer contributions of $5.6 million from salaries and benefits expense.
- Supplies and materials decreased by $1.3 million. The reduction resulted primarily from spending $1.2 million less in capital items that did not meet capitalization requirements.
- Services increased by $2.1 million primarily due to additional spending for contract food services of approximately $1.1 million, contract towing of $0.3 million, rent of $0.9 million, software subscriptions of $0.2 million, and registrations of $0.2 million. These amounts were offset by decreases in other repairs of $0.6 million.
- Scholarships and fellowships, net of scholarship discount, increased by almost $0.3 million. Before application of the $26.9 million discount, scholarships increased by $1.5 million, partly due to increases in endowed scholarships, athletic scholarships, need-based scholarships, and Pell Grants.
- Utilities expense increased this year by $0.4 million. Electricity costs, natural gas costs, and water and sewer costs were all higher this year.
- Depreciation and amortization expense increased $0.4 million this fiscal year. The addition of capital assets contributed to the increase, particularly buildings that are in their first full year of service.

Other Revenues

The additions to permanent endowments increased by $3.8 million this fiscal year because the University's fundraising efforts were directed toward funding more scholarships. Capital appropriations increased by $3.8 million as the University continues to incur expenses for the construction of the new STEM building, together with associated preparation costs. The University is reimbursed for these expenses as part of the Connect NC Bonds.

Capital Asset and Debt Administration

At June 30, 2018, the University had $559.4 million invested in capital assets, and accumulated depreciation and amortization of $132.1 million. Depreciation and amortization charges for the current year totaled $9.0 million.

The University has begun construction of the new STEM building. Construction of the building is being funded by a bond issue (Connect NC Bonds) approved by North Carolina voters in 2016. It is projected that construction of the new science building will be completed by 2020.

Construction commenced this year on an upper campus residence hall with 600 beds. This project is financed by the issuance of revenue bonds. This project is scheduled to be completed in time for the Fall 2019 semester.

The University also has been authorized to proceed with the design phase of a parking garage. It is anticipated this project will be funded through the issuance of debt and the use of parking reserves. The University has also received legislative funding to replace the aging steam plant that has served the campus for decades. The project is slated for completion in 2021. Planning has begun for a lower campus residence hall containing up to 750 beds.

The University's financial statements reflect $159.2 million in bonds payable and limited obligation bonds, $12.2 million in unamortized premiums, a small unamortized discount, almost $2.4 million in notes payable, and $1.8 million in capital leases payable at June 30, 2018. The indebtedness includes the debt of the Corporation and Foundation, which are blended with the University indebtedness for financial presentation purposes. Current year changes in the University's debt balances were discussed previously in the "Liabilities" section of this analysis.

For additional information on capital assets, leases, and debt administration, see Notes 6, 9, and 10 to the financial statements.

Economic Outlook

A significant factor in the University's capacity to generate resources is the ability to recruit and retain high quality students. The freshman retention rate from Fall 2017 to Fall 2018 increased slightly to 79.9%. The University continues to pursue strategic growth in all categories of enrollment - resident credit and distance learning enrollments, at both the undergraduate and graduate levels. Total enrollment for Fall 2018 was 11,639 as compared to 11,034 in Fall 2017. The Fall 2018 enrollment set a new record for enrollment. The University aspires to continue to increase enrollment through quality recruitment and retention, generating increases in revenues such as fees, sales and services, and state appropriations, as well as the corresponding operating expenses incurred by serving a larger numbers of students.

Looking toward the future, management believes that the University is well positioned to maintain its strong financial condition and to advance both the quality and scope of its services to the students, the State, and the region.

The University continues to be recognized in national rankings. During the 2018 fiscal year, the University was ranked 13th among "top public regional universities" in the South by *U.S. News and World Report.* The same publication ranked the University 38th as the "best regional universities" in the South. The *Military Times* ranks the University at 82nd among more than 600 technical schools, colleges, and universities as a good fit for service members, veterans and family members. The University's online Master of Project Management Program was ranked fourth by the website *mastersprogramguide.com.*

The State of North Carolina implemented a tuition "buy-down" plan known as the NC Promise Tuition Plan. Beginning in Fall 2018, the NC Promise Tuition Plan prescribed that in-state undergraduate students at the University will pay $500 per semester for tuition rather than the nearly $2,000 they paid during the 2018 fiscal year, and out-of-state undergraduate tuition will drop from more than $7,100 to $2,500 per semester, with the difference being made up by additional appropriations. It's important to note here that the "buy-down" applies only to undergraduate students and costs related to housing, meals, and fees are not affected by this legislation as those costs must still be paid by the student. Because the University manages its growth based in part on capacity, acceptance to the University has become more competitive while at the same time the University is committed to providing an accessible, affordable education to prepare students in our region to be successful.

The State has committed funding to the NC Promise Tuition Plan. The Director of the Budget has the authority to increase the base budget for the University of North Carolina System by up to $51 million for the 2019 fiscal year to cover the cost of the "buy-down" and will allocate the appropriate sum to the University as well as the two other universities approved for the plan, Elizabeth City State University and The University of North Carolina at Pembroke.

FINANCIAL STATEMENTS

Western Carolina University
Statement of Net Position
June 30, 2018

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 96,977,371.80
Restricted Cash and Cash Equivalents	20,003,999.69
Receivables, Net (Note 5)	4,373,195.91
Inventories	6,507,269.73
Notes Receivable, Net (Note 5)	910,982.48
Other Assets	119,812.53
Total Current Assets	128,892,632.14
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	55,415,871.66
Receivables, Net (Note 5)	711,953.58
Endowment Investments	80,623,173.76
Restricted Investments	4,595,157.80
Other Investments	13,500.00
Notes Receivable, Net (Note 5)	4,654,810.27
Net Other Postemployment Benefits Asset	341,435.42
Prepaid Bond Insurance	100,082.55
Capital Assets - Nondepreciable (Note 6)	34,363,197.56
Capital Assets - Depreciable, Net (Note 6)	392,883,551.02
Total Noncurrent Assets	573,702,733.62
Total Assets	702,595,365.76
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Loss on Refunding	4,797,797.20
Deferred Outflows Related to Pensions	13,677,054.52
Deferred Outflows Related to Other Postemployment Benefits (Note 15)	5,864,637.93
Total Deferred Outflows of Resources	24,339,489.65
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 8)	7,548,367.53
Unearned Revenue	6,633,149.66
Interest Payable	1,297,578.18
Long-Term Liabilities - Current Portion (Note 9)	6,173,916.23
Total Current Liabilities	21,653,011.60
Noncurrent Liabilities:	
Accounts Payable and Accrued Liabilities (Note 8)	1,594,170.30
Deposits Payable	97,456.35
Funds Held for Others	652,325.91
U. S. Government Grants Refundable	4,905,438.29
Long-Term Liabilities, Net (Note 9)	366,483,276.77
Total Noncurrent Liabilities	373,732,667.62
Total Liabilities	395,385,679.22
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Under Service Concession Arrangement (Note 7)	22,673,627.02
Deferred Inflows Related to Pensions	789,281.27
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	80,628,200.83
Total Deferred Inflows of Resources	104,091,109.12

