State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA

Appalachian State University

Boone, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2018

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

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

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

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

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Appalachian State University
Boone, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Appalachian State University Foundation, Inc. or Appalachian Student Housing Corporation, the University's discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Appalachian State University Foundation, Inc. and Appalachian Student Housing 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 opinions.

Opinions

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

Emphasis of Matter

As discussed in Note 17 to the financial statements, during the year ended June 30, 2018, Appalachian State University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as amended by Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 10, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statement Information

The management's discussion and analysis summarizes information from the financial statements and the notes to the financial statements. It provides a comparative overview of activities that have occurred during the year that affect the fiscal year-end financial position. The following discussion and analysis provides an overview of the activities and financial position only for Appalachian State University (University) for the fiscal years ended June 30, 2018 and 2017.

The University is a constituent institution of the multi-campus University of North Carolina System (UNC System), which is a component unit of the State of North Carolina. These statements are prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB) and include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows, and Notes to the Financial Statements. The notes provide additional information that is essential to understanding the financial statements.

In addition to the University's financial statements and accompanying notes, information for two component units is presented. The Statements of Financial Position, Statements of Activities, and certain notes for Appalachian State University Foundation, Inc. (Foundation) and Appalachian Student Housing Corporation (Corporation) are discretely presented alongside the University financial statements; however, the component units are not included in management's discussion and analysis. More information describing the relationship between the University and its discretely presented component units can be found in Note 1A, Significant Accounting Policies - Financial Reporting Entity.

Adoption of New Accounting Standards

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), was implemented for the fiscal year ended June 30, 2018. The new standard requires the University to recognize its proportionate share of the total net OPEB assets, deferred outflows of resources, net OPEB liabilities, deferred inflows of resources, and benefit expenses related to the State's Disability Income Plan of North Carolina (DIPNC) and the Retiree Health Benefit Fund (RHBF).

GASB Statement No. 85, *Omnibus 2017,* became effective for the fiscal year ended June 30, 2018. This statement addresses different issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). As it specifically relates to the University, this standard provides guidance on the measure of pay used in the presentation of required supplementary information (RSI) for OPEB. Covered pay, which is defined as the payroll on which contributions to the OPEB plan are based, is used as the measure of pay in the RSI.

Statement of Net Position

The Condensed Statement of Net Position below represents:

- The resources owned by the University or owed to the University (Assets);
- The consumption of net position related to a future reporting period(s) (Deferred Outflows of Resources);

- What the University owes or has received before services have been provided (Liabilities);
- The acquisition of net position related to a future reporting period(s) (Deferred Inflows of Resources); and
- The residual of: Assets + Deferred Outflows of Resources – Liabilities – Deferred Inflows of Resources (Net Position).

This statement is similar to a balance sheet and presents the University's financial position at a single point in time. Restated prior year balances have been included for comparison and discussion.

Condensed Statement of Net Position

	Fiscal Year	Fiscal Year 2017 as Restated	$ Change	% Change
Assets				
Current Assets	$ 113,683,565	$ 102,137,259	$ 11,546,306	11.3
Capital Assets, Net	651,126,613	605,908,436	45,218,177	7.5
Other Noncurrent Assets	69,542,148	64,007,072	5,535,076	8.6
Total Assets	834,352,326	772,052,767	62,299,559	8.1
Total Deferred Outflows of Resources	51,103,488	57,861,433	(6,757,945)	(11.7)
Liabilities				
Current Liabilities	41,898,541	42,122,387	(223,846)	(0.5)
Long-Term Liabilities, Net	633,094,416	785,237,664	(152,143,248)	(19.4)
Other Noncurrent Liabilities	4,448,493	4,829,808	(381,315)	(7.9)
Total Liabilities	679,441,450	832,189,859	(152,748,409)	(18.4)
Total Deferred Inflows of Resources	152,422,644	2,605,634	149,817,010	5,749.7
Net Position				
Net Investment in Capital Assets	415,272,446	371,461,600	43,810,846	11.8
Restricted - Nonexpendable	16,454,814	15,819,292	635,522	4.0
Restricted - Expendable	19,916,307	14,976,349	4,939,958	33.0
Unrestricted	(398,051,847)	(407,138,534)	9,086,687	(2.2)
Total Net Position	$ 53,591,720	$ (4,881,293)	$ 58,473,013	1,197.9

As a result of the implementation of GASB Statement No. 75, the Statement of Net Position was restated as of June 30, 2017 in order to report the actuarial determined OPEB benefit expense for fiscal year 2018. The amounts for the restatement, as well as the amounts for June 30, 2018, are based on the allocated proportionate shares of the State's Plans as determined by actuarial valuation and the deferred outflows for current contributions as determined by the University.

The OPEB restatement for the RHBF resulted in nearly a $460.0 million decrease in the University's June 30, 2017 unrestricted net position, which was offset by an almost $1.3 million increase in restricted expendable net position related to DIPNC. The overall effect reduced the University's total net position balance at June 30, 2017 to an approximate deficit of $4.9 million.

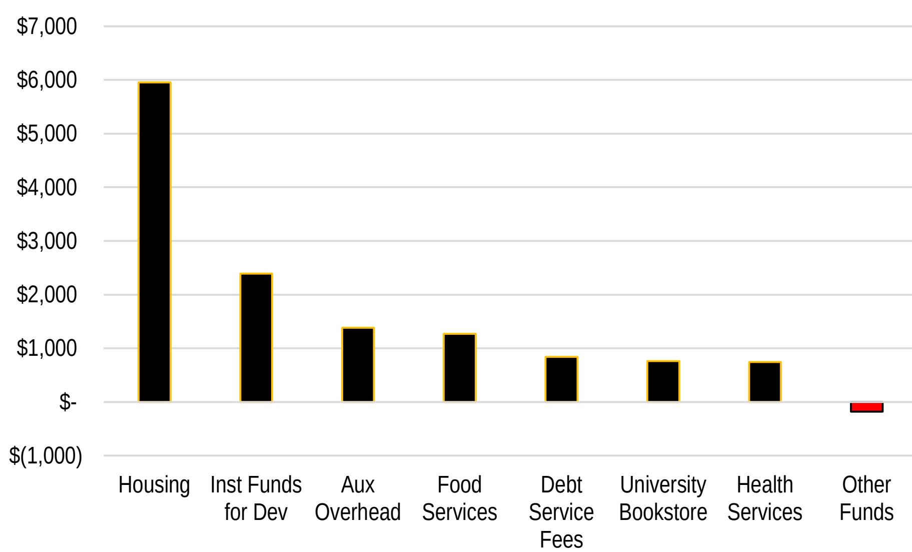
For the year ended, June 30, 2018, net position increased by almost $58.5 million over the prior fiscal year restated balance. This change will be discussed in an analysis of each component of the statement beginning with total assets, followed by deferred outflows of resources, total liabilities, deferred inflows of resources, and lastly, net position.

Total Assets

Total assets increased during fiscal year 2018 by almost $62.3 million, an 8.1% increase. The majority of the change is attributable to a $45.2 million increase in capital assets, net of depreciation and amortization, followed by an $11.5 million increase in current assets.

The majority of the increase in current assets is related to a $13.1 million change in current cash and cash equivalents, which is offset by a decrease in restricted cash and cash equivalents of approximately $2.0 million and a $1.2 million decrease in accounts receivable, net.

Figure 1.0
Significant Changes
Unrestricted Cash & Cash Equivalents
(Dollars in Thousands)



As noted in Figure 1.0 above, the most significant changes in current cash and cash equivalents occurred in funds related to auxiliary operations and in institutional trust funds. The largest increase of almost $6 million occurred in housing and residence life. Housing rates are intentionally set to cover operating expenses, debt service requirements, and to create capital reserves, which are set aside for the renovation or construction of housing facilities. By planning for future needs, the University avoids dramatic single year rate increases to cover construction costs or increased debt service payments. The housing system also requires adequate balances for operations in years where a particular (or certain) facility may be offline due to renovation. For the fiscal year ended 2018, housing receipts totaled approximately $27.8 million, operating expenses totaled relatively $16.7 million, and almost $5.7 million in debt service payments were made resulting in $5.4 million in accrual based income. The housing system has committed $8 million to a new residence hall and is expected to provide additional funds for a comprehensive public private partnership project that is currently in the planning stages.

The next largest increase in current cash and cash equivalents of approximately $2.4 million occurred in the institutional funds for development trust fund. This fund is an unrestricted trust fund that earns most of its receipts from interest paid on the investment of institutional trust funds (excluding debt proceeds, loan funds, and endowment funds) in the State Treasurer's Short-Term Investment Fund (STIF). Approximately $0.9 million of the increase represents interest earnings from the STIF and other miscellaneous income. The majority of the increase is a result of the collection of an intergovernmental receivable from the prior year. The $1.5 million receipt is a loss recovery from the U.S. Department of Justice related to a $2.0 million internet fraud that was perpetrated against the University by an unknown individual. The $1.2 million reduction in accounts receivable is also related to the receipt of these funds. An arrest has been made by federal law enforcement officers and the defendant plead guilty. The plea agreement with the federal prosecutors requires the individual to make full restitution.

Current cash and cash equivalents balances increased in the University's auxiliary overhead fund by almost $1.4 million. The University's auxiliary units are organized to be self-supporting operations. Each year an overhead charge based on identified cost drivers is assessed to the auxiliary unit representing the use of services from University administrative units. Examples of units providing services include Information Technology Services, the University Police, the Office of Human Resources, the Office of the Controller, Physical Plant Administration, the Planning, Design and Construction office, and the Office of General Counsel. These funds are allocated during the University's annual budgeting process to fund positions and other expenditures in the administrative service units. The increase mostly represents funds transferred to the auxiliaries that have not yet been expended for new positions or other university initiatives.

One other notable increase of approximately $1.3 million in current cash and cash equivalents resulted from operations during the year in Food Services totaling $1.3 million primarily related to a $54 increase in meal plans. Other changes came from the operations of the University Bookstore totaling $760 thousand and in Health Services of $742 thousand from a $31 fee increase for the 2017-2018 academic year.

The approximate $2.0 million decrease in restricted current cash and cash equivalents is related to a change in current liabilities at the end of the year for capital projects. As part of the year-end close process, the University recorded an amount from restricted noncurrent cash and cash equivalents to restricted current cash and cash equivalents. This amount is equal to the balance of current liabilities that will be paid from funds that are normally classified as restricted noncurrent because they are not available for current operations. This fiscal year, the University recorded almost $1.9 million less in current liabilities related to capital projects.

Comparing noncurrent asset balances at June 30, 2018 with the prior fiscal year reveals that most of the nearly $50.8 million increase is related to an overall 7.5% increase in capital assets, net of accumulated depreciation and amortization. As shown in Table 1.0, this increase accounts for $45.2 million of the change. A more detailed analysis of capital assets will be included in the section "Capital Assets and Debt Administration" that follows the review of current year and prior year activity as presented in a comparative Statement of Revenues, Expenses, and Changes in Net Position.

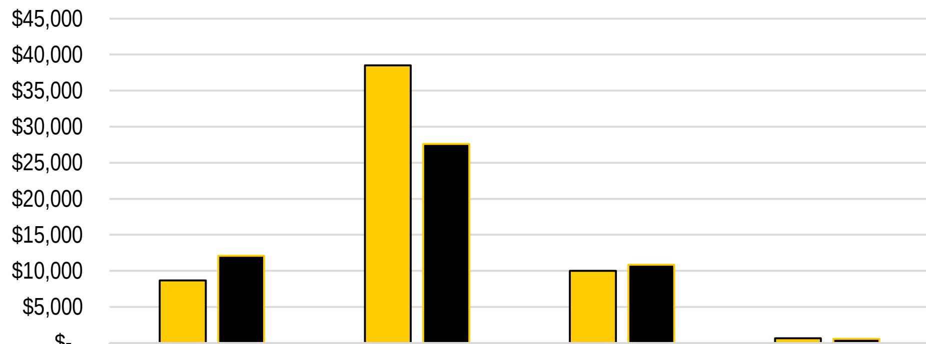
Table 1.0
Analysis of Noncurrent Assets
(Dollars in Thousands)

	2018	2017 as Restated	$ Change	% Change
Restricted Cash and Cash Equivalents	$ 32,713	$ 28,838	$ 3,875	13.4
Endowment Investments	15,526	15,515	11	0.1
Restricted Investments	10,474	8,877	1,597	18.0
Other Investments	7,347	7,160	187	2.6
Notes Receivable, Net	2,671	2,985	(314)	(10.5)
Net OPEB Asset	642	632	10	1.6
Other Noncurrent Assets	169		169	1.0
Capital Assets, Net	651,127	605,908	45,219	7.5
Total	$ 720,669	$ 669,915	$ 50,754	7.6

Deferred Outflows of Resources

Deferred outflows of resources for fiscal year 2018 decreased by 11.7%. This represents an approximate $6.8 million decrease over the prior year. As demonstrated in Figure 1.1, the majority of the decrease is related to deferred outflows for pensions, which is offset by an increase in the deferred loss on refunding.

