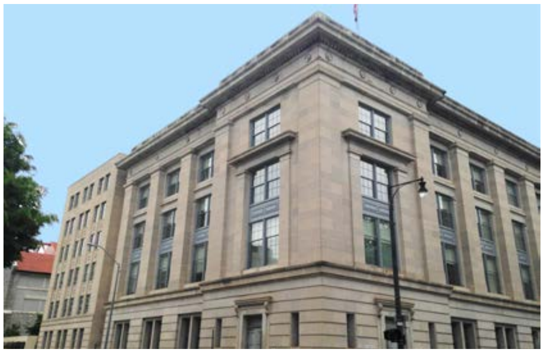
State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA



Fayetteville State University

Fayetteville, 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

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Raleigh, NC 27699-0600
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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Fayetteville 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

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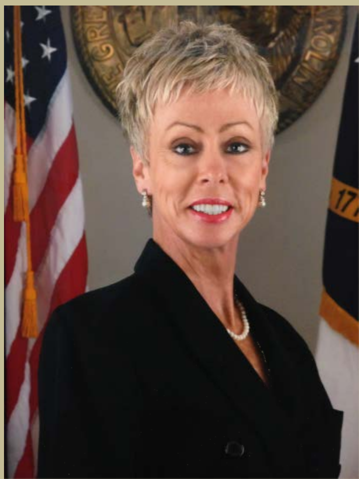
State Auditor



Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

PAGE

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

Independent Auditor's Report

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Fayetteville State University
Fayetteville, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Fayetteville State University Foundation, Inc., and Subsidiary, which represent 4.7 percent and 0.2 percent, respectively, of the assets and revenues of the University; nor the financial statements of Fayetteville State University Housing Corporation and Subsidiary, which represent less than one percent of the respective assets and revenues of the University. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 19 to the financial statements, during the year ended June 30, 2018, Fayetteville 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 14, 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 14, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Fayetteville State University (University) provides this overview and Management's Discussion and Analysis to assist in understanding the financial statements and the related Notes to the Financial Statements presented herewith for the year ended June 30, 2018, and includes comparative data for the year ended June 30, 2017. The discussion describes important trends and events that have impacted the fiscal health of the University and that may continue to exert influence in future years. This discussion, along with the financial statements and Notes to the Financial Statements, has been prepared by and is the responsibility of University management. The report, including this discussion and analysis, should be read and considered in its entirety.

Using the Annual Report

This annual report consists of a series of financial statements, Notes to the Financial Statements, and other information prepared in accordance with the guidance set by the Governmental Accounting Standards Board (GASB). The GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a consolidated basis for the University as a whole. These standards were used in the preparation of this document. The statements are prepared using the accrual basis of accounting, whereby revenues and assets are recognized when earned and expenses and liabilities are recognized when an obligation is incurred, regardless of when cash is exchanged. Comparative information for the prior fiscal year is also presented in the condensed financial statements.

The basic financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows, and the Notes to the Financial Statements. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are discussed in later sections of this discussion and analysis.

The Statement of Cash Flows provides information relative to the University's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Position as adjusted for changes in the beginning and ending balance of noncash accounts on the Statement of Net Position.

The Notes to the Financial Statements should be read in conjunction with the financial statements. The Notes to the Financial Statements provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on deposits and investments, long-term liabilities, accounts receivable, accounts payable, revenues, expenses, required information on pension plans, other postemployment benefits, insurance against losses, commitments and contingencies. If necessary, a discussion of accounting changes, adjustments to prior periods, and events subsequent to the University's financial statement period is also provided. Overall, these Notes to the Financial Statements provide information to better understand the details, risk, and uncertainties associated with amounts reported in the financial statements.

Reporting Entity

The financial statements report information about the University as a whole using accounting methods similar to those used in the private-sector. Although legally separate, the Fayetteville State University Student Housing Corporation and Subsidiary (Corporation) and the Fayetteville State University Foundation, Inc., and Subsidiary (Foundation) are component units of the University and are reported as if they were part of the University. The Foundation includes as a subsidiary the Fayetteville State University Housing Foundation, LLC, which owns University Place Apartments (UPA). Operations of the Corporation and Foundation are blended with the University's financial statements and are included in this Management's Discussion and Analysis.