NET POSITION

Net Investment in Capital Assets	273,646,084.64
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	27,919,638.27
Endowed Professorships	19,225,643.37
Departmental Uses	1,137,337.63
Loans	929,012.00
Expendable:	
Scholarships and Fellowships	23,176,779.56
Endowed Professorships	10,698,755.31
Departmental Uses	3,109,358.77
Loans	431,265.26
Capital Projects	14,046,785.43
Debt Service	5,443,982.02
Other	649,096.89
Unrestricted	(152,955,672.08)
Total Net Position	$ 227,458,067.07

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

Western Carolina 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 12)	$	62,706,855.57
Federal Grants and Contracts		3,410,886.40
State and Local Grants and Contracts		580,137.33
Nongovernmental Grants and Contracts		942,248.97
Sales and Services, Net (Note 12)		45,457,031.76
Interest Earnings on Loans		19,624.98
Other Operating Revenues		2,657,911.25
Total Operating Revenues		115,774,696.26
EXPENSES		
Operating Expenses:		
Salaries and Benefits		132,888,591.66
Supplies and Materials		21,415,814.28
Services		42,649,698.20
Scholarships and Fellowships		12,255,488.96
Utilities		5,031,646.57
Depreciation/Amortization		9,037,704.61
Total Operating Expenses		223,278,944.28
Operating Loss		(107,504,248.02)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		95,829,052.59
Noncapital Grants - Student Financial Aid		26,316,077.16
Noncapital Grants		131,740.00
Noncapital Gifts, Net (Note 12)		5,759,762.20
Investment Income (Net of Investment Expense of $402,011.45)		8,306,318.54
Interest and Fees on Debt		(4,617,099.54)
Other Nonoperating Expenses		(1,804,047.63)
Net Nonoperating Revenues		129,921,803.32
Income Before Other Revenues		22,417,555.30
Capital Appropriations		7,751,684.58
Capital Gifts		431,381.67
Additions to Endowments		5,669,957.76
Increase in Net Position		36,270,579.31
NET POSITION		
Net Position - July 1, 2017, as Restated (Note 21)		191,187,487.76
Net Position - June 30, 2018	$	227,458,067.07

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

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 113,307,911.49
Payments to Employees and Fringe Benefits	(132,225,863.08)
Payments to Vendors and Suppliers	(69,161,045.46)
Payments for Scholarships and Fellowships	(12,255,488.96)
Loans Issued	(1,178,141.86)
Collection of Loans	778,450.57
Interest Earned on Loans	119,033.68
Student Deposits Received	498,502.19
Student Deposits Returned	(534,724.45)
Other Receipts	2,046,764.86
Net Cash Used by Operating Activities	(98,604,601.02)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	95,829,052.59
Noncapital Grants - Student Financial Aid	26,316,077.16
Noncapital Grants	131,740.00
Noncapital Gifts	4,621,406.23
Additions to Endowments	5,436,207.59
William D. Ford Direct Lending Receipts	73,718,990.00
William D. Ford Direct Lending Disbursements	(73,718,990.00)
Related Activity Agency Receipts	2,602,067.12
Related Activity Agency Disbursements	(2,615,206.20)
Other Payments	(156,341.00)
Net Cash Provided by Noncapital Financing Activities	132,165,003.49
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	48,208,186.24
Capital Appropriations	7,751,684.58
Proceeds from Sale of Capital Assets	20,218.33
Acquisition and Construction of Capital Assets	(17,034,351.38)
Principal Paid on Capital Debt and Leases	(5,265,178.47)
Interest and Fees Paid on Capital Debt and Leases	(4,099,929.08)
Net Cash Provided by Capital Financing and Related Financing Activities	29,580,630.22
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	3,226,046.56
Investment Income	3,859,436.63
Purchase of Investments and Related Fees	(9,891,299.39)
Net Cash Used by Investing Activities	(2,805,816.20)
Net Increase in Cash and Cash Equivalents	60,335,216.49
Cash and Cash Equivalents - July 1, 2017	112,062,026.66
Cash and Cash Equivalents - June 30, 2018	$ 172,397,243.15

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

Operating Loss	$ (107,504,248.02)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	9,037,704.61
Amortization of Service Concession Arrangement	(611,146.39)
Allowances, Write-Offs, and Amortizations	140,846.81
Nonoperating Other Expenses	77,060.14
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	333,014.99
Inventories	(667,301.12)
Notes Receivable, Net	(259,210.22)
Net Other Postemployment Benefits Asset	(4,769.77)
Deferred Outflows Related to Pensions	5,544,359.55
Deferred Outflows Related to Other Postemployment Benefits	(370,566.96)
Prepaid Assets	(5,317.03)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	673,568.63
Due to Primary Government	(4,254.37)
Unearned Revenue	(233,442.98)
Net Pension Liability	(3,043,402.19)
Net Other Postemployment Benefits Liability	(82,126,110.00)
Compensated Absences	323,518.43
Deposits Payable	(38,331.76)
Deferred Inflows Related to Pensions	(494,774.20)
Deferred Inflows Related to Other Postemployment Benefits	80,628,200.83
Net Cash Used by Operating Activities	$ (98,604,601.02)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 96,977,371.80
Restricted Cash and Cash Equivalents	20,003,999.69
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	55,415,871.66
Total Cash and Cash Equivalents - June 30, 2018	$ 172,397,243.15

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$ 4,573,958.27
Assets Acquired through a Gift	568,556.62
Change in Fair Value of Investments	4,848,893.36
Reinvested Distributions	(2,379,605.28)
Loss on Disposal of Capital Assets	(1,920,037.70)
Bond Issuance Cost Withheld	102,434.67
Amortization of Bond Premiums/Discounts	(433,233.04)
Increase in Receivables Related to Nonoperating Income	775,062.07
Payments Made on Behalf of the University	(6,231.19)
Funds Escrowed to Disburse Construction Period Interest	3,222,513.89

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

Blended Component Units - Although legally separate, Western Carolina University Foundation (Foundation) and Western Carolina University Research and Development Corporation (Corporation), component units of the University, are reported as if they were part of the University.

The Foundation is governed by a 31-member board consisting of four ex officio directors and 27 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of the Western Carolina University Board of Trustees and the Foundation's sole purpose is to benefit Western Carolina University, its financial statements have been blended with those of the University.

The Corporation is governed by a five-member board consisting of one appointed director and four elected directors. The mission of the Corporation is to aid and promote the education and charitable purposes and lawful activities of the University. Because the University indirectly appoints the Corporation's board, and the debt outstanding of the Corporation is expected to be repaid entirely within the resources of the University, its financial statements have been blended with those of the University.

The Corporation for Entrepreneurship and Innovation, LLC (CEI), a North Carolina limited liability company, was formed on July 10, 2015. It is a wholly owned subsidiary of the Corporation, which is a nonprofit organization and blended component unit of the University, located in Cullowhee, North Carolina. CEI is operated by faculty within the College of Business at the University.

Separate financial statements for the Foundation and the Corporation may be obtained from the University Controller's Office, Suite 300N, Cullowhee, NC 28723, or by calling 828-227-3108.