Figure 1.1
Changes in Deferred Ouflows of Resources
(Dollars in Thousands)



	Deferred Loss on Refunding	Deferred Outflows Related to Pensions	Deferred Outflows Related to OPEB - RHBF	Deferred Outflows Related to OPEB - DIPNC
FY2017 Restated	$8,670	$38,508	$10,027	$656
FY2018	$12,109	$27,594	$10,833	$567

Employees of the University are eligible to participate in the Teachers' and State Employees' Retirement System (TSERS), a cost-sharing, multiple-employer, defined benefit pension plan. For 2018 fiscal year end reporting, the plan's total assets were less than the plan's total liabilities creating a net pension liability as of the June 30, 2017 measurement date. Each participating agency or institution reports in its financial statements its proportionate share of the deferred outflows of resources, net pension liability, and deferred inflows of resources related to the TSERS pension program.

A portion of the changes in the University's share of the net pension liability and the differences between the University's contributions and its proportionate share of total contributions to TSERS during the measurement period are recognized as a pension expense. Amounts that are related to future periods that are not recognized as pension expense are reported as deferred outflows of resources or deferred inflows of resources related to pensions in the Statement of Net Position.

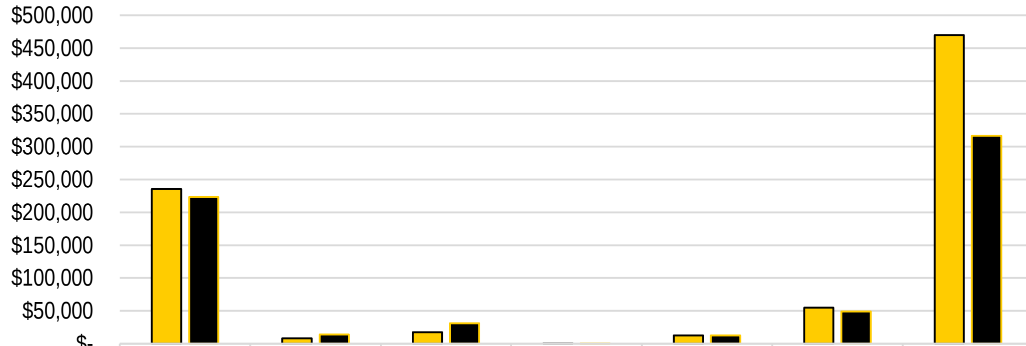
The $10.9 million decrease in the deferred outflows related to pensions is attributable to the difference between the plan's projected and actual investment earnings. During the measurement period, the change in actual investment earnings that exceeded projected earnings was $13.0 million.

The decrease in deferred outflows related to pensions was offset by a $3.4 million increase in deferred loss on refunding of University debt. In fiscal year 2018, the University issued approximately $56.4 million in Appalachian State University General Revenue Bonds, Series 2017A, at a $6.4 million premium to advance refund $57.5 million in existing debt. The difference between the amounts required to be placed into escrow to pay interest and principal on the old debt and the net carrying value of the old debt is deferred to future periods and amortized as interest expense in a systematic manner. The University recorded approximately a $4.9 million deferred loss on refunding related to the issuance of the Appalachian State University General Revenue Bonds, Series 2017A bonds. The increase in the deferred loss was offset by the amortization of deferred loss balances related to other bonds. Additional information regarding the Appalachian State University General Revenue Bonds, Series 2017A bonds can be found in the "Capital Assets and Debt Administration" section of the management discussion and analysis and in Note 8D of the financial statements.

Total Liabilities

Total liabilities decreased by 18.4% over the prior year restated balances. This $152.7 million decrease is mostly related to a 19.4% decrease in long-term liabilities, and is primarily attributable to approximately a $153.3 million reduction in the net OPEB – RHBF liability. (Figure 1.2)

Figure 1.2
Analysis of Long-Term Liabilities (Current and Noncurrent)
(Dollars in Thousands)



	Bonds Payable	Bond Premiums	Notes Payable	Cap Leases Payable	Comp Absences	Net Pension Liability	Net OPEB Liability - RHBF
FY2017 Restated	$235,610	$8,283	$17,551	$31	$12,451	$55,132	$469,945
FY2018	$223,385	$13,957	$31,124	$16	$12,787	$49,232	$316,660

The reduction in the net OPEB – RHBF liability is primarily the result of differences in economic and demographic factors with regard to active and inactive employees covered versus the actual experience of the plan during the measurement period. A more detailed explanation of these changes and how they impact the liability are discussed below in the "Deferred Inflows of Resources" section.

Other significant changes include a $12.2 million decrease in bonds payable and approximately a $5.9 million decrease in the net pension liability as discussed in the section for deferred outflows of resources, offset by approximately a $13.6 million increase in notes payable and approximately a $5.7 million increase in unamortized bond premiums. The changes related to bonds payable, unamortized bond premiums, and notes payable will be discussed in greater detail in the "Capital Assets and Debt Administration" section and Note 8A of the financial statements.

Deferred Inflows of Resources

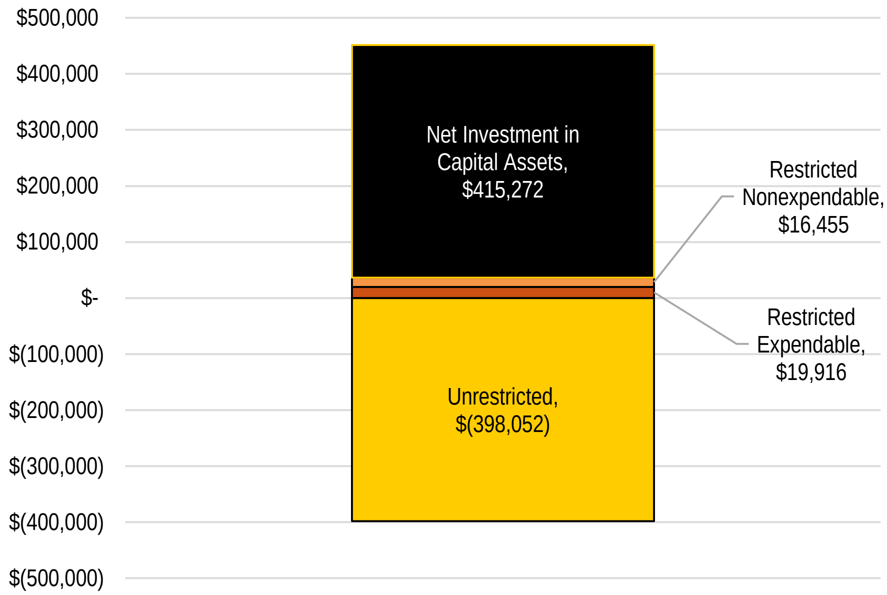
Total deferred inflows of resources changed significantly when compared to the fiscal year 2017 restated balances. The increase of $149.8 million is primarily due to changes affecting the net OPEB – RHBF liability as mentioned above. Deferred inflows for OPEB increased by $22.7 million for differences between expected and actual experience with regard to economic and demographic factors affecting active and inactive employees covered by the plan,

$87.2 million related to changes of assumptions about future economic or demographic factors of active and inactive employees in the plan, and $40.8 million for changes in proportion and contributions during the plan measurement period. These changes in deferred inflows of resources are reflected in the decrease in the net OPEB –RHBF liability as mentioned above.

Net Position

Net position represents the difference between the University's assets and deferred outflows of resources from liabilities and deferred inflows of resources. It is comprised of net investment in capital assets, restricted nonexpendable, restricted expendable, and unrestricted net position (Figure 1.3 below).

Figure 1.3
Net Position
(Dollars in Thousands)



Net investment in capital assets represents the University's investment in capital assets such as buildings, land, general infrastructure, machinery and equipment, and other improvements, net of accumulated depreciation/amortization, outstanding principal balances of capital-related debt, deferred loss on refunding, and other liabilities related to the construction or acquisition of capital assets. Net investment in capital assets increased by 11.8%, $43.8 million, primarily related to costs capitalized for the construction of the College of Health Sciences building.

Restricted nonexpendable net position consists of loan funds, research funds, and endowment gifts with specific restrictions on spending the principal balance. Net position increased by approximately $0.6 million primarily related to the addition of endowments.

Restricted expendable net position consists of income from endowment funds, gifts and pledges with specific restrictions, funds restricted to specific University programs, either by legislation or other third party restrictions, unexpended capital project funds, and grants from third party agencies with expenditure restrictions. The combination of increases in net position for capital project funds, investment earnings on professorship funds, and changes in the net OPEB – DIPNC asset account for a $4.9 million overall positive change in restricted expendable net position.

Unrestricted net position is comprised of fund balances that are not subject to external restrictions on use. Management may designate use of these funds for various institutional, academic, and other initiatives to support the mission of the University. As discussed previously, the implementation of GASB Statement No. 75 had a significant impact on the restated 2017 unrestricted fund balance. In order to understand the continued impact of accounting for the net OPEB liability (under GASB Statement No. 75) and net pension liabilities (under GASB Statement No. 68) on unrestricted net position, Note 10 – Net Position, has been added to the notes to the financial statements. The effect on unrestricted net position related to the net OPEB and pension liabilities total a deficit of approximately $479.9 million. The difference between this deficit effect and unrestricted net position reported on the financial statements is a positive $81.8 million.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position (condensed, comparative table presented below) presents the University's operating and nonoperating revenues and expenses and other revenues.

The change in net position from year to year is an indicator of the financial condition of the institution.

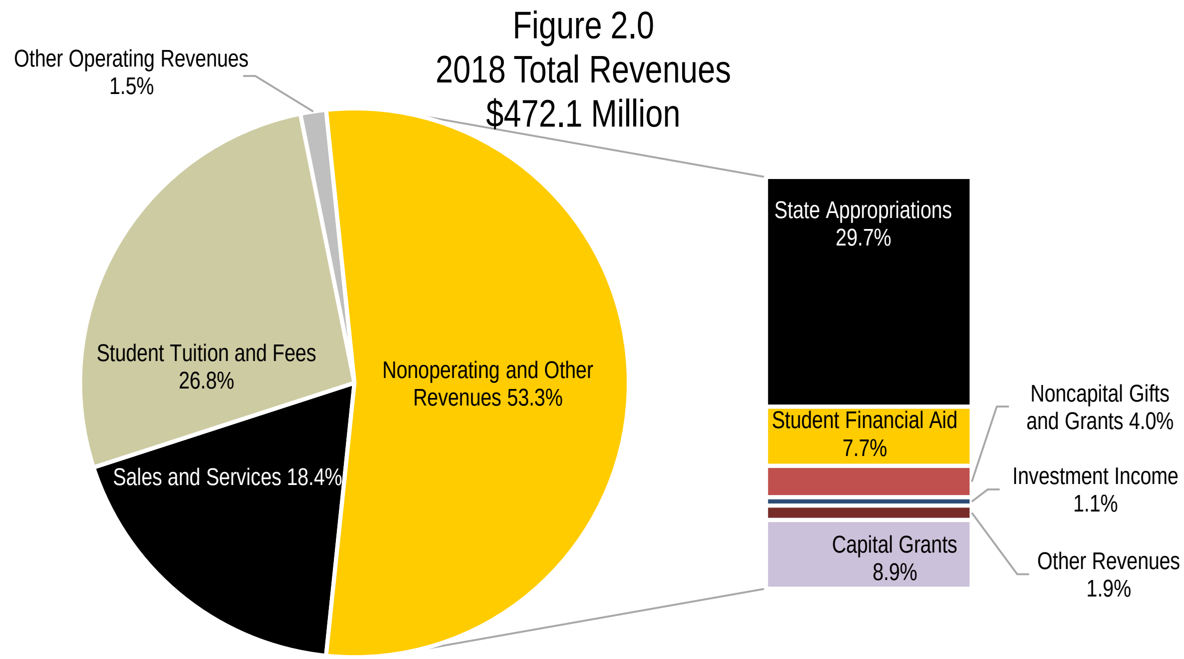
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Fiscal Year 2018	Fiscal Year 2017*	$ Change	% Change
Operating Revenues				
Tuition and Fees, Net	$ 126,662,698	$ 121,958,398	$ 4,704,300	3.9
Grants and Contracts	5,837,029	6,782,077	(945,048)	(13.9)
Sales and Services, Net	86,691,444	86,425,143	266,301	0.3
Other Operating Revenues	1,295,648	1,834,947	(539,299)	(29.4)
Total Operating Revenues	220,486,819	217,000,565	3,486,254	1.6
Operating Expenses				
Salaries and Benefits	258,345,801	251,762,925	6,582,876	2.6
Supplies and Materials	43,554,613	44,712,939	(1,158,326)	(2.6)
Services	47,838,900	45,148,094	2,690,806	6.0
Scholarships and Fellowships	22,900,209	22,407,839	492,370	2.2
Utilities	10,618,089	10,473,494	144,595	1.4
Depreciation/Amortization	20,204,949	20,202,800	2,149	0.0
Total Operating Expenses	403,462,561	394,708,091	8,754,470	2.2
Operating Loss	(182,975,742)	(177,707,526)	(5,268,216)	3.0
Nonoperating Revenues (Expenses)				
State Appropriations	140,514,281	138,091,358	2,422,923	1.8
Noncapital Grants - Student Financial Aid	36,192,334	33,443,957	2,748,377	8.2
Noncapital Grants	6,240,388	7,768,582	(1,528,194)	(19.7)
Noncapital Gifts	12,865,750	10,231,780	2,633,970	25.7
Investment Income, Net	5,096,785	4,169,520	927,265	22.2
Interest and Fees on Debt	(10,213,460)	(10,060,353)	(153,107)	1.5
Other Nonoperating Revenues (Expenses)	2,101,101	(1,490,100)	3,591,201	(241.0)
Net Nonoperating Revenues	192,797,179	182,154,744	10,642,435	5.8
Income Before Other Revenues	9,821,437	4,447,218	5,374,219	120.8
Capital Appropriations	2,335,575		2,335,575	100.0
Capital Grants	41,955,989	14,510,191	27,445,798	189.1
Capital Gifts	4,022,809	627,519	3,395,290	541.1
Additions to Endowments	337,203	1,506,619	(1,169,416)	(77.6)
Total Other Revenues	48,651,576	16,644,329	32,007,247	192.3
Total Increase in Net Position	58,473,013	21,091,547	37,381,466	177.2
Net Position				
Net Position at Beginning of Year (Prior to Restatement)	(4,881,293)	432,657,755	(437,539,048)	(101.1)
GASB 75 Restatement (Note 18)		(458,630,595)	458,630,595	100.0
Net Position at End of Year (as Restated)	$ 53,591,720	$ (4,881,293)	$ 58,473,013	1,197.9
Reconciliation of Increase in Net Position				
Total Revenues	$ 472,149,034	$ 427,350,091	$ 44,798,943	10.5
Less: Total Expenses	413,676,021	406,258,544	7,417,477	1.8
Total Increase in Net Position	$ 58,473,013	$ 21,091,547	$ 37,381,466	177.2