Financial Highlights

The combined net position for the University increased $5.15 million, which is an increase of 19.40%. See further discussion below.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the end of the fiscal year. The statement is a point-in-time fiscal snapshot of the University. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes to vendors and others and how much is held for future use by the University or others. Finally, the Statement of Net Position provides a picture of the net position and its availability for expenditure by the University.

Net position is divided into categories to show the availability to meet University obligations. The first category, net investment in capital assets, provides the University's equity in property, plant, and equipment. The next category is restricted net position, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net position consists primarily of the University's permanent endowment funds and is only available for investment purposes. Restricted expendable net position is available for use by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is available to the University for any lawful purpose of the University. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the University's unrestricted net position has been designated for various academic and research programs and initiatives.

Condensed Statement of Net Position (in millions)

	2018	2017 (as Restated)	Increase/ (Decrease)	Percent Change
Assets:				
Current Assets	$ 20.51	$ 20.80	$ (0.29)	-1.39%
Noncurrent Assets:				
Capital Assets, Net	179.86	182.22	(2.36)	-1.30%
Other	29.91	22.75	7.16	31.47%
Total Assets	230.28	225.77	4.51	2.00%
Deferred Outflows of Resources:				
Deferred Outflows for Pensions	9.49	12.33	(2.84)	-23.03%
Deferred Outflows for Other Postemployment Benefits	3.36	3.06	0.30	9.80%
Total Deferred Outflows of Resources	12.85	15.39	(2.54)	-16.50%
Liabilities:				
Current Liabilities				
Long-Term Liabilities - Current Portion	2.54	2.05	0.49	23.90%
Other Current Liabilities	4.55	4.30	0.25	5.81%
Noncurrent Liabilities				
Long-Term Liabilities	163.67	205.09	(41.42)	-20.20%
Other Current Liabilities	1.92	2.06	(0.14)	-6.80%
Total Liabilities	172.68	213.50	(40.82)	-19.12%
Deferred Inflows of Resources:				
Deferred Inflows for Irrevocable Split-Interest Agreements	0.01		0.01	100.00%
Deferred Inflows for Pensions	0.72	1.12	(0.40)	-35.71%
Deferred Inflows for Other Postemployment Benefits	38.03		38.03	100.00%
Total Deferred Inflows of Resources	38.76	1.12	37.64	3360.71%
Net Position:				
Net Investment in Capital Assets	118.73	119.66	(0.93)	-0.78%
Restricted:				
Nonexpendable	12.03	11.82	0.21	1.78%
Expendable	21.31	13.30	8.01	60.23%
Unrestricted	(120.38)	(118.24)	(2.14)	1.81%
Total Net Position	$ 31.69	$ 26.54	$ 5.15	19.40%

Net Position categories are defined in Note 1M of the Notes to the Financial Statements.

At June 30, 2018, the University's total net position was $31.69 million. The University's largest asset category was capital assets of $179.86 million, representing 78.10% of total assets. Capital assets decreased by $2.36 million due to depreciation being greater than asset acquisitions. Readers interested in more detailed information on capital assets can refer to Note 6 – Capital Assets. Other noncurrent assets increased $7.16 million primarily due to an increase in restricted cash and cash equivalents, which was attributable to the capital appropriations received for the Health and Wellness Facility and the 2017-2018 repairs and renovations.

During the current fiscal year, the University implemented GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), as amended by GASB Statement No. 85, *Omnibus 2017*. As a result of this new accounting and reporting change, participants in the State's OPEB plans, including the University, were allocated a proportionate share of the OPEB plans' net OPEB liabilities/assets, deferred outflows/inflows of resources, and OPEB benefit expense, specifically for the Disability Income Plan of North Carolina (DIPNC) and the Retiree Health Benefit Fund (RHBF). For the purpose of reporting actuarially determined OPEB amounts for fiscal year 2018, the Statement of Net Position was restated as of June 30, 2017. The amounts fiscal year 2018, the Statement of Net Position was restated as of June 30, 2017. The amounts for the restatement as well as the amounts for June 30, 2018 were based on the University's proportionate shares from the State's OPEB plans as determined by differences between actual and expected experience, changes in assumptions, the difference between projected and actual earnings, and current contributions.