Condensed combining information regarding blended component units is provided in Note 19.

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

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

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

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

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

E. **Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

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

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 and merchandise for resale, are valued at cost using the last invoice cost method.

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

The University capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for externally purchased software and other intangible assets which are capitalized when the value or cost is $100,000 or greater, and electric resale assets which are capitalized in accordance with the guidelines from the North Carolina Utilities Commission.

Depreciation and amortization are computed using the straight-line method for all assets, except for the electric resale assets which are computed using the composite rate method. These methods calculated depreciation and amortization over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	20-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-50 years
Computer Software	20 Years
Other Intangible Assets	10 Years

The art 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, limited obligation bonds, a note payable, capital leases payable, and annuity and life income payable. Other long-term liabilities include: compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

Revenue bonds payable and limited obligation bonds are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method that approximates the effective interest method. Deferred 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 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 14 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 15 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 under service concession arrangement, 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 11 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on net investment in capital assets and 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 dining, residential living, and printing services. 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 $171,305,005.41, 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 $36,165.00. The carrying amount of the University's deposits not with the State Treasurer, was $1,056,072.74, and the bank balance was $1,064,265.87. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2018, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 63,513.38
Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	326,558.35
Total	$ 390,071.73

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

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

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

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

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

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

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

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

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

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

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	Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
Debt Mutual Funds	$ 7,365,530.12	$ 0.00	$ 0.00	$ 7,365,530.12
Money Market Mutual Funds	50,477.73	50,477.73		
Total Debt Securities	7,416,007.85	$ 50,477.73	$ 0.00	$ 7,365,530.12
Other Securities				
UNC Investment Fund	42,312,125.73			
Balanced Mutual Fund	3,106,321.71			
International Mutual Funds	6,551,349.04			
Equity Mutual Funds	5,134,889.04			
Private Equity Limited Partnerships	956,094.00			
Domestic Stocks	4,673,170.97			
Foreign Stocks (denominated in US dollars)	1,065,408.18			
Exchange Traded Funds	7,803,282.58			
Real Estate Investment Trusts	1,149,127.95			
Other	2,122.00			
Total Long-Term Investment Pool	$ 80,169,899.05			

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

	Amount	BBB	BB	Unrated
Debt Mutual Funds	$ 7,365,530.12	$ 5,537,739.44	$ 1,827,790.68	$ 0.00
Money Market Mutual Funds	50,477.73			50,477.73
Totals	$ 7,416,007.85	$ 5,537,739.44	$ 1,827,790.68	$ 50,477.73

Rating Agency: Morningstar and Standard & Poor's

UNC Investment Fund, LLC - At June 30, 2018, the University's investments include $42,312,125.73, 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

		Investment Maturities (in Years)			
	Amount	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 3,223,641.55	$ 2,140,326.39	$ 1,083,315.16	$ 0.00	$ 0.00
Debt Mutual Funds	906,101.91	45,452.90	464,960.25	290,207.51	105,481.25
Money Market Mutual Funds	2,773.33	2,773.33			
Total Debt Securities	4,132,516.79	$ 2,188,552.62	$ 1,548,275.41	$ 290,207.51	$ 105,481.25
Other Securities					
International Mutual Funds	42,263.84				
Investments in Real Estate	71,100.00				
Private Equity Limited Partnerships	216,402.10				
Domestic Stocks	453,339.53				
Foreign Stocks (denominated in US dollars)	146,310.25				
Total Non-Pooled Investments	$ 5,061,932.51				

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

	Amount	AAA	AA	A	BBB	BB	Unrated
Debt Mutual Funds	$ 906,101.91	$ 158,969.23	$ 138,550.55	$ 187,644.38	$ 224,239.65	$ 196,698.10	$ 0.00
Money Market Mutual Funds	2,773.33						2,773.33
Totals	$ 908,875.24	$ 158,969.23	$ 138,550.55	$ 187,644.38	$ 224,239.65	$ 196,698.10	$ 2,773.33

Rating Agency: Morningstar and Standards & Poors

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

	Amount
Investment Type	
Debt Securities	
U.S. Treasuries	$ 3,223,641.55
Debt Mutual Funds	8,271,632.03
Money Market Mutual Funds	53,251.06
Other Securities	
UNC Investment Fund	42,312,125.73
Balanced Mutual Fund	3,106,321.71
International Mutual Funds	6,593,612.88
Equity Mutual Funds	5,134,889.04
Investments in Real Estate	71,100.00
Private Equity Limited Partnerships	1,172,496.10
Domestic Stocks	5,126,510.50
Foreign Stocks (denominated in US dollars)	1,211,718.43
Exchange Traded Funds	7,803,282.58
Real Estate Investment Trusts	1,149,127.95
Other	2,122.00
Total Investments	$ 85,231,831.56

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	$ 36,165.00
Amount of Deposits with Private Financial Institutions	1,056,072.74
Deposits in the Short-Term Investment Fund	171,305,005.41
Long-Term Investment Pool	80,169,899.05
Non-Pooled Investments	5,061,932.51
Total Deposits and Investments	$ 257,629,074.71
Deposits	
Current:	
Cash and Cash Equivalents	$ 96,977,371.80
Restricted Cash and Cash Equivalents	20,003,999.69
Noncurrent:	
Restricted Cash and Cash Equivalents	55,415,871.66
Total Deposits	172,397,243.15
Investments	
Noncurrent:	
Endowment Investments	80,623,173.76
Restricted Investments	4,595,157.80
Other Investments	13,500.00
Total Investments	85,231,831.56
Total Deposits and Investments	$ 257,629,074.71

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	$ 3,223,641.55	$ 3,223,641.55	$ 0.00	$ 0.00
Debt Mutual Funds	8,271,632.03	8,271,632.03		
Money Market Mutual Funds	53,251.06	53,251.06		
Total Debt Securities	11,548,524.64	11,548,524.64		
Other Securities				
Balanced Mutual Fund	3,106,321.71	3,106,321.71		
International Mutual Funds	6,593,612.88	6,593,612.88		
Equity Mutual Funds	5,134,889.04	5,134,889.04		
Investments in Real Estate	71,100.00			71,100.00
Domestic Stocks	5,126,510.50	5,126,510.50		
Foreign Stocks (denominated in US dollars)	1,211,718.43	1,211,718.43		
Exchange Traded Funds	7,803,282.58	7,803,282.58		
Other	2,122.00			2,122.00
Total Investments by Fair Value Level	40,598,081.78	$ 40,524,859.78	$ 0.00	$ 73,222.00
Investments Measured at the Net Asset Value (NAV)				
Private Equity Limited Partnerships	1,172,496.10			
Real Estate Investment Trusts	1,149,127.95			
Total Investments Measured at the NAV	2,321,624.05			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	171,305,005.41			
UNC Investment Fund	42,312,125.73			
Total Investments as a Position in an External Investment Pool	213,617,131.14			
Total Investments Measured at Fair Value	$ 256,536,836.97			

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 Foundation currently holds three parcels of land for resale valued at $71,000.00. This investment is classified in Level 3.