*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.

Total Revenues

Total revenues for the University are comprised of operating revenues, nonoperating revenues, and other revenues. Figure 2.0 provides an illustration of how each of these categories make up total revenues. It is important to note that state appropriations are reported as nonoperating even though these appropriations are used in the day-to-day operations of the University. These revenues are considered nonoperating because the University is not providing services or goods in exchange for the appropriations.



Operating Revenues

Operating revenues increased by approximately $3.5 million representing a 1.6% change over the prior year. The majority of the increase is attributable to a 3.9% increase in tuition and fee revenue, net of scholarship discounts and the allowances. The $4.7 million increase is primarily related to increases in tuition and fee rates for fiscal year 2018 and an increase in enrollment which is discussed further in the economic outlook section. The table below highlights the changes in annual tuition and fee rates.

Table 2.0
Changes in Annual Tuition and Fees
as Approved by the UNC Board of Governors

Resident Tuition	2016-17	2017-18	$ Change	% Change
Undergraduate 16-17 Cohort*	4,159	4,159		
Undergraduate	4,159	4,242	83	2.0%
Graduate	4,744	4,839	95	2.0%
Nonresident Tuition	**2016-17**	**2017-18**	**$ Change**	**% Change**
Undergraduate	18,675	19,049	374	2.0%
Graduate	17,913	18,271	358	2.0%
Specialized Tuition	**2016-17**	**2017-18**	**$ Change**	**% Change**
MBA/ MSA/ MS Analytics	1,800	1,800		

General & Debt Service Fees, All Students	2016-17	2017-18	$ Change	% Change
Athletics	738	760	22	3.0%
Health Services	294	325	31	10.5%
Student Activity	645	646	1	0.2%
Education & Technology	546	576	30	5.5%
Campus Security	30	30		
Debt Service	579	579		
Total Fees	2,832	2,916	84	3.0%

*The legislative mandated fixed tuition plan is discussed further in the economic outlook section.

Nonoperating Revenues

In general, the $10.6 million change in nonoperating revenues can be attributed to five significant changes as noted below.

- State appropriations increased by $2.4 million over the prior fiscal year. This 1.8% increase is a result of the combined effects of an increased base budget and allocations for enrollment growth and increases to employee salaries and benefits paid from the general fund.
- Noncapital grants - student financial aid changed by $2.7 million, an 8.2% change over the prior year, primarily related to an increase in Pell grants due to an increase in enrollment.
- Other nonoperating revenues totaled $2.1 million for the fiscal year ended June 30, 2018, and was mainly the result of a transaction for the acquisition of land from Watauga County. As part of the financing agreement with the County, University owned property was included as part of the transaction. The value of the University asset being given and an approximate $15.5 million note payable was capitalized as a new asset for the land received from the County. The result was a recognized net gain of $2.6 million, which represents the fair value of the University asset exchanged less book value, recorded in other nonoperating revenues. Additional details regarding this

transaction are discussed in the "Capital Assets and Debt Administration" section below.

- The University experienced a $2.6 million increase in noncapital gifts. The largest of these increases was from the University Yosef Club fund, which transferred an additional $2 million in contributions to the University's intercollegiate athletics program.
- Lastly, increases in nonoperating revenues were offset by a $1.5 million decrease in noncapital grants, almost a 20% decrease from the prior year. In fiscal year 2017, the University received federal nonrecurring funds to purchase laboratory and research equipment totaling $1.1 million. Other decreases were due to the expiration of certain federal grants, which created an additional $0.6 million decrease in grant funds when compared to the prior year.

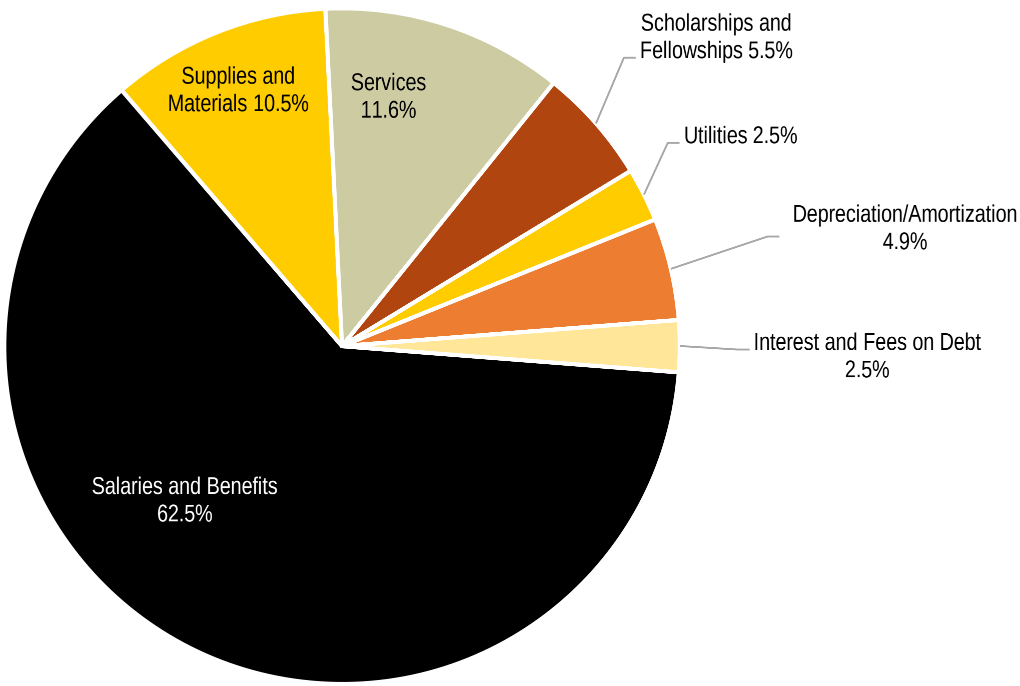
Other Revenues

The significant changes in other revenues occurred in capital grants and capital gifts. During the year ended June 30, 2018, capital grants increased by $27.4 million. This increase is related to the construction of the new College of Health Sciences building that is funded by the Connect NC State bond issuance. Capital gifts also increased substantially compared to the prior year. The majority of the $3.4 million increase is attributable to the acquisition and construction of scoreboards and video boards installed at the Holmes Convocation Center and Kidd Brewer Stadium. These assets were acquired through the Foundation and secured by pledges to the Foundation. Upon completion, the scoreboard and video boards were transferred to the University. The increase in capital appropriations was due to fluctuations in funding from the State of North Carolina.

Total Expenses

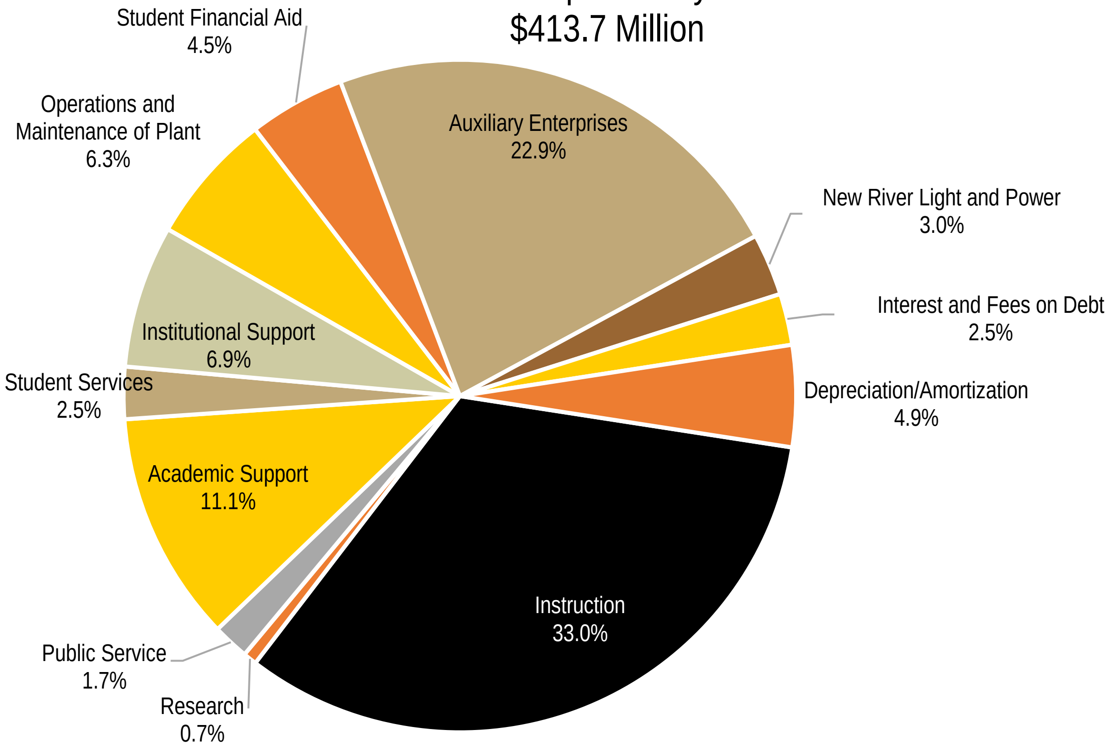
Expenses are presented by natural classification in the Statement of Revenues, Expenses, and Changes in Net Position. Figure 2.1 is a graphical representation of expenses by natural classification and illustrates the types of activities that generated expenses during the year. Salaries and benefits comprise the largest expense classification. This is a reflection on the human capital required to provide instruction, academic support, student services, and institutional support.

Figure 2.1
2018 Total Expenses by Natural Classification
$413.7 Million



Additional information related to expenses is disclosed in Note 12 of the financial statements. The note allows readers to review expenses by function. Figure 2.2 below is a graphical representation of expenses by function with nonoperating expenses included.

Figure 2.2
2018 Total Expenses by Function
$413.7 Million



Instruction and academic support comprise 44.1% of expenses incurred. The next largest function is auxiliary enterprises at 22.9%, which also provides services and support to students and the community. This function includes housing and residence life, dining services, student union, recreational facilities, athletics, international programs, and the University bookstore.

Operating Expenses

Operating expenses increased by approximately $8.8 million in fiscal year 2018. This 2.2% increase is mostly related to a $6.6 million change in salaries and benefits related to legislative increases approved by the General Assembly. The State budget passed for 2017-2018 provided salary increases for state employees who are subject to the State Human Resources Act (SHRA). Employees classified as SHRA were given base salary increases of $1,000 in addition to 3 bonus leave days. These increases were given across the board for all eligible employees. Faculty and certain administrative positions are classified as Exempt from the Human Resources Act (EHRA). EHRA employees did not receive the across the board $1,000 increase. Instead, appropriated funds were allotted to the University as a pool from which merit based or market based adjustments to salaries were made. Overall, the largest functional increases were realized in Academic Support and Instruction, which totaled nearly $3.8 million combined. (Table 2.1)

Table 2.1
Changes in Employee Salaries
(Dollars in Thousands)

Function	$ Change
Instruction and Academic Support	$ 3,768
Research	101
Public Service	(38)
Student Services	287
Institutional Support	1,161
Operations and Maintenance of Plant	378
Student Financial Aid	133
Auxiliary Enterprises and New River Light & Power	1,258
Total	$ 7,048

Increases in the University's auxiliary enterprises and New River Light & Power are not funded by State appropriations. These campus operations are self-supporting and must be budgeted for and funded from the revenues received for providing goods and services.