Significant to this reporting change was that the OPEB restatement for the RHBF resulted in a significant decrease in the University's June 30, 2017 unrestricted net position by $120.54 million, that reduced the University's overall unrestricted net position balance at June 30, 2017 to a negative $118.24 million. To understand the continuing impact of GASB 75 changes as of June 30, 2018 and the effect of reporting the proportionate share of the RHBF as well as the University's proportionate share of the State's Pension Plan on unrestricted net position, Note 10 - Net Position has been added to the Notes to the Financial Statements. As reported in Note 10, the total impact from reporting the RHBF as well as the Pension Plan obligations at June 30, 2018 was a negative $127.37 million. The difference between the net effect amount reported in Note 10 and the unrestricted net position reported on financial statements (a negative $120.38 million) is a positive $6.99 million. This positive difference represents unrestricted funds held by the University in its institutional trust, special, debt, and investment funds, as well as any unrestricted funds held by the University's blended component units, and also includes any operating state funds authorized for carryforward.

Further information regarding GASB 75 changes can be located in Note 14 of the Notes to the Financial Statements.

The decrease of $2.84 million, or 23.03%, in deferred outflows for pensions is due to the differences between projected and actual earnings on pension plan investments. Projected return was 7.20% and actual return was 10.75%. This resulted in a decrease in deferred outflows for pensions, pension liability, and deferred inflows for pensions. For detailed information about deferred outflows for pensions, see Note 13 of the Notes to the Financial Statements.

The University's liabilities totaled $172.68 million at June 30, 2018. Current liabilities of $7.09 million include accounts payable, unearned revenue, interest payable, and the current portion of long-term liabilities. Noncurrent liabilities of $165.59 million consist mainly of $58.60 million in bonds and notes payable, $16.29 million in net pension liability, $85.02 million in net OPEB liability, and $3.52 million in compensated absences.

The increase of $0.49 million, or 23.90%, in the current portion of long-term liabilities is due to the start of principal payments on the 2017 Series Foundation Revenue Refunding Bond.

The decrease in noncurrent long-term liabilities of $41.42 million is primarily due to the decrease in net OPEB liability. Net OPEB liability decreased due to actuarial changes caused by the differences between actual and expected experience, changes of assumptions, the difference between projected and actual earnings, and contributions subsequent to the measurement date.

The University's current assets of $20.51 million covered the current liabilities of $7.09 million, at a ratio of 2.89 ($2.89 in current assets for every $1.00 in current liabilities).

Deferred inflows for OPEB is new for fiscal year 2018, and represents the allocated portion of deferred inflows for the University for cost-sharing plans and any deferred inflows associated with single-employer plans administered by the University. The deferred inflows for OPEB of $38.03 million will be amortized over time as OPEB expense.

Deferred inflows for irrevocable split-interest agreements is also new for fiscal year 2018. This $.01 million deferred inflow of resources is required by GASB Statement No. 81, *Irrevocable Split-Interest Agreements*.

Deferred inflows for pensions decreased by $0.40 million or 35.71%. The reduction is based on actuarial calculations of the difference between actual and expected experience, changes in assumptions, and differences between actual and projected earnings.

Restricted expendable net position increased by $8.01 million or 60.23%. The majority of the increase was due to $5.5 million being received for capital appropriations related to the Health and Wellness Facility and $1.5 million for repairs and renovations.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public university's dependency on state aid, certain grants, and gifts will result in operating deficits since the GASB requires that state appropriations, certain grants, and gifts be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which allocates the costs of assets over their expected useful lives.