The real estate was donated to the Foundation to be sold. The investment is measured at fair value by comparing to the county tax valuation.

Other - The University currently has other investments amounting to $2,122.00. These items include jewelry to be sold, with the proceeds to be used to fund scholarships.

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

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity Limited Partnerships[A]	$ 1,172,496.10	$ 477,566.00	N/A	N/A
Real Estate Investment Trusts[B]	1,149,127.95		N/A	N/A
Total Investments Measured at the NAV	$ 2,321,624.05			

A. **Private Equity Limited Partnerships** – The University currently has investments in limited partnerships. This type includes investments in four different limited partnerships and three private equity investments. The limited partnerships, which represent the University's largest investment in this category, are private investment firms. These firms prefer to invest in healthcare, consumer services, and business services. There is not a ready market to sell its position in any of these investments. If the University desired to sell its position in any of these investments, it would have to find a buyer for its interest. The investment in the other three private equities is minimal. All of these investments are valued at the NAV. Valuation is based upon June 30, 2018 statements provided to the University by the investment partners.

B. **Real Estate Investment Trusts** - The University and Foundation currently has investments in real estate investments trusts (REITs). A REIT is a company that owns or finances income-producing real estate. Modeled after mutual funds, REITs provide investors of all types regular income streams, diversification, and long-term capital appreciation. REITs generate income, and 90 percent of that taxable income must be distributed to the shareholders on a regular basis. REITs make money from the properties they purchase by renting, leasing, or selling them.

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. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). The current spending policy for the University's pooled endowment funds provides 5% of the endowment pool's twelve quarter rolling average market value, discarding the highest and lowest quarter's value as of June 30. The Board of Trustees annually review the spending policy and makes adjustments accordingly. At June 30, 2018, net appreciation of $37,358,658.84 was available to be spent, of which $31,120,886.53 was classified in net position as restricted for specific purposes (e.g. scholarships, fellowships, and professorships). The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 2,382,429.18	$ 824,937.56	$ 1,557,491.62
Student Sponsors	46,457.63		46,457.63
Accounts	1,112,377.35		1,112,377.35
Intergovernmental	620,195.44		620,195.44
Pledges	254,566.84	6,144.48	248,422.36
Investment Earnings	1,481.86		1,481.86
Interest on Loans	149,907.99		149,907.99
Other	636,861.66		636,861.66
Total Current Receivables	$ 5,204,277.95	$ 831,082.04	$ 4,373,195.91
Noncurrent Receivables:			
Pledges	$ 729,591.46	$ 17,637.88	$ 711,953.58
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 877,930.63	$ 0.00	$ 877,930.63
Institutional Student Loan Programs	35,229.89	2,178.04	33,051.85
Total Notes Receivable - Current	$ 913,160.52	$ 2,178.04	$ 910,982.48
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 6,083,872.78	$ 1,433,418.00	$ 4,650,454.78
Institutional Student Loan Programs	4,355.49		4,355.49
Total Notes Receivable - Noncurrent	$ 6,088,228.27	$ 1,433,418.00	$ 4,654,810.27

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 13,771,330.13	$ 681,213.94	$ 0.00	$ 14,452,544.07
Art, Literature, and Artifacts	1,152,276.00	54,000.00		1,206,276.00
Construction in Progress	3,344,505.59	17,058,794.07	1,698,922.17	18,704,377.49
Total Capital Assets, Nondepreciable	18,268,111.72	17,794,008.01	1,698,922.17	34,363,197.56
Capital Assets, Depreciable:				
Buildings	439,784,212.37	353,647.41	529,896.04	439,607,963.74
Machinery and Equipment	42,972,423.68	2,142,627.68	2,517,295.27	42,597,756.09
General Infrastructure	40,870,360.09	1,505,301.44	994,038.53	41,381,623.00
Computer Software	267,380.85			267,380.85
Other Intangible Assets	1,190,218.76			1,190,218.76
Total Capital Assets, Depreciable	525,084,595.75	4,001,576.53	4,041,229.84	525,044,942.44
Less Accumulated Depreciation/Amortization for:				
Buildings	97,047,385.08	6,133,209.42	187,161.95	102,993,432.55
Machinery and Equipment	14,183,900.91	1,933,422.14	1,519,215.88	14,598,107.17
General Infrastructure	13,516,922.52	838,663.73	394,595.98	13,960,990.27
Computer Software	59,875.53	13,387.44		73,262.97
Other Intangible Assets	416,576.58	119,021.88		535,598.46
Total Accumulated Depreciation/Amortization	125,224,660.62	9,037,704.61	2,100,973.81	132,161,391.42
Total Capital Assets, Depreciable, Net	399,859,935.13	(5,036,128.08)	1,940,256.03	392,883,551.02
Capital Assets, Net	$ 418,128,046.85	$ 12,757,879.93	$ 3,639,178.20	$ 427,246,748.58

During the year ended June 30, 2018, the University incurred $5,040,872.92 in interest costs related to the acquisition and construction of capital assets. Of this total, $4,695,123.97 was charged in interest expense, and $345,748.95 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (agreement) dated September 1, 2014. The carrying value of the energy savings improvement assets associated with the agreement is $2,711,661.81 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 9.

NOTE 7 - SERVICE CONCESSION ARRANGEMENT FOR NOBLE HALL

In August 2016, construction was completed on Noble Hall pursuant to an agreement with a third-party developer, Collegiate Housing Foundation (CHF), under which CHF designed and built a mixed use facility that includes residential units, commercial, and dining establishments. The building is on land owned by the Board of Trustees of the Endowment Fund, a body established under the State of North Carolina, and leased to CHF for 40 years. The student housing facility will be managed by the University under the terms of the management agreement. The University will operate the facility with budgetary oversight from CHF. At the end of the arrangement, CHF will transfer its interest in the facility at no cost to the University or, if directed by the University, to the Board of Trustees of the Endowment Fund.

In order to promote economic, cultural, and community development opportunities, including the creation of employment, and the stimulation of economic activity, the University entered into this agreement with CHF to construct the facility. Under this agreement, the University is responsible for providing electricity to the facility over the course of the 40-year lease agreement. The University reports a liability for $1,667,090.43, the present value of this obligation. The University also reports the facility as a capital asset with a carrying amount of $25,173,671.41 at year-end and a related deferred inflow of resources of $22,673,627.02 that is amortized using the straight-line method over the terms of the lease agreement.