The approximate $2.7 million increase in services is primarily related to an increase in building repairs totaling approximately $1.8 million and a $2.6 million capital asset write down in construction in progress related to the replacement of a residence hall. Note 6 – Capital Assets contains a detailed description of the capital asset write down. These increases were offset by various other decreases in services.

The majority of increases in operating expenses were negated by a 2.6% decrease in supplies and materials. This change is primarily related to a reduction in purchases of non-capital telecommunications equipment. These expenses were incurred in the prior fiscal and allowed the University to convert to voice over internet protocol (VOIP) communications.

Capital Assets and Debt Administration

A comparative analysis of capital assets, net of depreciation and amortization, reveals significant changes primarily in nondepreciable assets. (See table 2.2)

Table 2.2
Analysis of Capital Assets, Net
(Dollars in Thousands)

	FY2018	FY2017	$ Change	% Change
Nondepreciable Capital Assets				
Construction in Progress	$ 69,856	$ 34,547	$ 35,309	102.2
Land	59,658	41,401	18,257	44.1
Art, Literature, and Artifacts	3,583	3,516	67	1.9
Total Nondepreciable Capital Assets	133,097	79,464	53,633	67.5
Depreciable Capital Assets, Net				
Buildings	442,150	454,819	(12,669)	(2.8)
Computer Software	636	423	213	50.3
General Infrastructure	49,608	50,156	(547)	(1.1)
Machinery and Equipment	25,636	21,047	4,589	21.8
Total Depreciable Capital Assets, Net	518,030	526,445	(8,415)	(1.6)
Total Capital Assets, Net	$ 651,127	$ 605,908	$ 45,218	7.5

Construction in progress increased by $35.3 million due to the capitalization of costs for the construction of Leon Levine Hall that will house the Beaver College of Health Sciences. During fiscal year 2018, $40.0 million in accrued costs were added to construction in progress for this building. Construction of the building began in July of 2016 and is expected to be completed by August of 2018 in time to host classes for the fall semester. The project will be the first of many projects funded by the State's $2 billion 2016 Connect NC bond issuance. The total project budget is $80 million, with $5 million appropriated from the State's General Fund for advanced planning, $70 million appropriated from Connect NC funds, and $5 million of donations from the Leon Levine Foundation. The building will be placed into service in fiscal year 2019.

Increases in construction in progress were offset by reclassifying completed projects to asset accounts. During the year the following projects were moved to capital asset accounts: $2.4 million to buildings for Howard Street Hall renovations and $1.2 million to infrastructure for the electric utility and steam systems.

Additions to land is related to the acquisition of property from Watauga County. The 74.6-acre tract purchased by the University is located within the Town of Boone's city limits and once housed the former Watauga High School. The old high school building was demolished by the County when the property was placed on the market. In exchange for the property, the University entered into a 20-year, $15.5 million note payable with the first payment due in fiscal year 2022. The stated interest rate on the note is 0.0%. In addition to executing a promissory note, the University exchanged a 3.5-acre tract of land and building with a fair value of $2.8 million and a net book value of $206 thousand (land of $133 thousand and building of $73 thousand). As a result, approximately $18.4 million was capitalized as a new asset after recognizing the disposal and gain on the property transferred to the County. The University is actively exploring short-term and long-term use of the new property. In the short term, the property will be used for additional parking. Longer range plans could include athletic facilities for the track, softball, and tennis programs in addition to other University recreation facilities.

The most significant increase in machinery and equipment is related to the donation of two new scoreboards installed at Kidd Brewer Stadium and the Holmes Convocation Center. The combined capitalized cost of the assets totaled approximately $3 million.

Increases in capital assets were offset by depreciation and amortization expense totaling $20.2 million. This accounts for the majority of decreases in the building and infrastructure accounts as noted in table 2.2.

Other major capital projects currently in the planning phase include:

- Kidd Brewer Stadium – North End Zone facility. This will be a 94 thousand square foot mixed use facility that will replace the Owens Field House. It will house athletic training programs, nutrition science research labs, athletic locker rooms, athletic offices, conference space, dining facilities, medical office space, a team store, ticket offices, and premium seating. The facility is estimated to cost $45 million and will be funded by ticket revenues, dining receipts, rental income, and private donations. A $5 million pledge has been secured for the facility.
- Public Private Partnership (P3) – Housing and Parking project. Plans are under way to engage with a private partner to replace six residence halls on the west side of campus and to construct a parking deck. These include Bowie, Coltrane, Eggers, Gardner, and

Justice residence halls. A replacement for Winkler Hall is also included in the project. The agreement with the private partner will include construction of the new residence hall that the University will purchase upon completion with the proceeds from the Appalachian State University General Revenue Bonds, Series 2016C. By including the Winkler Hall replacement in the P3 project the University will recognize significant savings. The plan will create a student residential community replacing 1,800 beds and adding between 200 and 400 new beds. The project will be financed by the private partner who will receive housing receipts from the University to recover their investment, service the debt, and provide maintenance to the buildings. In exchange, the University will receive the net revenues from the private entity. The University will maintain residence life programing responsibilities and some maintenance responsibilities. The overarching goal from the students' perspective is that the on campus experience is consistent with the University's values regardless of which entity constructs the facilities.

- Sanford Hall – Renovation. This project will be a complete renovation of an academic building in the heart of campus. The current 73 thousand square foot building houses multiple academic departments and supports up to 4,600 students per day. Project costs are budgeted at $18 million and will replace the building's mechanical and electrical systems, windows, roofing, fire systems, elevators, and information technology infrastructure. The University will issue general revenue bonds for the construction with debt service to be paid from student fees that were approved by the UNC Board of Governors during the 2017-2018 fee request process.

For fiscal year 2018, debt service payments included bonds and notes payable for approximately $13.0 million and $15 thousand for capital leases.

During fiscal year 2018, the University refinanced existing debt in order to take advantage of low interest rates. The University issued approximately $56.4 million in Appalachian State University General Revenue Bonds, Series 2017A with an interest rate of 2.8% at a premium of $6.4 million to advance refund the UNC System Pool Revenue Bonds, Series 2010B-1, and the Appalachian State University General Revenue Bonds, Series 2011. The par amount of the refunded bonds was $57.5 million. The proceeds were placed into escrow. The University reduced debt service payments by $6.1 million representing an economic gain of $4.7 million. Moody's assigned a rating of Aa3 to the Series 2017A bonds. Additional information about this refinancing can be found in the notes to the financial statements, Note 8D.

Each year all constituent institutions of the UNC System are required to provide a report to the UNC Board of Governors on current and anticipated debt levels. These campus reports are included in an annual debt capacity study provided to the UNC System Office, the Office of State Budget and Management, the North Carolina State Treasurer, and the Joint Legislative Commission on Government Operations in accordance with Article 5 of NC G.S §116D. The report provides valuable insight into the debt and credit profile of each institution. Key ratios and an estimated debt capacity for the University are provided as follows:

Table 2.3
UNC Debt Capacity Study
Summary of Key Ratios for Appalachian State University

Fiscal Year	Debt to Obligated Resources [1]	5-Year Payout [2]	Expendable Resources to Debt [3]	Debt Service to Operating Expenses [4]	Debt Capacity [5]
2018	0.98	28%	0.75	4.87%	118,557,879
2019	0.96	30%	0.77	4.77%	125,699,837
2020	0.89	32%	0.83	5.03%	144,954,034
2021	0.82	35%	0.90	4.93%	164,888,214
2022	0.75	37%	0.99	4.80%	185,435,179

1. Debt to Obligated Resources; Legislatively required ratio that compares total outstanding debt to funds legally available to service debt. A decreasing ratio indicates strength.
2. 5-Year Payout Ratio; Legislatively required ratio that measures the University's debt scheduled to be retired in the next 5 years. An increasing ratio indicates strength.
3. Expendable resources to debt; This ratio measures the number of times liquid and expendable net position covers total outstanding debt. An increasing ratio indicates strength.
4. Debt Service to Operating Expenses; This ratio measures the University's debt service as a percent of total operating expenses. A decreasing ratio indicates strength.
5. The debt capacity calculation provides a general indication of the University's ability to take on additional debt. It is important to note that "debt capacity" is not the same as "debt affordability". Debt affordability takes into account other factors, both quantitative and qualitative, like projected revenues and expenses, costs of funds, and strategic priorities. The effects of issuing debt from the perspective of credit ratings is also difficult to determine. This is because the financial ratios are only a portion of the factors used by ratings agencies to evaluate debt.

Economic Outlook

Income data and overall economic activity for the State indicates that growth in the economy is beginning to exceed the national average. This trend suggests that the State's economy is entering into an expansion phase.[1] According to the North Carolina Fiscal Research Division, the economy has stabilized and is at its strongest since the recession and forecasters see minimal risk of a downturn. For the current fiscal year ended June 30, 2018, the State's revenue projects exceeded expectations. In general, a combination of conservative forecasting and steady growth in the economy has afforded the State a fiscal surplus for fiscal year 2018.[2] Additionally, the State has revised revenue forecasts upward for the 2018-2019 fiscal year with increases in revenue expected to come from individual income taxes and business and investment income. The overall health of the State's economy is important in understanding the economic outlook for the UNC System and the University. A strong economy allows the State to continue to provide support for education. Up to 57.5% of the State's 2018-2019

[1] Boardman, Barry, "General Fund Revenue Update State of North Carolina," January 22, 2018, Fiscal Research Division, North Carolina General Assembly.
[2] Boardman, Barry, "General Fund Revenue Update State of North Carolina", August 17, 2018, Fiscal Research Division, North Carolina General Assembly.

budget has been allocated to public schools, community colleges, and the UNC System. The total $13.8 billion appropriation is 5.3% higher than the prior year by $697 million.[3]

The University's portion of the State budget is appropriated from the General Fund, which is subject to the State Budget Act (NC G.S. Chapter 143C) and is administered by the Office of State Budget and Management. The General Fund does not include institutional trust funds as regulated and defined by NC G.S. §116-36.1. These funds are not subject to the State Budget Act except for provisions related to capital improvement projects. They include funds such as endowments, grants and contracts, student activities, scholarships, self-supporting auxiliaries, and student fees collected by the University. The table below represents the State supported general fund of the University's budget.

Table 2.4
2018-2019 General Fund Projected Budget

	Appropriations	Budgeted Receipts	Total General Fund Budget
Base Budget	$ 134,672,993	$ 101,690,074	$ 236,363,067
Campus Initiated Tuition Increases		1,017,337	1,017,337
Enrollment Growth Funding	2,150,000	950,551	3,100,551
Employee Salaries & Benefits Adjustments	5,823,499	75,271	5,898,770
Teacher Recruitment	74,604		74,604
UNC Campus Scholarships	77,760		77,760
Total Additions	8,125,863	2,043,159	10,169,022
Less:			
Management Flexibility Reduction	(372,391)		(372,391)
Total Increase to Base Budget	7,753,472	2,043,159	9,796,631
2018-2019 Budget	$ 142,426,465	$ 103,733,233	$ 246,159,698

For the 2018-2019 fiscal year, the base budget is set at $236.3 million with approximately $134.7 million in appropriations from the State and $101.7 million from tuition and other receipts. For the upcoming year, additional appropriations and budgeted receipts are expected to fund enrollment growth and increases in salaries and benefits for employees that were approved by the General Assembly. For the 2018-2019 budget year, employees classified as SHRA will receive a 2% increase and the minimum state annual salary will be raised to $31,200.

The University realized the effects of the legislatively mandated fixed tuition plan (NC G.S. §116-143.9) for the first time in the 2018 fiscal year. The 2016-2017 resident student cohort was the first to benefit from the plan. Tuition was not increased for any student in the cohort for the 2017-2018 academic year and will not be increased for another two academic years for this cohort. As a result of the fixed tuition plan, the University realized $652 thousand less in

[3] "S.L. 2018-5 and Other Legislative Budgetary Highlights, Education Budget Highlights" Fiscal Research Division, North Carolina General Assembly, Web 19 September 2018.

tuition receipts. In order to absorb the effects of the fixed tuition plan the University will need to maximize appropriations and tuition receipts to the extent possible.

Total student fee increases are limited to 3.0% per academic year (NC G.S. §116-143.10). General fees were not increased for fiscal year 2018-2019. However, an $84 infrastructure debt service fee was approved to fund the renovation of Sanford Hall. The net effect of the new indebtedness fee on the students' bill will be $55. The University was able to reduce other indebtedness fees minimizing the impact of the increase approved.