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 1,673,441.67
Accounts Payable - Capital Assets	4,356,589.57
Accrued Payroll	768,996.03
Contract Retainage	375,995.12
Intergovernmental Payables	40,638.63
Obligation Under Service Concession Arrangement	72,920.13
Other	259,786.38
Total Current Accounts Payable and Accrued Liabilities	$ 7,548,367.53
Noncurrent Accounts Payable and Accrued Liabilities	
Obligation Under Service Concession Arrangement	$ 1,594,170.30

NOTE 9 - LONG-TERM LIABILITIES

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

	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 62,585,000.00	$ 46,285,000.00	$ 2,600,000.00	$ 106,270,000.00	$ 2,695,000.00
Limited Obligations Bonds	54,765,000.00		1,800,000.00	52,965,000.00	1,980,000.00
Plus: Unamortized Premium	7,463,458.50	5,248,134.80	445,056.74	12,266,536.56	
Less: Unamortized Discount	46,119.75		11,823.70	34,296.05	
Total Revenue Bonds Payable and Limited Obligation Bonds, Net	124,767,338.75	51,533,134.80	4,833,233.04	171,467,240.51	4,675,000.00
Note Payable	2,823,510.18		467,983.22	2,355,526.96	459,576.25
Capital Leases Payable	2,223,391.84		397,194.82	1,826,197.02	385,891.25
Annuity and Life Income Payable	53,677.94		3,867.12	49,810.82	3,705.73
Total Long-Term Debt	129,867,918.71	51,533,134.80	5,702,278.20	175,698,775.31	5,524,173.23
Other Long-Term Liabilities					
Compensated Absences	6,484,541.00	5,293,133.00	4,969,615.00	6,808,059.00	649,743.00
Net Pension Liability	27,169,225.90		3,043,402.19	24,125,823.71	
Net Other Postemployment Benefits Liability	248,150,644.98		82,126,110.00	166,024,534.98	
Total Other Long-Term Liabilities	281,804,411.88	5,293,133.00	90,139,127.19	196,958,417.69	649,743.00
Total Long-Term Liabilities, Net	$ 411,672,330.59	$ 56,826,267.80	$ 95,841,405.39	$ 372,657,193.00	$ 6,173,916.23

Additional information regarding capital lease obligations is included in Note 10.
Additional information regarding the net pension liability is included in Note 14.
Additional information regarding the net other postemployment benefits liability is included in Note 15.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018	See Table Below
Revenue Bonds Payable							
The University of North Carolina System Pool Revenue Bonds							
Student Recreation Center	(A)	5.00%	10/01/2018	$ 4,355,000.00	$ 4,210,000.00	$ 145,000.00	
Dining Hall Facility	(A)	5.00%	10/01/2018	17,545,000.00	16,970,000.00	575,000.00	
Student Housing - Harrill	(B)	3.00 - 4.50%	04/01/2041	13,605,000.00	1,755,000.00	11,850,000.00	
Facility Refund 03	(B)	3.00 - 4.00%	04/01/2025	831,726.00	312,830.00	518,896.00	
Student Recreation Center Refund 03	(B)	3.00 - 4.00%	04/01/2025	6,413,274.00	2,412,170.00	4,001,104.00	
Brown Cafeteria	(C)	3.00 - 5.00%	04/01/2046	18,610,000.00	660,000.00	17,950,000.00	
Athletic Facility Refund - 03A	(C)	5.00%	04/01/2028	239,850.00		239,850.00	
Student Recreation Center Refund 03A	(C)	5.00%	04/01/2028	1,810,150.00		1,810,150.00	
Dining Hall Facility Refund 08A	(C)	3.00 - 5.00%	04/01/2034	13,066,500.00	40,069.00	13,026,431.00	
Student Recreation Center Refund 08A	(C)	3.00 - 5.00%	04/01/2034	3,238,500.00	9,931.00	3,228,569.00	
Athletic Facility Refund 06A	(D)	0.80 - 3.595%	04/01/2027	4,777,731.00	510,867.00	4,266,864.00	
Student Center Refund 06A	(D)	0.80 - 3.595%	04/01/2027	2,657,269.00	284,133.00	2,373,136.00	
Student Housing - Upper Campus	(E)	3.65 - 5.00%	10/01/2047	46,285,000.00		46,285,000.00	
Total Revenue Bonds Payable				133,435,000.00	27,165,000.00	106,270,000.00	
Limited Obligation Bonds							
Refunding Limited Obligation Bonds, Series 2013		2.00 - 5.00%	06/01/2033	9,400,000.00	1,750,000.00	7,650,000.00	(3)
Refunding Limited Obligation Bonds, Series 2015		3.00 - 4.00%	06/01/2032	8,035,000.00	1,095,000.00	6,940,000.00	(1)
Refunding Limited Obligation Bonds, Series 2016		2.00 - 5.00%	06/01/2039	38,375,000.00		38,375,000.00	(2)
Total Limited Obligation Bonds				55,810,000.00	2,845,000.00	52,965,000.00	
Total Revenue Bonds Payable and Limited Obligation Bonds (principal only)				$ 189,245,000.00	$ 30,010,000.00	159,235,000.00	
Plus: Unamortized Premium						12,266,536.56	
Less: Unamortized Discount						34,296.05	
Total Revenue Bonds Payable and Special Indebtedness, Net						$ 171,467,240.51	

(A) The University of North Carolina System Pool Revenue Bonds, Series 2008A
(B) The University of North Carolina System Pool Revenue Bonds, Series 2011B
(C) The University of North Carolina System Pool Revenue Bonds, Series 2015A
(D) The University of North Carolina System Pool Revenue Bonds, Series 2015B
(E) The University of North Carolina System Pool Revenue Bonds, Series 2018A

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year: Revenues Net of Expenses	Current Year: Principal	Current Year: Interest	Estimate of % of Revenues Pledged
(1)	Norton Road	$ 6,940,000.00	$ 1,308,353.52	$ 380,000.00	$ 247,215.48	40%
(2)	Balsam/Blue Ridge	38,375,000.00	3,964,199.61	1,045,000.00	1,542,719.24	50%
(3)	The Village	7,650,000.00	766,308.44	375,000.00	325,042.74	75%

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		Limited Obligation Bonds		Note Payable	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 2,695,000.00	$ 4,526,648.43	$ 1,980,000.00	$ 2,052,181.28	$ 459,576.25	$ 40,244.20
2020	2,795,000.00	4,455,218.29	2,050,000.00	1,976,931.28	478,547.60	31,648.61
2021	3,665,000.00	4,345,112.04	2,120,000.00	1,907,181.28	498,078.84	22,699.73
2022	3,820,000.00	4,193,172.04	2,200,000.00	1,830,731.28	518,184.45	13,387.14
2023	3,970,000.00	4,032,968.54	2,300,000.00	1,729,331.28	401,139.82	3,700.16
2024-2028	21,080,000.00	17,444,253.25	12,860,000.00	7,268,568.88		
2029-2033	18,240,000.00	13,209,618.78	15,240,000.00	4,272,600.06		
2034-2038	16,340,000.00	9,424,415.64	11,625,000.00	1,832,993.76		
2039-2043	17,185,000.00	5,499,325.00	2,590,000.00	103,600.00		
2044-2048	16,480,000.00	1,503,387.50				
Total Requirements	$ 106,270,000.00	$ 68,634,119.51	$ 52,965,000.00	$ 22,974,119.10	$ 2,355,526.96	$ 111,679.84

Interest on the variable rate debt is predetermined in each of the bond covenants.

D. Note Payable - The University was indebted for a note payable for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp.	1.84%	02/14/2023	$ 3,327,434.04	$ 971,907.08	$ 2,355,526.96

E. Annuity and Life Income Payable - The Foundation has entered into a charitable gift annuity agreement with a donor. Under the terms of the agreement, the donor contributed assets to the Foundation and in return received a guaranteed fixed income for life. The Foundation recognized contribution revenue in the year of the gift for the difference between the fair value of the assets received and the annuity liability.

Annuity liabilities are recorded for the required life annuity payments at the present value of expected cash payments discounted using current interest rates and actuarial assumptions for those annuities that have not been reinsured. The annuity obligations are adjusted each year for changes in the life expectancy of the beneficiaries and are reduced either as payments are made to the donor or as annuities are reinsured. The present value of future liabilities of the charitable gift annuity is $49,810.82 at June 30, 2018.

NOTE 10 - LEASE OBLIGATIONS

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

Fiscal Year	Amount
2019	$ 450,510.24
2020	417,917.10
2021	369,828.14
2022	362,383.20
2023	245,700.96
2024	163,800.64
Total Minimum Lease Payments	2,010,140.28
Amount Representing Interest (3.17 - 4.92% Rate of Interest)	183,943.26
Present Value of Future Lease Payments	$ 1,826,197.02

Machinery and equipment acquired under capital lease amounted to $2,454,177.42 at June 30, 2018.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $639,892.69 at June 30, 2018.

B. Operating Lease Obligations - The University entered into operating leases for equipment, housing, land, classroom space, and contracts for software licensing. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	$ 1,779,383.48
2020	1,325,944.45
2021	1,033,935.63
2022	1,058,043.70
2023	507,774.82
2024-2028	840,728.58
2029-2033	417,722.50
2034-2038	484,253.00
2039-2043	561,383.50
2044-2048	580,795.50
Total Minimum Lease Payments	$ 8,589,965.16

Rental expense for all operating leases during the year was $3,791,674.96.

NOTE 11 - NET POSITION

The deficit in unrestricted net position of $152,955,672.08 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	$ 13,677,054.52	$ 0.00	$ 13,677,054.52
Deferred Outflows Related to OPEB		5,567,350.90	5,567,350.90
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	24,125,823.71		24,125,823.71
Net OPEB Liability		166,024,534.98	166,024,534.98
Deferred Inflows Related to Pensions	789,281.27		789,281.27
Deferred Inflows Related to OPEB		80,615,186.87	80,615,186.87
Net Effect on Unrestricted Net Position	$ (11,238,050.46)	$ (241,072,370.95)	$ (252,310,421.41)

See Notes 14 and 15 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

The net investment in capital assets amount of $273,646,084.64 has been significantly affected by a transaction that resulted in the recognition of deferred inflows of resources. A summary of the balances reported within net investments in capital assets' net position relating to the reporting of capital assets and the related deferred inflows of resources is presented as follows:

	Amount
Noncurrent Assets:	
Capital Asset Acquired Under Service Concession Arrangement	$ 25,173,671.41
Deferred Inflows Under Service Concession Arrangement	22,673,627.02
Net Effect on Net Investment in Capital Assets	$ 2,500,044.39

See Note 7 for detailed information regarding the amortization of the deferred inflows of resources under the service concession arrangement.

NOTE 12 - 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	$ 81,037,449.98	$ 2,449.47	$ 17,770,037.84	$ 558,107.10	$ 62,706,855.57
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 21,437,151.65	$ 207,479.49	$ 4,676,914.23	$ 86,292.59	$ 16,466,465.34
Dining	19,961,500.53	1,235,070.12	3,994,061.46	67,406.35	14,664,962.60
Book Rental	2,507,134.04	357.27	494,394.61	75,150.58	1,937,231.58
Bookstore	2,216,686.38	65,457.48		3,816.21	2,147,412.69
Print Shop	1,680,898.19	1,479,552.99			201,345.20
Athletic	1,902,749.90	75.00			1,902,674.90
Parking	2,222,065.42	15,189.00		27,945.48	2,178,930.94
Health Services	325,926.64	6,570.22			319,356.42
Campus Activities	450,142.84	94,653.24			355,489.60
Other	719,419.00	12,197.08		6,219.25	701,002.67
Sales and Services of Education and Related Activities	5,282,995.60	5,131,259.44			151,736.16
Independent Operations	4,803,950.43	373,526.77			4,430,423.66
Total Sales and Services, Net	$ 63,510,620.62	$ 8,621,388.10	$ 9,165,370.30	$ 266,830.46	$ 45,457,031.76
Nonoperating Revenues:					
Noncapital Gifts, Net	$ 5,783,544.56	$ 0.00	$ 0.00	$ 23,782.36	$ 5,759,762.20

NOTE 13 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 67,098,114.64	$ 2,759,172.00	$ 5,113,530.02	$ 0.00	$ 0.00	$ 0.00	$ 74,970,816.66
Research	1,185,552.79	42,113.37	554,433.45		33,770.26		1,815,869.87
Public Service	2,166,473.72	338,547.24	1,003,118.13		1,100.00		3,509,239.09
Academic Support	11,865,583.26	3,370,537.46	1,970,759.62		3,336.51		17,210,216.85
Student Services	5,699,399.20	379,034.22	3,295,542.30		13.50		9,373,989.22
Institutional Support	15,211,926.85	3,676,423.88	6,433,724.17		39,231.81		25,361,306.71
Operations and Maintenance of Plant	10,975,848.39	4,071,358.96	1,581,067.98		2,813,949.25		19,442,224.58
Student Financial Aid	105,852.49		14,485.20	12,255,488.96			12,375,826.65
Auxiliary Enterprises	18,012,813.34	3,765,034.05	22,525,044.08		2,140,245.24		46,443,136.71
Independent Operations	567,026.98	3,013,593.10	157,993.25				3,738,613.33
Depreciation/Amortization						9,037,704.61	9,037,704.61
Total Operating Expenses	$ 132,888,591.66	$ 21,415,814.28	$ 42,649,698.20	$ 12,255,488.96	$ 5,031,646.57	$ 9,037,704.61	$ 223,278,944.28

NOTE 14 - 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 $2,804,498.41, and the University's contributions were $5,038,748.81 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 $24,125,823.71 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 0.31243%, which was an increase of 0.00919 from its proportion measured as of June 30, 2016, which was 0.30324%.

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%)
$ 49,660,932.00	$ 24,125,823.71	$ 2,730,657.93

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 $7,055,513.53. 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	$ 523,003.12	$ 789,281.27
Changes of Assumptions	3,811,516.46	
Net Difference Between Projected and Actual Earnings on Plan Investments	3,265,042.08	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,038,744.05	
Contributions Subsequent to the Measurement Date	5,038,748.81	
Total	$ 13,677,054.52	$ 789,281.27

The amount of $5,038,748.81 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	$ 1,844,584.74
2020	4,907,753.75
2021	2,403,390.85
2022	(1,306,704.90)
Total	$ 7,849,024.44

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 $102,675,936.96, of which $45,280,688.76 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $2,716,841.33 and $3,097,199.11, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures from TIAA CREF of $398,047.83.

NOTE 15 - 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 16. 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 $5,567,350.90 for the year ended June 30, 2018.

2. Disability Income

Plan Administration: As discussed in Note 16, 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 $128,831.26 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 $166,024,534.98 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 .52031%, which was a decrease of .06580 from its proportion measured as of June 30, 2016, which was .58611%.