Enrollment growth at the University continues to steadily increase. For the fall of 2017, the University received 14,049 applications, up 847 from fall of 2016. Acceptances increased by 806 to a total of 9,826 and of those, 3,306 were newly enrolled freshmen. The fall 2017 student head count was 18,811 equating to full time equivalent (FTE) of 18,099.

Retention rates are another indicator of the current and future outlook for the University. For the academic year beginning in the fall of 2017, the freshman to sophomore retention rate was 88.8%, up from 87.1%. The 3-year retention rate was 75.9%.

Taking these factors into consideration, the University anticipates maintaining slow and steady growth with a focus on diversity, inclusion, and sustainability. These values are reflected in the University's strategic plan, *The Appalachian Experience: Envisioning a Just and Sustainable Future.*[4]

Fundraising continues to be a focus at the University as well as the Foundation. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. Prospective donors have multiple methods to choose from through the Foundation to make an impact for the University's students. The Foundation supports a wide range of initiatives from scholarship needs to gifts designated to support specific academic programs and departments. The levels of giving to the University in fiscal year 2018 was notable. The University received its largest outright gift to date when a University alumnus committed $10 million to "A Mountaineer Impact". The initiative supports several intercollegiate athletics priorities including facilities enhancements, scholarship support, operational and recruitment support, and other programs to enhance the student athlete experience across all sports. To date, approximately half of the $60 million goal has been raised. Another notable gift was made in the $5 million commitment to the University from the Levine Foundation for the naming of the College of Health Sciences building, Leon Levine Hall. These funds are designated to develop and enhance the building.

The University continues to be a leader in sustainability. As a result, the University has already met three of four short-term sustainability goals set by the UNC System and is on track to meet the fourth. Despite doubling in size since 2002, energy usage has decreased by 45% and water usage decreased by 53%. This translates into a $37 million energy and water cost avoidance.[5] According to the Office of Sustainability, this forward focused strategy has been accomplished through a combined effort supported by the Board of Trustees, University

[4] Appalachian State University, "The Appalachian Experience: Envisioning a Just and Sustainable Future." 2014-2019 http://www.appstate.edu/about/strategic-plan/
[5] Stump, Jessica, "Appalachian is a UNC System leader for energy and water reduction" Appalachian Today, March 15, 2018.

Administration, the Research Institute for Environment, Energy, and Economics (RIEEE), and the University's Renewable Energy Initiative, a student lead and funded organization.

Through the continued efforts of the University's leadership, faculty, staff, and students, the University has received several forms of recognition during the fiscal year 2018, including the following:

- Named among the best college for veterans and international students by College Factual.[6]
- Debuted on the Military Times' Best Colleges 2018 list.[7]
- Designated as a "Military Friendly School" by Victory Media.[8]
- Ranked 1st among institutions with masters programs, 2nd overall in curriculum, and tied for 3rd for buildings by the Sustainable Tracking Assessment and Rating System (STARS).[9]
- Listed on U.S. News & World Report's "Best Online Graduate Programs" and "Best in Graduate Schools"[10] [11]

[6] "College Factual names Appalachian among best colleges for veterans and international students" Appalachian Today, February 9, 2018
[7] Giunca, Mary, "Appalachian State University debuts on Military Times Best Colleges list", Appalachian Today, November 22, 2017
[8] Giunca, Mary, "Appalachian State University debuts on Military Times Best Colleges list", Appalachian Today, November 22, 2017
[9] Wall, Elisabeth, "STARS at Appalachian" Appalachian Today, November 15, 2017.
[10] Stump, Jessica, "US News & World Report includes Appalachian in 'Best Graduate Schools'" Appalachian Today, March 26, 2018
[11] Coutant, Linda "US News & World Report includes Appalachian in 'Best Online Programs'" Appalachian Today, January 9, 2018

FINANCIAL STATEMENTS

Appalachian State University
Statement of Net Position
June 30, 2018

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	86,611,195
Restricted Cash and Cash Equivalents		2,877,632
Receivables, Net (Note 5)		8,579,369
Inventories		13,545,066
Notes Receivable, Net (Note 5)		720,825
Other Assets		1,349,478
Total Current Assets		113,683,565
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		32,712,551
Endowment Investments		15,525,670
Restricted Investments		10,473,907
Other Investments		7,347,401
Notes Receivable, Net (Note 5)		2,671,497
Net Other Postemployment Benefits Asset		641,937
Other Noncurrent Assets		169,185
Capital Assets - Nondepreciable (Note 6)		133,096,649
Capital Assets - Depreciable, Net (Note 6)		518,029,964
Total Noncurrent Assets		720,668,761
Total Assets		834,352,326
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding		12,109,035
Deferred Outflows Related to Pensions		27,594,169
Deferred Outflows Related to Other Postemployment Benefits (Note 14)		11,400,284
Total Deferred Outflows of Resources		51,103,488
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		16,252,424
Funds Held for Others		526,858
Unearned Revenue		8,536,618
U. S. Government Grants Refundable		203,056
Interest Payable		2,312,755
Long-Term Liabilities - Current Portion (Note 8)		14,066,830
Total Current Liabilities		41,898,541
Noncurrent Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		430,760
Deposits Payable		219,914
Funds Held for Others		400,834
U. S. Government Grants Refundable		3,396,985
Long-Term Liabilities, Net (Note 8)		633,094,416
Total Noncurrent Liabilities		637,542,909
Total Liabilities		679,441,450
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		1,610,649
Deferred Inflows Related to Other Postemployment Benefits (Note 14)		150,811,995
Total Deferred Inflows of Resources		152,422,644

NET POSITION		
Net Investment in Capital Assets		415,272,446
Restricted for:		
Nonexpendable:		
Research		20,000
Endowed Professorships		15,843,293
Loans		591,521
Expendable:		
Scholarships and Fellowships		265,079
Research		46,709
Endowed Professorships		10,623,870
Departmental Uses		68,489
Capital Projects		7,423,476
Restricted for Specific Programs		155,326
Other		1,333,358
Unrestricted		(398,051,847)
Total Net Position	$	53,591,720

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

Appalachian State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 11)	$ 126,662,698
Federal Grants and Contracts	4,503,046
State and Local Grants and Contracts	519,533
Nongovernmental Grants and Contracts	814,450
Sales and Services, Net (Note 11)	86,691,444
Interest Earnings on Loans	27,022
Other Operating Revenues	1,268,626
Total Operating Revenues	220,486,819
EXPENSES	
Operating Expenses:	
Salaries and Benefits	258,345,801
Supplies and Materials	43,554,613
Services	47,838,900
Scholarships and Fellowships	22,900,209
Utilities	10,618,089
Depreciation/Amortization	20,204,949
Total Operating Expenses	403,462,561
Operating Loss	(182,975,742)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	140,514,281
Noncapital Grants - Student Financial Aid	36,192,334
Noncapital Grants	6,240,388
Noncapital Gifts	12,865,750
Investment Income (Net of Investment Expense of $154,101)	5,096,785
Interest and Fees on Debt	(10,213,460)
Other Nonoperating Revenues	2,101,101
Net Nonoperating Revenues	192,797,179
Income Before Other Revenues	9,821,437
Capital Appropriations	2,335,575
Capital Grants	41,955,989
Capital Gifts	4,022,809
Additions to Endowments	337,203
Increase in Net Position	58,473,013
NET POSITION	
Net Position - July 1, 2017, as Restated (Note 18)	(4,881,293)
Net Position - June 30, 2018	$ 53,591,720

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

Appalachian State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	220,389,546
Payments to Employees and Fringe Benefits		(257,290,260)
Payments to Vendors and Suppliers		(99,451,905)
Payments for Scholarships and Fellowships		(22,900,209)
Loans Issued		(511,986)
Collection of Loans		731,535
Interest Earned on Loans		14,547
Student Deposits Received		4,880,824
Student Deposits Returned		(4,909,657)
Other Receipts		1,325,398
Net Cash Used by Operating Activities		(157,722,167)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		140,514,281
Noncapital Grants - Student Financial Aid		36,192,334
Noncapital Grants		7,549,413
Noncapital Gifts		11,865,134
Additions to Endowments		337,203
William D. Ford Direct Lending Receipts		96,837,443
William D. Ford Direct Lending Disbursements		(96,827,678)
Related Activity Agency Receipts		178,984
Related Activity Agency Disbursements		(104,400)
Other Payments		(1,031,692)
Net Cash Provided by Noncapital Financing Activities		195,511,022
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Debt		205,859
Capital Appropriations		2,335,575
Capital Grants		41,955,989
Proceeds from Sale of Capital Assets		151,825
Acquisition and Construction of Capital Assets		(48,566,490)
Principal Paid on Capital Debt and Leases		(7,566,332)
Interest and Fees Paid on Capital Debt and Leases		(8,740,845)
Net Cash Used by Capital Financing and Related Financing Activities		(20,224,419)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		2,083,720
Investment Income		1,491,424
Purchase of Investments and Related Fees		(6,099,439)
Net Cash Used by Investing Activities		(2,524,295)
Net Increase in Cash and Cash Equivalents		15,040,141
Cash and Cash Equivalents - July 1, 2017		107,161,237
Cash and Cash Equivalents - June 30, 2018	$	122,201,378

Appalachian State University
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2018 — *Page 2 of 2*

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

Operating Loss	$	(182,975,742)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/Amortization Expense		20,204,949
Allowances and Write-Offs		2,727,093
Nonoperating Other Income		1,295,402
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(145,928)
Inventories		(895,677)
Notes Receivable, Net		219,549
Other Assets		(869,740)
Net Other Postemployment Benefits Asset		(10,312)
Deferred Outflows Related to Pensions		10,914,125
Deferred Outflows Related to Other Postemployment Benefits		(717,036)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		307,400
Due to Primary Government		(48,732)
Unearned Revenue		1,319,339
Net Pension Liability		(5,899,998)
Net Other Postemployment Benefits Liability		(153,285,381)
Compensated Absences		335,839
Deposits Payable		14,506
Funds Held for Others		(28,833)
Deferred Inflows Related to Pensions		(994,985)
Deferred Inflows Related to Other Postemployment Benefits		150,811,995
Net Cash Used by Operating Activities	$	(157,722,167)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	86,611,195
Restricted Cash and Cash Equivalents		2,877,632
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		32,712,551
Total Cash and Cash Equivalents - June 30, 2018	$	122,201,378

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	24,079,370
Assets Acquired through a Gift		4,022,809
Change in Fair Value of Investments		2,884,186
Reinvested Distributions		(887,949)
Gain on Disposal of Capital Assets		2,071,797
Bond Issuance Cost Withheld		(174,152)
Amortization of Bond Premiums		(732,289)
Decrease in Receivables Related to Nonoperating Income		(1,318,789)
Payments Made on Behalf of the University		(5,821,733)
Funds Escrowed to Defease Debt		62,931,815
UNC Management Company Investment Management Fees		(164,894)

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

Appalachian State University Discretely Presented Component Units
Statement of Financial Position
June 30, 2018 — *Exhibit B-1*

	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation
ASSETS		
Cash and Cash Equivalents	$ 3,571,538	$ 5,722,177
Contributions Receivable, Net	24,361,891	
Accounts Receivable, Net		3,731
Sales Tax Refund Receivable		4,450
Other Receivables	115,177	
Prepaid Expenses	3,567	89,666
Investments	110,600,475	
Real Estate Held for Investment	6,696,600	
Beneficial Interest in Perpetual Trusts	1,660,328	
Contributions Receivables from Trusts	2,223,574	
Contributions Receivable from Irrevocable Bequests	5,173,299	
Cash Surrender Value of Life Insurance	176,745	
In-Kind Gifts	8,004	
Property and Equipment, Net	1,884,000	19,428,305
Total Assets	$ 156,475,198	$ 25,248,329
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 217,224	$ 457,142
Tenant Security Deposits		240,655
Deferred Income		147,642
Deferred Revenue	2,336	
Long-Term Debt	6,589,303	
Split Interest Agreement Obligations	1,813,565	
Total Liabilities	8,622,428	845,439
NET ASSETS		
Unrestricted	7,116,936	24,402,890
Temporarily Restricted	69,117,568	
Permanently Restricted	71,618,266	
Total Net Assets	147,852,770	24,402,890
Total Liabilities and Net Assets	$ 156,475,198	$ 25,248,329

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

Appalachian State University Discretely Presented Component Units
Statement of Activities
For the Fiscal Year Ended June 30, 2018 — *Exhibit B-2*