Net OPEB Asset: At June 30, 2018, the University reported an asset of $341,435.42 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 .57400%, which was an increase of .01695 from its proportion measured as of June 30, 2016, which was .55705%.

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	$ 198,057,595.23	$ 166,024,534.98	$ 140,617,562.67
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (290,270.22)	$ (341,435.42)	$ (392,717.54)

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	$ 135,626,660.71	$ 166,024,534.98	$ 206,426,922.89
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 $3,645,869.74 for RHBF and $177,066.54 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	$ 93,615.77	$ 93,615.77
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		74,840.00	74,840.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions			
Contributions Subsequent to the Measurement Date	5,567,350.90	128,831.26	5,696,182.16
Total	$ 5,567,350.90	$ 297,287.03	$ 5,864,637.93

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 11,904,264.56	$ 0.00	$ 11,904,264.56
Changes of Assumptions	45,722,399.17		45,722,399.17
Net Difference Between Projected and Actual Earnings on Plan Investments	61,701.47		61,701.47
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	22,926,821.67	13,013.96	22,939,835.63
Total	$ 80,615,186.87	$ 13,013.96	$ 80,628,200.83

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	$ (16,126,122.69)	$ 45,586.81
2020	(16,126,122.69)	45,586.81
2021	(16,126,122.69)	45,570.27
2022	(16,126,122.69)	18,697.92
2023	(16,110,696.11)	
Total	$ (80,615,186.87)	$ 155,441.81

NOTE 16 - 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 15, 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 .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 15, 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 $10,000 per occurrence deductible except for the Highlands Biological Station which still maintains a $5,000 per occurrence deductible. The Corporation maintains coverage of $100,646,373 and the University housing maintains coverage of $25,009,661 with a private broker in property coverage and liability coverage of $1,000,000 per occurrence with a $10,000,000 aggregate in liability coverage. The Foundation maintains $208,000 in property coverage with $500,000 in landlord liability.

The University also purchase through the Fund extended coverage for all university owned buildings which covers windstorm and hail damage. The extended coverage deductible is $50,000 per occurrence. Optional "All Risk" coverage is purchased for selected University owned business equipment such as high value equipment and computers. "All Risk" losses are subject to a $5,000 deductible per occurrence. Flood insurance is purchased for the Camp Building Gym which is within a flood zone.

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. Comprehension, collision, and medical payments of $10,000 per person are included on specific vehicles listed on the Vehicle Inventory Form, The Foundation maintains the same coverage for the Foundation owned vehicles.

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.

A crime bonding policy protects the University from losses related to forgery, theft, and money & securities theft with a limit of $500,00 per occurrence and a $1,000 deductible. The University pays the premium directly to the Department of Insurance for the coverage.

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. These coverages provide insurance for medical malpractice, accident coverage for students participating in University athletic events, boiler, machinery and fine arts coverage, excess liability, and various other commercial applications. These coverages were affected and placed by the North Carolina Department of Insurance through the State's agent of record.

NOTE 17 - 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 $126,444,291.92 and on other purchases were $1,543,386.47 at June 30, 2018.

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

NOTE 18 - RELATED PARTIES

Foundations - There are two separately incorporated nonprofit foundations associated with the University. These foundations are The Highlands Biological Foundation, Inc. and Forest Stewards, Inc.

The Highlands Biological Foundation, Inc. was incorporated in North Carolina on July 21, 1930 for the purpose of supporting through grants and scholarships the activities of Highlands Biological Station, an inter-institutional center of the University of North Carolina System that is administered by the University. This support approximated $111,337.34 for the year ended June 30, 2018. The University had a receivable from the related party of $38,227.11 as of June 30, 2018.

Forest Stewards, Inc. was incorporated in North Carolina on May 5, 2008 for the purpose of providing educational and charitable support to the University. The support provided to the University approximated $6,000 for the year ended June 30, 2018.

NOTE 19 - BLENDED COMPONENT UNITS

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

Condensed Statement of Net Position

June 30, 2018

	University	WCU Foundation	WCU R & D Corporation	Eliminations	Total
ASSETS					
Current Assets	$ 124,110,962.28	$ 4,298,885.56	$ 482,784.30	$ 0.00	$ 128,892,632.14
Capital Assets, Net	426,970,597.85	276,150.73			427,246,748.58
Other Noncurrent Assets	101,505,490.42	41,740,143.00	3,210,351.62		146,455,985.04
Component Unit Receivable from Primary Government			53,163,158.10	(53,163,158.10)	
Total Assets	652,587,050.55	46,315,179.29	56,856,294.02	(53,163,158.10)	702,595,365.76
TOTAL DEFERRED OUTFLOWS OF RESOURCES	21,524,303.29	0.00	2,815,186.36		24,339,489.65
LIABILITIES					
Current Liabilities	19,460,879.46	46,865.62	2,145,266.52		21,653,011.60
Long-Term Liabilities, Net	311,589,292.66	46,105.09	54,847,879.02		366,483,276.77
Other Noncurrent Liabilities	7,249,390.85				7,249,390.85
Primary Government Payable to Component Unit	53,163,158.10			(53,163,158.10)	
Total Liabilities	391,462,721.07	92,970.71	56,993,145.54	(53,163,158.10)	395,385,679.22
TOTAL DEFERRED INFLOWS OF RESOURCES	104,091,109.12				104,091,109.12
NET POSITION					
Net Investment in Capital Assets	273,369,933.91	276,150.73			273,646,084.64
Restricted - Nonexpendable	22,643,740.55	26,567,890.72			49,211,631.27
Restricted - Expendable	36,736,072.82	18,598,482.29	2,221,468.13		57,556,023.24
Unrestricted	(154,192,223.63)	779,684.84	456,866.71		(152,955,672.08)
Total Net Position	$ 178,557,523.65	$ 46,222,208.58	$ 2,678,334.84	$ 0.00	$ 227,458,067.07

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

	University	WCU Foundation	WCU R & D Corporation	Eliminations	Total
OPERATING REVENUES					
Total Operating Revenues	$ 115,575,748.92	$ 198,947.34	$ 695,517.74	$ (695,517.74)	$ 115,774,696.26
OPERATING EXPENSES					
Operating Expenses	213,105,242.35	1,578,162.09	253,352.97	(695,517.74)	214,241,239.67
Depreciation/Amortization	9,029,633.73	8,070.88		0.00	9,037,704.61
Total Operating Expenses	222,134,876.08	1,586,232.97	253,352.97	(695,517.74)	223,278,944.28
Operating Income (Loss)	(106,559,127.16)	(1,387,285.63)	442,164.77		(107,504,248.02)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	95,829,052.59				95,829,052.59
Noncapital Grants - Student Financial Aid	26,316,077.16				26,316,077.16
Noncapital Grants	131,740.00				131,740.00
Noncapital Gifts, Net	1,330,013.69	4,429,748.51			5,759,762.20
Investment Income (Net of Investment Expense)	5,057,947.56	3,211,538.04	36,832.94		8,306,318.54
Investment Earned from Investment in Capital Leases			2,102,305.72	(2,102,305.72)	
Interest and Fees on Debt	(4,617,525.18)	(422.10)	(2,101,457.98)	2,102,305.72	(4,617,099.54)
Other Nonoperating Revenues (Expenses)	(1,804,583.00)	535.37			(1,804,047.63)
Net Nonoperating Revenues	122,242,722.82	7,641,399.82	37,680.68		129,921,803.32
Capital Contributions	7,751,684.58				7,751,684.58
Capital Gifts	290,000.00	141,381.67			431,381.67
Transfers to University/Athletics	3,000,108.86	(3,000,108.86)			
Additions to Endowments	30,500.00	5,639,457.76			5,669,957.76
Increase in Net Position	26,755,889.10	9,034,844.76	479,845.45		36,270,579.31
NET POSITION					
Net Position, July 1, 2017, as Restated	151,801,634.55	37,187,363.82	2,198,489.39		191,187,487.76
Net Position, June 30, 2018	$ 178,557,523.65	$ 46,222,208.58	$ 2,678,334.84	$ 0.00	$ 227,458,067.07

Condensed Statement of Cash Flows
June 30, 2018

	University	WCU Foundation	WCU R & D Corporation	Total
Net Cash Provided (Used) by Operating Activities	$ (97,728,030.85)	$ (1,311,867.35)	$ 435,297.18	$ (98,604,601.02)
Net Cash Provided by Noncapital Financing Activities	126,242,945.27	5,922,058.22		132,165,003.49
Net Cash Provided (Used) by Capital and Related Financing Activities	33,536,555.67	(27,694.17)	(3,928,231.28)	29,580,630.22
Net Cash Provided (Used) by Investing Activities	(2,684,924.87)	(4,045,499.69)	3,924,608.36	(2,805,816.20)
Net Increase in Cash and Cash Equivalents	59,366,545.22	536,997.01	431,674.26	60,335,216.49
Cash and Cash Equivalents, July 1, 2017	104,511,762.67	4,526,820.72	3,023,443.27	112,062,026.66
Cash and Cash Equivalents, June 30, 2018	$ 163,878,307.89	$ 5,063,817.73	$ 3,455,117.53	$ 172,397,243.15

The condensed combing financial statements include the elimination of capital lease transactions between the University and the Corporation relating to the residence halls built by the Corporation.

NOTE 20 - 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 21 - 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	$ 433,507,396.12
Restatement:	
Record the University's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements	(242,319,908.36)
July 1, 2017 Net Position as Restated	$ 191,187,487.76

Required Supplementary Information

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

	2017	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.31243%	0.30324%	0.29963%	0.29312%	0.28360%
Proportionate Share of TSERS Collective Net Pension Liability	$ 24,125,823.71	$ 27,169,225.90	$ 10,775,670.85	$ 3,436,600.00	$ 17,217,410.00
Covered Payroll	$ 45,748,629.96	$ 43,396,253.67	$ 43,031,562.83	$ 42,705,248.19	$ 42,200,130.52
Net Pension Liability as a Percentage of Covered Payroll	52.74%	62.61%	25.04%	8.05%	40.80%
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.

Western Carolina University
Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years ***Exhibit B-2***

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 5,038,748.81	$ 4,565,713.26	$ 3,970,757.21	$ 3,937,388.00	$ 3,711,086.07
Contributions in Relation to the Contractually Determined Contribution	5,038,748.81	4,565,713.26	3,970,757.21	3,937,388.00	3,711,086.07
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 46,741,640.17	$ 45,748,629.96	$ 43,396,253.67	$ 43,031,562.83	$ 42,705,248.19
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	$ 3,515,270.87	$ 2,992,318.90	$ 2,005,828.91	$ 1,446,088.32	$ 1,550,533.28
Contributions in Relation to the Contractually Determined Contribution	3,515,270.87	2,992,318.90	2,005,828.91	1,446,088.32	1,550,533.28
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 42,200,130.52	$ 40,219,340.11	$ 40,686,184.25	$ 40,506,675.64	$ 46,146,823.92
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.

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

Changes of Benefit Terms:

Cost of Living Increase

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

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

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

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

Western Carolina University
Required Supplementary Information
Schedule of the Proportionate Net OPEB Liability (Asset)
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Two Fiscal Years — *Exhibit B-3*

	2017	2016
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	0.52031%	0.58611%
Proportionate Share of Collective Net OPEB Liability	$ 166,024,534.98	$ 248,150,644.98
Covered Payroll	$ 88,250,047.80	$ 84,503,746.43
Net OPEB Liability as a Percentage of Covered Payroll	188.13%	293.66%
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	0.57400%	0.55705%
Proportionate Share of Collective Net OPEB Asset	$ 341,435.42	$ 336,665.65
Covered Payroll	$ 88,250,047.80	$ 84,503,746.43
Net OPEB Asset as a Percentage of Covered Payroll	0.39%	0.40%
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* .

Western Carolina University
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years — *Exhibit B-4*

Retiree Health Benefit Fund	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 5,567,350.90	$ 5,127,327.78	$ 4,732,209.80	$ 4,543,212.02	$ 4,292,227.66
Contributions in Relation to the Contractually Determined Contribution	5,567,350.90	5,127,327.78	4,732,209.80	4,543,212.02	4,292,227.66
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 92,022,328.93	$ 88,250,047.80	$ 84,503,746.43	$ 82,754,317.30	$ 79,485,697.32
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	$ 4,099,870.46	$ 3,727,787.00	$ 3,672,877.98	$ 3,376,032.28	$ 3,293,452.37
Contributions in Relation to the Contractually Determined Contribution	4,099,870.46	3,727,787.00	3,672,877.98	3,376,032.28	3,293,452.37
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 77,356,046.34	$ 74,555,739.95	$ 74,956,693.55	$ 75,022,939.64	$ 80,328,106.56
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	$ 128,831.26	$ 336,350.18	$ 346,465.36	$ 339,292.70	$ 349,737.07
Contributions in Relation to the Contractually Determined Contribution	128,831.26	336,350.18	346,465.36	339,292.70	349,737.07
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 92,022,328.93	$ 88,250,047.80	$ 84,503,746.43	$ 82,754,317.30	$ 79,485,697.32
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	$ 340,366.60	$ 387,689.85	$ 389,774.81	$ 390,119.29	$ 417,706.15
Contributions in Relation to the Contractually Determined Contribution	340,366.60	387,689.85	389,774.81	390,119.29	417,706.15
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 77,356,046.34	$ 74,555,739.95	$ 74,956,693.55	$ 75,022,939.64	$ 80,328,106.56
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.

Western Carolina 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 15 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

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

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

INDEPENDENT AUDITOR'S REPORT

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Office of the State Auditor

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

Board of Trustees
Western Carolina University
Cullowhee, 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 Western Carolina 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, 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 October 23, 2018. Our report includes a reference to other auditors who audited the financial statements of Western Carolina University Foundation and Western Carolina University Research and Development Corporation, as described in our report on the University's financial statements. The financial statements of those entities were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 23, 2018

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This audit required 716.5 hours at an approximate cost of $73,800.