	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$ 4,089,526	$ 0
Net Investment Income and Realized and Unrealized Gains on Investments	1,602,753	
Net Rental income		4,460,004
Auxiliary Income	137,345	
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts, and Split Interest Agreement Obligations	(292)	
Other Income	8,244	83,920
Net Unrestricted Revenues and Gains	5,837,576	4,543,924
Net Assets Released from Restrictions:	16,697,789	
Net Unrestricted Revenues, Gains, and Other Support	22,535,365	4,543,924
Expenses:		
Program Services		
General University Support	10,264,897	
Student Financial Aid	6,585,258	
Alumni Affairs	164,744	
Housing Support		2,961,762
Other	334,245	
Support Services		
General and Administrative	762,594	
Fundraising	3,925,695	
Total Expenses	22,037,433	2,961,762
Other Income		
Interest Income		14,417
Increase in Unrestricted Net Assets	497,932	1,596,579
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	24,817,207	
Net Investment Income and Realized and Unrealized Gains on Investments	7,507,909	
Auxiliary Income	149,983	
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts, and Split Interest Agreement Obligations	36,826	
Other Income	11,792	
Net Temporarily Restricted Revenues and Gains	32,523,717	
Net Assets Released from Restrictions:	(16,697,789)	
Net Temporarily Restricted Revenues, Gains, and Other Support	15,825,928	
Net Decrease in Allowance for Doubtful Contributions Receivable	(681,120)	
Net Change in Contributions Receivable Due to Tax Legislation Changes for Charitable Contributions	(616,863)	
Increase in Temporarily Restricted Net Assets	14,527,945	
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	2,519,211	
Net Investment Income and Realized and Unrealized Gains on Investments	73,938	
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts, and Split Interest Agreement Obligations	19,034	
Total Permanently Restricted Revenues and Gains	2,612,183	
Net Increase in Allowance for Doubtful Contributions Receivable	5,828	
Increase in Permanently Restricted Net Assets	2,618,011	
Increase in Net Assets	17,643,888	1,596,579
Net Assets at Beginning of Year	130,208,882	22,806,311
Net Assets at End of Year	$ 147,852,770	$ 24,402,890

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

The accompanying financial statements present all funds belonging to the University and its component 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 discretely presented in the University's financial statements. See below for further discussion of the University's component units. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Discretely Presented Component Units – Appalachian State University Foundation, Inc. (Foundation) and Appalachian Student Housing Corporation (Corporation) are legally separate nonprofit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 30 self-perpetuating members, four ex officio voting members, and four ex officio non-voting members who are administrative officers of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Corporation's primary function is to develop, finance, prepare, provide, and supervise residential housing facilities for students and employees of the University. The corporation board consists of seven members, of which three members are administrative officers of the University. Because the Corporation's sole purpose is to benefit the University, it is considered a component unit of the University and is reported in separate financial statements due to the difference in its reporting model, as described below.

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

During the year ended June 30, 2018, the Foundation distributed $16,856,755 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Vice Chancellor for University Advancement or the Foundation President. The address is Dougherty Administration Building, 438 Academy Street, Boone, North Carolina 28608.

During the year ended June 30, 2018, the Corporation did not distribute any funds to the University. Complete financial statements for the Corporation can be obtained from the Vice Chancellor for Student Development at the same address listed above.

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.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time.

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

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued using the retail inventory method. Rental textbooks are recorded at cost using specific identification (Serialized Rental Textbooks).

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 other intangible assets which are capitalized when the value or cost is $100,000 or greater and electric utility 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 the University and the composite rate method for the electric utility over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-75 years
Computer Software	2-30 years

The University's artwork and literary collections are capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. These collections are considered inexhaustible and 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, notes payable, and a capital lease obligation. Other long-term liabilities include: compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

Revenue bonds payable are reported net of unamortized premiums. The University amortizes bond premiums over the life of the bonds using the straight-line method that approximates the effective interest method. Deferred 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 13 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

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

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

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

There is no liability for unpaid accumulated sick leave because the University has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

L. Deferred Outflows/Inflows of Resources - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The University has the following items that qualify for reporting in this category: deferred loss on refunding, deferred outflows related to pensions, and deferred outflows related to other postemployment benefits.

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

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

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

O. **Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes $121,296,641, 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 $336,976. The carrying amount of the University's deposits not with the State Treasurer was $567,761, and the bank balance was $559,693. 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	$ 258,827

B. Investments

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

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

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

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

Investments of 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.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial 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 percentage method. Under this method, each participating fund's investment balance is determined on percentage of original investment. The investment strategy, including the selection of investment managers, is based on the directives of the Board of Trustees of the Endowment Fund. At year-end, the pooled investments were all with the UNC Investment Fund, LLC.

UNC Investment Fund, LLC - At June 30, 2018, the University's investments include $33,205,003, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

	Amount	Investment Maturity Less Than 1 Year
Investment Type		
Debt Securities		
Money Market Mutual Funds	$ 1,072	$ 1,072
Other Securities		
International Mutual Funds	7,420	
Equity Mutual Funds	11,732	
Domestic Stocks	106,869	
Foreign Stocks (denominated in US dollars)	14,882	
Total Non-Pooled Investments	$ 141,975	

At June 30, 2018, the University's non-pooled investments included $1,072 in money market mutual funds with credit exposure for which Standard and Poor's credit quality distribution was AAAm.

At June 30, 2018, the University's non-pooled investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty's Trust Dept or Agent not in University's Name
Domestic Stocks	$ 106,869
Foreign Stocks (denominated in US dollars)	14,882
Total	$ 121,751

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

		Amount
Investment Type		
Debt Securities		
Money Market Mutual Funds	$	1,072
Other Securities		
UNC Investment Fund		33,205,003
International Mutual Funds		7,420
Equity Mutual Funds		11,732
Domestic Stocks		106,869
Foreign Stocks (denominated in US dollars)		14,882
Total Investments	$	33,346,978

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

		Amount
Short-Term Investment Fund	$	27,736,609
Money Market Funds		19,435
Equity Investments		1,274,488
Fixed Income Investments		483,929
Alternative Investments		81,086,014
Total Investments		110,600,475
Real Estate Held for Investment		6,696,600
Total Investments and Real Estate Held for Investment	$	117,297,075

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	$	336,976
Amount of Deposits with Private Financial Institutions		567,761
Deposits in the Short-Term Investment Fund		121,296,641
Investments in the UNC Investment Fund		33,205,003
Non-Pooled Investments		141,975
Total Deposits and Investments	$	155,548,356
Deposits		
Current:		
Cash and Cash Equivalents	$	86,611,195
Restricted Cash and Cash Equivalents		2,877,632
Noncurrent:		
Restricted Cash and Cash Equivalents		32,712,551
Total Deposits		122,201,378
Investments		
Noncurrent:		
Endowment Investments		15,525,670
Restricted Investments		10,473,907
Other Investments		7,347,401
Total Investments		33,346,978
Total Deposits and Investments	$	155,548,356

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
International Mutual Funds	$ 7,420	$ 7,420	$ 0	$ 0
Equity Mutual Funds	11,732	11,732		
Domestic Stocks	106,869	106,869		
Foreign Stocks (denominated in US dollars)	14,882	14,882		
Total Investments by Fair Value Level	140,903	$ 140,903	$ 0	$ 0
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	121,296,641			
UNC Investment Fund	33,205,003			
Total Investments as a Position in an External Investment Pool	154,501,644			
Total Investments Measured at Fair Value	$ 154,642,547			

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.

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

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

The carrying value of the Foundation's receivables and accounts payable approximate the fair value of these financial instruments at June 30, 2018, due to the short maturities of these instruments. The carrying value of the revolving line of credit approximates the fair value due to the variable rate associated with the revolver. The carrying value of the fixed rate long-term debt is believed to approximate fair value as the terms were recently negotiated.

Fair value measurement rules define 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 and require the use of valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. In that regard, accounting rules establish a fair value hierarchy for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

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

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Inputs to the valuation methodology include significant other observable inputs, other than Level 1 inputs, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

A description of the valuation methodologies used for significant assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, are set forth below:

Investments: Investments are valued at the closing price reported on the active market on which the investment is traded, except for alternative investments valued at net asset value per share.

Beneficial Interests in Perpetual Trusts: Beneficial interests in perpetual trusts are valued based on the fair value of the assets held in trust.

Contributions Receivable from Trusts: Contributions receivable from trusts are valued using present value techniques based on IRS mortality tables and the value of the underlying securities as reported by the third-party trustees.

Contributions Receivable from Irrevocable Bequests: Contributions receivable from irrevocable bequests are valued using present value techniques based on IRS mortality tables and the values of the irrevocable bequests.

Split Interest Agreement Obligations: Split interest agreement obligations are valued using present value techniques based on IRS mortality tables and the value of the split interest gifts.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes significant assets and liabilities measured at fair value on a recurring basis as of June 30, 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements at June 30, 2018 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments				
Short-Term Investment Fund	$ 0	$ 27,736,609	$ 0	$ 27,736,609
Money Market Funds	19,435			19,435
Equities	1,274,488			1,274,488
Fixed Income	483,929			483,929
Alternative Investments (a)				
Strategic Investments				80,226,260
Alternative Income Fund				105,817
Private Equity - Real Estate				753,937
Total Alternative Investments				81,086,014
Total Financial Assets	$ 1,777,852	$ 27,736,609	$ 0	$ 110,600,475
Beneficial Interests in Perpetual Trusts	$ 0	$ 0	$ 1,660,328	$ 1,660,328
Contributions Receivable from Trusts	$ 0	$ 0	$ 2,223,574	$ 2,223,574
Receivable from Irrevocable Bequests	$ 0	$ 0	$ 5,173,299	$ 5,173,299
Split Interest Agreement Obligations	$ 0	$ 0	$ 1,813,565	$ 1,813,565

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

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Beneficial Interests in Perpetual Trusts	Contributions Receivable from Trusts	Contributions Receivable from Irrevocable Bequests	Split Interest Agreement Obligations	Total
Balance at July 1, 2017	$ 1,547,096	$ 2,184,457	$ 5,138,550	$ 1,822,552	$ 10,692,655
Contributions	80,266				80,266
Unrealized and Realized Gains	32,966	44,118			77,084
Payments on Split Interest Agreement Obligations		(77,988)		(249,866)	(327,854)
Net Change in Present Value		72,987	34,749	240,879	348,615
Balance at June 30, 2018	$ 1,660,328	$ 2,223,574	$ 5,173,299	$ 1,813,565	$ 10,870,766

The following table presents qualitative information about contributions receivable from trusts as of June 30, 2018:

	Fair Value	Technique	Discount Rate	Life Expectancy
Beneficial Interest in Charitable Remainder Trust	$ 2,223,574	Income approach	3.40%	2 - 15 years

Assets Measured at Fair Value on a Nonrecurring Basis:

The following table summarizes nonfinancial assets measured at fair value on a nonrecurring basis by classification within the fair value hierarchy as of June 30, 2018.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Unrealized Gains
Assets				
Real Estate Held for Investment	$ 0	$ 0	$ 6,696,600	$ 0

The Foundation holds interests in donated and acquired real estate with an estimated fair value of $6,696,600. The amounts reported in the accompanying Statement of Financial Position include management's estimates of fair market value. Such estimates involve an analysis of various real estate market information, including the availability of contemporaneous appraisals.

The following table for June 30, 2018, sets forth a summary of the Foundation's investments with a reported net asset value.

Fair Value Estimated Using Net Asset Value per Share
June 30, 2018

Investment	Fair Value *	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Fund of Funds					
All Weather Fund (a)	$ 17,113	$ 0	Quarterly	Investor withdrawal requests on hold as fund is winding down.	90-day notice
Strategic Investment Fund (b)	80,209,147		Monthly and Quarterly	Spending distributions up to 7% of the beginning market value in any given fiscal year; withdrawals up to a cumulative amount of $10 million in a quarter; capital withdrawals > $10 million paid quarterly in $50 million increments until redemption is completed; withdrawal requests in excess of $200 million are paid out over a maximum of 8 quarters; complete withdrawals are subject to a 5% holdback pending completion of the fiscal year audit.	30-day notice, prior to the first day of the month (spending distributions and withdrawals < $10 million) 90-day notice, prior to the first day of the quarter (capital withdrawals > $10 million)
Alternative Income Fund (c)	105,817		Semi-annual	Initial lock-up of 2 years.	Written notice at least 95 days prior to redemption
Private Equity					
Private Real Estate Fund (d)	753,937	380,300	Quarterly	Initial lock-up of 10 years.	Written notice at least 45 days prior to redemption
Total	$ 81,086,014	$ 380,300			

* The fair values of the investments have been estimated using the net asset value of the investment.

(a) Seeks capital appreciation while attempting to minimize downside risk by combining a portfolio of investment managers whose historical performance has had little correlation to the major market indices.

(b) Seeks to provide equity-like returns while mitigating risk through diversification and long-term asset allocation and to preserve the real purchasing power of the fund, while providing a predictable and growing stream of spending distributions to fund participants, and earning an annualized real total rate of return of at least 5.5% per year, net of all fees and expenses, over the long-term.

(c) Invests in various funds that provide access to institutional quality income-oriented investment managers in asset-backed, opportunistic, and distressed credit, mortgage-backed security, and special situation investment strategies.

(d) Private investment in various real estate sectors with a focus on high-quality assets with diversity in geographic area and investment type.

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). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of a three-year rolling average of an individual endowment account's net position value at the end of the previous year. An earnings reserve must be held in each endowment account in an account equal to 5% of the original contribution. Earnings in excess of the reserve amount as calculated at the end of the fiscal year are eligible to pay out. Realized and unrealized net capital losses that invade the original corpus amounts are recovered from accumulated income before any spending budgets are calculated. Subject to these limitations, the budgeted spending amount will be based on the net position value of each individual endowment fund. At June 30, 2018, net appreciation of $10,679,737 was available to be spent, which was classified in net position as restricted expendable for endowed professorships as it is restricted for specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,709,035	$ 832,934	$ 2,876,101
Accounts	2,655,238	70,932	2,584,306
Intergovernmental	2,868,714		2,868,714
Interest on Loans	250,248		250,248
Total Current Receivables	$ 9,483,235	$ 903,866	$ 8,579,369
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 710,613	$ 0	$ 710,613
Institutional Student Loan Programs	11,037	825	10,212
Total Notes Receivable - Current	$ 721,650	$ 825	$ 720,825
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 3,361,292	$ 689,795	$ 2,671,497

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	$ 41,400,794	$ 18,390,209	$ 133,260	$ 59,657,743
Art, Literature, and Artifacts	3,516,206	67,038		3,583,244
Construction in Progress	34,546,673	42,186,287	6,877,298	69,855,662
Total Capital Assets, Nondepreciable	79,463,673	60,643,534	7,010,558	133,096,649
Capital Assets, Depreciable:				
Buildings	673,448,246	2,970,445	1,458,901	674,959,790
Machinery and Equipment	52,693,620	7,978,034	4,012,785	56,658,869
General Infrastructure	79,585,647	1,906,590	983,819	80,508,418
Computer Software	659,617	259,000		918,617
Total Capital Assets, Depreciable	806,387,130	13,114,069	6,455,505	813,045,694
Less Accumulated Depreciation/Amortization for:				
Buildings	218,629,453	15,144,137	964,240	232,809,350
Machinery and Equipment	31,646,755	2,740,171	3,363,567	31,023,359
General Infrastructure	29,429,920	2,273,788	803,779	30,899,929
Computer Software	236,239	46,853		283,092
Total Accumulated Depreciation/Amortization	279,942,367	20,204,949	5,131,586	295,015,730
Total Capital Assets, Depreciable, Net	526,444,763	(7,090,880)	1,323,919	518,029,964
Capital Assets, Net	$ 605,908,436	$ 53,552,654	$ 8,334,477	$ 651,126,613

During the year ended June 30, 2018, the University incurred $9,480,259 in interest costs related to the acquisition and construction of capital assets, all of which was charged in interest expense.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (Agreement) dated September 1, 2014. The carrying value of the energy savings improvement assets associated with the agreement is $1,153,842 and is subject to security provisions in the Agreement to ensure timely debt service payments. Additional information regarding the Agreement can be found in Note 8.

Services expense includes an impairment loss of $2,615,351. This amount was capitalized to construction in progress during fiscal years 2016 and 2017 for advanced planning costs related to the replacement of Winkler Resident Hall. Work on this project stopped and the project was terminated in the current fiscal year due to cost escalations and bids that exceeded the University's authorization. As a result, the associated construction in progress was determined to be in impaired in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* and the amounts incurred to date were recognized as an operating expense in fiscal year 2018. There were no insurance recoveries associated with this impaired asset.

A new design for Winkler Residence Hall has been incorporated into a larger public private partnership project that will commence in fiscal year 2019. The new project will allow the University to replace and construct several residence halls and parking facilities on the west side of campus. By including the replacement for Winkler Residence Hall in the public private partnership project, the University will be able to redesign and construct the building within the amount authorized by the State.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 716,080
Accounts Payable - Capital Assets	8,339,396
Accrued Payroll	3,673,718
Contract Retainage	3,523,230
Total Current Accounts Payable and Accrued Liabilities	$ 16,252,424
Noncurrent Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 430,760

NOTE 8 - LONG-TERM LIABILITIES

University

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

	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 235,610,000	$ 56,390,000	$ 68,615,000	$ 223,385,000	$ 11,530,000
Plus: Unamortized Premium	8,283,409	6,406,136	732,289	13,957,256	
Total Revenue Bonds Payable, Net	243,893,409	62,796,136	69,347,289	237,342,256	11,530,000
Notes Payable	17,551,049	15,475,000	1,902,249	31,123,800	756,163
Capital Lease Payable	31,230		15,216	16,014	16,014
Total Long-Term Debt	261,475,688	78,271,136	71,264,754	268,482,070	12,302,177
Other Long-Term Liabilities					
Compensated Absences	12,450,836	9,099,096	8,763,256	12,786,676	1,764,653
Net Pension Liability	55,132,411		5,899,998	49,232,413	
Net Other Postemployment Benefits Liability	469,945,468		153,285,381	316,660,087	
Total Other Long-Term Liabilities	537,528,715	9,099,096	167,948,635	378,679,176	1,764,653
Total Long-Term Liabilities, Net	$ 799,004,403	$ 87,370,232	$ 239,213,389	$ 647,161,246	$ 14,066,830

Additional information regarding the capital lease obligation is included in Note 9.
Additional information regarding the net pension liability is included in Note 13.
Additional information regarding the net other postemployment benefits liability is included in Note 14.

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

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018	See Table Below
Revenue Bonds Payable							
Utility System							
ASU Utility System Revenue Bonds	2011	3.14%	12/20/2021	$ 2,700,000	$ 1,755,000	$ 945,000	
ASU Utility System Revenue Bonds	2016	2.23%	05/05/2026	3,650,000	730,000	2,920,000	
Total Utility System Revenue Bonds				6,350,000	2,485,000	3,865,000	(1)
The University of North Carolina System Pool Revenue Bonds							
Utility System	(A)	4.28%	10/01/2023	19,230,000	8,335,000	10,895,000	
Cannon Hall Renovation	(A)	4.69%	10/01/2018	8,520,000	8,240,000	280,000	
Stadium Parking	(A)	4.69%	10/01/2018	3,350,000	3,240,000	110,000	
New Field House Complex	(A)	4.69%	10/01/2018	20,600,000	19,930,000	670,000	
Stadium East Stands	(B)	4.65%	10/01/2019	8,370,000	7,830,000	540,000	
Frank Hall Renovation	(B)	4.65%	10/01/2019	7,060,000	6,605,000	455,000	
Cone Residence Hall	(C)	4.35%	10/01/2024	8,880,000	8,115,000	765,000	
Bookstore Bonds	(C)	3.76%	10/01/2025	5,000,000	2,715,000	2,285,000	
East Stands and Field House	(C)	4.35%	10/01/2024	7,875,000	7,205,000	670,000	
Total The University of North Carolina System Pool Revenue Bonds				88,885,000	72,215,000	16,670,000	
ASU General Revenue Bonds							
ASU General Revenue Bonds - Housing, Athletics, Parking	2005	4.54%	07/15/2018	50,915,000	50,915,000		
ASU General Revenue Bonds - Housing, Student Union, Steam Tunnels	2011	4.07%	10/01/2021	60,435,000	52,925,000	7,510,000	
ASU General Revenue Bonds - Housing, Athletics, Student Recreation Center	2012	2.84%	05/01/2028	26,495,000	5,955,000	20,540,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2014A	3.35%	07/15/2039	22,540,000	2,790,000	19,750,000	
ASU General Revenue Taxable Bonds - Housing, Athletics, Parking	2014B	2.95%	07/15/2025	12,965,000	1,500,000	11,465,000	
ASU General Revenue Bonds - Housing, Dining	2014C	2.77%	10/01/2031	21,210,000	1,235,000	19,975,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2016A	2.45%	10/01/2033	23,965,000		23,965,000	
ASU General Revenue Bonds - Housing, Student Recreation Center	2016B	2.45%	10/01/2026	7,700,000	1,185,000	6,515,000	
ASU General Revenue Bonds - Housing	2016C	3.22%	10/01/2046	25,845,000		25,845,000	
ASU General Revenue Bonds - Housing, Athletics	2016D	2.71%	10/01/2034	10,895,000		10,895,000	
ASU General Revenue Bonds - Housing, Bookstore, Athletics, Student Union, and Steam Tunnels	2017A	2.82%	10/01/2036	56,390,000		56,390,000	
Total General Revenue Bonds				319,355,000	116,505,000	202,850,000	
Total Revenue Bonds Payable (principal only)				$ 414,590,000	$ 191,205,000	223,385,000	
Plus: Unamortized Premium						13,957,256	
Total Revenue Bonds Payable, Net						$ 237,342,256	

(A) The University of North Carolina System Pool Revenue Bonds, Series 2008A
(B) The University of North Carolina System Pool Revenue Bonds, Series 2009B
(C) The University of North Carolina System Pool Revenue Bonds, Series 2010B-1

The University has pledged future revenues, net of specific operating expenses, to repay revenue 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)	Electric Utilities	$ 4,286,821	$ 2,591,703	$ 635,000	$ 113,143	27%

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

	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2019	$ 11,530,000	$ 8,555,863	$ 756,163	$ 61,808
2020	12,255,000	8,076,787	1,983,792	292,865
2021	12,755,000	7,527,167	1,990,443	249,462
2022	13,225,000	6,948,865	2,067,104	212,152
2023	13,639,999	6,365,894	2,519,917	120,573
2024-2028	64,354,999	22,869,610	11,131,381	502,306
2029-2033	50,114,998	11,454,061	4,000,000	
2034-2038	29,795,004	4,411,226	4,000,000	
2039-2043	8,565,000	1,754,547	2,675,000	
2044-2047	7,150,000	470,988		
Total Requirements	$ 223,385,000	$ 78,435,008	$ 31,123,800	$ 1,439,166

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

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

On November 13, 2017, the University issued $56,390,000 in Appalachian State University General Revenue Bonds, Series 2017A with an average interest rate of 2.82%. The bonds were issued to advance refund $13,210,000 of outstanding UNC System Pool Revenue Bonds, Series 2010B-1 with an average interest rate of 2.69% and $44,335,000 of outstanding Appalachian State University General Revenue Bonds, Series 2011 with an average interest rate of 2.81%. The net proceeds of the refunding bonds (along with other resources) were used to purchase U.S. government securities. The U.S. government securities were deposited into two irrevocable trusts to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by $6,110,863 over the next 20 years and resulted in an economic gain of $4,731,726. At June 30, 2018, the outstanding balances were $13,210,000 for the defeased UNC System Pool Revenue Bonds, Series 2010B-1 and $44,335,000 for the defeased Appalachian State University General Revenue Bonds, Series 2011.

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2018, the outstanding balance of prior year defeased bonds was $34,910,000.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Energy Savings Project	Sun Trust Bank	2.27%	04/29/2022	$ 5,263,401	$ 3,087,367	$ 2,176,034
Energy Savings Project	T D Bank	1.99%	07/01/2027	16,499,917	4,086,151	12,413,766
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Group	1.84%	02/14/2023	1,495,951	436,951	1,059,000
Old Watauga High School	Watauga County	0.00%	07/01/2040	15,475,000		15,475,000
Total Notes Payable				$ 38,734,269	$ 7,610,469	$ 31,123,800

Component Unit - Effective March 6, 2015, the Foundation entered into a revolving line of credit agreement with a financial institution for up to $2,000,000 that expires and is payable on March 6, 2020. The line bears interest at a variable interest rate of LIBOR plus 1.25%, and is collateralized by outstanding pledge commitments. As of June 30, 2018, $83,559 was borrowed against the revolving line of credit. The interest rate as of June 30, 2018 was 3.25%.

The Foundation entered into a future advance loan agreement with a financial institution on March 5, 2012, to finance the renovation of the Schaefer Center for the Performing Arts. The Foundation assigned donor pledges made for purposes of the renovation to the bank as collateral for the loan. The outstanding balance as of June 30, 2018, was $3,461,021. The note is payable in annual installments of $487,585 including principal and interest due January 15 of each year with all remaining principal and interest due January 15, 2027. The loan carries an interest rate of 4.10%.

The Foundation entered into a loan agreement with a financial institution on February 8, 2017 to finance a video boards project. The Foundation assigned donor pledges for the project to the bank as collateral for the loan. The outstanding balance as of June 30, 2018 was $3,044,723. The loan is payable in monthly installments beginning in October 2017 and ending in September 2022. The loan carries an interest rate of 2.76%.

Aggregate maturities required on all debt as of June 30, 2018 are due in future years as follows:

Fiscal Year	Amount
2019	$ 1,060,118
2020	1,157,965
2021	1,088,973
2022	1,104,775
2023	583,615
Thereafter	1,593,857
Total Principal Maturities	$ 6,589,303

NOTE 9 - LEASE OBLIGATIONS

A. Capital Lease Obligation - A Capital lease obligation relating to equipment is recorded at the present value of the minimum lease payments. Future minimum lease payments under the capital lease obligation consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	$ 16,855
Amount Representing Interest (7.11% Rate of Interest)	841
Present Value of Future Lease Payments	$ 16,014

Equipment acquired under the capital lease amounted to $76,726 at June 30, 2018. Depreciation for the capital assets associated with the capital lease is included in depreciation expense, and accumulated depreciation for assets acquired under the capital lease totaled $26,697 at June 30, 2018.

B. Operating Lease Obligations - The University entered into operating leases for equipment, office space, and other facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	$ 1,629,014
2020	1,366,532
2021	1,269,175
2022	1,192,757
2023	850,791
2024-2028	1,561,420
2029-2030	5,991
Total Minimum Lease Payments	$ 7,875,680

Rental expense for all operating leases during the year was $1,335,775.

NOTE 10 - NET POSITION

The deficit in unrestricted net position of $398,051,847 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	$ 27,594,169	$ 0	$ 27,594,169
Deferred Outflows Related to OPEB		10,832,891	10,832,891
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	49,232,413		49,232,413
Net OPEB Liability		316,660,087	316,660,087
Deferred Inflows Related to Pensions	1,610,649		1,610,649
Deferred Inflows Related to OPEB		150,802,763	150,802,763
Net Effect on Unrestricted Net Position	$ (23,248,893)	$ (456,629,959)	$ (479,878,852)

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

NOTE 11 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees, Net	$ 155,926,367	$ 0	$ 28,850,291	$ 413,378	$ 126,662,698
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 27,999,635	$ 923,202	$ 4,858,495	$ 0	$ 22,217,938
Dining	20,968,261	2,157,472	2,899,776		15,911,013
Student Union Services	169,861	69,040			100,821
Health, Physical Education, and Recreation Services	1,859,104	33,354		28,044	1,797,706
Bookstore	11,401,950	1,217,228	882,140	14,995	9,287,587
Parking	4,793,469	108,905			4,684,564
Camp Programs	3,274,681	113,354			3,161,327
Steam Utility System	6,498,325	6,498,325			
Athletic	9,576,813	6,553			9,570,260
Other	5,423,431	3,502,690	857,497	24,936	1,038,308
Sales and Services of Education and Related Activities	6,562,737	1,212,158	548,662	193,371	4,608,546
New River Light and Power	18,516,525	4,183,889		19,262	14,313,374
Total Sales and Services, Net	$ 117,044,792	$ 20,026,170	$ 10,046,570	$ 280,608	$ 86,691,444

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 127,887,883	$ 3,148,324	$ 4,816,370	$ 499,253	$ 41	$ 0	$ 136,351,871
Research	1,501,630	264,137	913,385	37,229	276		2,716,657
Public Service	3,287,938	415,165	3,065,578	459,453	2,936		7,231,070
Academic Support	31,415,163	7,620,655	6,384,106	444,515	10,032		45,874,471
Student Services	8,902,784	300,639	1,120,292	39,200			10,362,915
Institutional Support	22,416,162	638,373	5,306,241		28,073		28,388,849
Operations and Maintenance of Plant	14,520,681	3,289,403	3,121,985		5,200,117		26,132,186
Student Financial Aid	593,194		90,353	18,521,331			19,204,878
Auxiliary Enterprises	45,573,067	18,548,583	22,237,913	2,899,228	5,376,614		94,635,405
New River Light and Power	2,247,299	9,329,334	782,677				12,359,310
Depreciation/Amortization						20,204,949	20,204,949
Total Operating Expenses	$ 258,345,801	$ 43,554,613	$ 47,838,900	$ 22,900,209	$ 10,618,089	$ 20,204,949	$ 403,462,561

NOTE 13 - PENSION PLANS

A. Defined Benefit Plan

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2018 was 10.78% of covered payroll. Employee contributions to the pension plan were $5,660,102, and the University's contributions were $10,169,317 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 $49,232,413 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 0.62049%, which was an increase of 0.02064 from its proportion measured as of June 30, 2016, which was 0.59985%.

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%)
$ 101,340,685	$ 49,232,413	$ 5,572,323

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 $14,176,080. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 1,067,268	$ 1,610,649
Changes of Assumptions	7,777,979	
Net Difference Between Projected and Actual Earnings on Plan Investments	6,662,815	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,916,790	
Contributions Subsequent to the Measurement Date	10,169,317	
Total	$ 27,594,169	$ 1,610,649

The amount of $10,169,317 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	$ 3,585,981
2020	10,011,193
2021	4,883,559
2022	(2,666,530)
Total	$ 15,814,203

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 $201,272,475, of which $84,721,001 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $5,083,260 and $5,794,916, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. The amount of forfeitures reflected in pension expense was $231,037 and the amount of liability for ORP was $32,362.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

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

A. Summary of Significant Accounting Policies and Plan Asset Matters

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

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report.*

B. Plan Descriptions

1. Health Benefits

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

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

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

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

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

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The University's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The University's contributions to the RHBF were $10,832,891 for the year ended June 30, 2018.

2. Disability Income

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

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

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

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The University's contributions to DIPNC were $250,678 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 $316,660,087 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The University's proportion of the net OPEB liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the University's proportion was 0.96582%, which was a decrease of 0.11443 from its proportion measured as of June 30, 2016, which was 1.08025%.

Net OPEB Asset: At June 30, 2018, the University reported an asset of $641,937 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The University's proportion of the net OPEB asset was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the University's proportion was 1.05029%, which was an increase of 0.03318 from its proportion measured as of June 30, 2016, which was 1.01711%.

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	$ 377,756,927	$ 316,660,087	$ 268,201,067
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (545,741)	$ (641,937)	$ (738,354)

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	$ 258,681,877	$ 316,660,087	$ 393,719,816
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 $7,544,851 for RHBF and $337,984 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	$ 176,008	$ 176,008
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		140,707	140,707
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions			
Contributions Subsequent to the Measurement Date	10,832,891	250,678	11,083,569
Total	$ 10,832,891	$ 567,393	$ 11,400,284

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 22,705,111	$ 0	$ 22,705,111
Changes of Assumptions	87,206,742		87,206,742
Net Difference Between Projected and Actual Earnings on Plan Investments	117,685		117,685
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	40,773,225	9,232	40,782,457
Total	$ 150,802,763	$ 9,232	$ 150,811,995

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	$ (30,166,437)	$ 90,787
2020	(30,166,437)	90,787
2021	(30,166,437)	90,756
2022	(30,166,437)	35,153
2023	(30,137,015)	
Total	$ (150,802,763)	$ 307,483

NOTE 15 - RISK MANAGEMENT

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

Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the

State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% for the current fiscal year.

3. Disability Income Plan

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

A. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University retained the following risks as of June 30, 2018:

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Health care coverage is provided to participants in international educational and study abroad programs through the Preferred Health Plan for the University of North Carolina System for participants engaged in the programs. All exchange students and visitors are required to have medical insurance in effect for themselves and any accompanying spouse and/or dependents. The maximum coverage for sickness or injury is $150,000 for the international student participants and any accompanying spouse and/or dependents and $350,000 for the study abroad participants and any accompanying souse and/or dependents. The period of coverage deductible per injury or sickness is $100 and $0, respectively.

The University also purchased health care and life insurance for participants in the University camp programs with coverage of $5,000 for accidental death and dismemberment and $5,000 for accident medical expense benefit. This plan is funded by individual contributions and placed with QBE Insurance Corporation through a local agent.

The State maintains a boiler and machinery policy written through the Hartford Steam Boiler Inspection and Insurance Company. This policy covers up to $50 million for each accident with a $5,000 deductible (certain equipment may carry a higher deductible).

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $10,040,507 and on other purchases were $7,281,414 at June 30, 2018.

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

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

Purpose	Amount
Harry M. Davis Distinguished Professorship in Banking	$ 441,216

NOTE 17 - 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 18 - 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	$	453,749,302
Restatement:		
Record the University's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.		(458,630,595)
July 1, 2017 Net Position as Restated	$	(4,881,293)

NOTE 19 - SUBSEQUENT EVENTS

On October 1, 2018, the University issued $9,270,000 in Appalachian State University General Revenue Bonds, Series 2018A with an interest rate of 2.99%. The bonds were issued to redeem an equal amount of UNC System Pool Revenue Bonds, Series 2008A. The bonds were originally issued to renovate or construct a residence hall, an athletic facility, parking facilities, and a portion of the steam utility system. The redemption was completed to reduce debt service payments by $477,665 over the next 6 years and resulted in an economic gain of $368,264.

In December 2018, the University will issue 2018 Millennial Campus Revenue Bonds in an amount not to exceed $46.5 million to construct a multi-use facility at the northern end zone of Kidd Brewer Stadium. The term of the debt will be 30 years with a 10-year par call optional redemption. The debt service will be paid from institutional pledged revenues generated by athletic ticket sales, dining facility revenues, and lease revenues, which will be transferred to a restricted millennial campus fund to cover debt services and some operating expenses for the facility.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.62049%	0.59985%	0.57921%	0.56360%	0.55660%
Proportionate Share of TSERS Collective Net Pension Liability	$ 49,232,413	$ 55,132,411	$ 21,345,035	$ 6,607,765	$ 33,791,292
Covered Payroll	$ 89,737,238	$ 85,376,440	$ 83,116,332	$ 79,589,512	$ 79,073,247
Net Pension Liability as a Percentage of Covered Payroll	54.86%	64.58%	25.68%	8.30%	42.73%
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.

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

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 10,169,317	$ 8,955,776	$ 7,811,944	$ 7,605,144	$ 6,916,329
Contributions in Relation to the Contractually Determined Contribution	10,169,317	8,955,776	7,811,944	7,605,144	6,916,329
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 94,335,041	$ 89,737,238	$ 85,376,440	$ 83,116,332	$ 79,589,512
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	$ 6,586,802	$ 5,756,472	$ 3,982,952	$ 2,838,461	$ 2,621,773
Contributions in Relation to the Contractually Determined Contribution	6,586,802	5,756,472	3,982,952	2,838,461	2,621,773
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 79,073,247	$ 77,371,931	$ 80,790,099	$ 79,382,154	$ 78,023,010
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.

Appalachian State 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* .

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

	2017	2016
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	0.96582%	1.08025%
Proportionate Share of Collective Net OPEB Liability	$ 316,660,087	$ 469,945,468
Covered Payroll	$ 172,557,711	$ 164,465,182
Net OPEB Liability as a Percentage of Covered Payroll	183.51%	285.74%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%
Disability Income Plan of North Carolina		
Proportionate Share Percentage of Collective Net OPEB Asset	1.05029%	1.01711%
Proportionate Share of Collective Net OPEB Asset	$ 641,937	$ 631,625
Covered Payroll	$ 172,557,711	$ 164,465,182
Net OPEB Asset as a Percentage of Covered Payroll	0.37%	0.38%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	116.23%	116.06%

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

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

Retiree Health Benefit Fund

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 10,832,891	$ 10,025,603	$ 9,210,050	$ 8,743,687	$ 8,201,682
Contributions in Relation to the Contractually Determined Contribution	10,832,891	10,025,603	9,210,050	8,743,687	8,201,682
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 179,056,042	$ 172,557,711	$ 164,465,182	$ 159,265,704	$ 151,882,994
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	$ 7,935,118	$ 7,280,234	$ 7,307,381	$ 6,558,898	$ 5,804,854
Contributions in Relation to the Contractually Determined Contribution	7,935,118	7,280,234	7,307,381	6,558,898	5,804,854
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 149,719,202	$ 145,604,674	$ 149,130,224	$ 145,753,282	$ 141,581,811
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	$ 250,678	$ 655,719	$ 674,307	$ 652,989	$ 668,285
Contributions in Relation to the Contractually Determined Contribution	250,678	655,719	674,307	652,989	668,285
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 179,056,042	$ 172,557,711	$ 164,465,182	$ 159,265,704	$ 151,882,994
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	$ 658,764	$ 757,144	$ 775,477	$ 757,917	$ 736,225
Contributions in Relation to the Contractually Determined Contribution	658,764	757,144	775,477	757,917	736,225
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 149,719,202	$ 145,604,674	$ 149,130,224	$ 145,753,282	$ 141,581,811
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.

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

INDEPENDENT AUDITOR'S REPORT 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
Appalachian State University
Boone, 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 Appalachian State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 10, 2018. Our report includes a reference to other auditors who audited the financial statements of Appalachian State University Foundation, Inc. and Appalachian Student Housing 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 10, 2018

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: http://www.ncauditor.net

To report alleged incidents of fraud, waste or abuse in state government contact the Office of the State Auditor Fraud Hotline: **1-800-730-8477** or download our free app.

https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor

https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745

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

NCOSA
The Taxpayers' Watchdog

This audit required 827 hours at an approximate cost of $85,181.