The change in total net position as presented on the Condensed Statement of Net Position is based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, the expenses paid by the University, operating and nonoperating, and any other revenues, expenses, and any gains and/or losses received or spent by the University.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. Capital grants are considered neither operating nor nonoperating revenues and are reported after "Loss Before Other Revenues".

Condensed Statement of Revenues, Expenses, and Changes in Net Position (in millions)

	2018	2017*	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 18.06	$ 17.92	$ 0.14	0.78%
Grants and Contracts	0.11	0.58	(0.47)	-81.03%
Sales and Services, Net	10.41	9.90	0.51	5.15%
Other Operating Revenues	1.03	0.76	0.27	35.53%
Total Operating Revenues	29.61	29.16	0.45	1.54%
Operating Expenses:				
Salaries and Benefits	76.52	72.65	3.87	5.33%
Supplies and Materials	5.80	5.02	0.78	15.54%
Services	18.49	18.45	0.04	0.22%
Scholarships and Fellowships	10.33	10.34	(0.01)	-0.10%
Utilities	3.07	2.74	0.33	12.04%
Depreciation	4.77	4.81	(0.04)	-0.83%
Total Operating Expenses	118.98	114.01	4.97	4.36%
Operating Loss	(89.37)	(84.85)	(4.52)	-5.33%
Nonoperating Revenues (Expenses):				
State Appropriations	53.12	54.00	(0.88)	-1.63%
Noncapital Grants	33.02	30.94	2.08	6.72%
Interest and Fees on Debt	(2.70)	(3.39)	0.69	-20.35%
Other Nonoperating Expenses	(0.34)	(0.22)	(0.12)	54.55%
Other Nonoperating Revenues	3.71	2.45	1.26	51.43%
Net Nonoperating Revenues	86.81	83.78	3.03	3.62%
Loss Before Other Revenues	(2.56)	(1.07)	(1.49)	139.25%
Capital Appropriations	7.04	0.67	6.37	950.75%
Capital Grants	0.43	0.32	0.11	34.38%
Permanent Endowment Additions	0.24	0.29	(0.05)	-17.24%
Increase in Net Position	5.15	0.21	4.94	
Net Position:				
Beginning of Year	26.54	146.52	(119.98)	-81.89%
Net Position, as Restated		(120.19)	120.19	-100.00%
End of Year	$ 31.69	$ 26.54	$ 5.15	19.40%

Reconciliation of Change in Net Position

	2018	2017*	Increase/ (Decrease)	Percent Change
Total Revenues	$ 127.17	$ 117.83	9.34	7.93%
Less: Total Expenses	122.02	117.62	4.40	3.74%
Increase in Net Position	$ 5.15	$ 0.21	$ 4.94	

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

The Condensed Statement of Revenues, Expenses, and Changes in Net Position shows an increase in net position of $5.15 million for the fiscal year. The total operating loss for fiscal year 2018 was $89.37 million. Since the State of North Carolina's appropriations and significant noncapital grants revenue are not included within operating revenue per GASB, the University shows a significant operating loss.

The University strives to provide students with the opportunity to obtain a quality education. Future University enrollments may be affected by a number of factors, including the national economy and any material increase in tuition and/or other mandatory charges. Changes in funding from the State of North Carolina may influence costs to students and the ability to continue normal operations. State appropriations are a critical source of funding for the University.

State appropriations are received through an allotment and requisition system from the North Carolina Office of State Budget and Management and the North Carolina Office of State Controller. There is no direct connection between the amount of tuition revenues collected by the University and the amount of state funds appropriated in any given year. For the fiscal year beginning July 1, 2017, and ending June 30, 2018, the appropriations from the State to the University were $53.12 million for operations and $7.04 million for capital projects.

The increase of $1.26 million, or 51.43%, in other nonoperating revenues is primarily due to an increase in investment income and increase in noncapital gifts. The increase in investment income is due to a higher rate of return on UNC Management Company (UNCMC) investments. The increase in noncapital gifts is mainly due to a gift of $0.70 million from Blue Cross Blue Shield.

Operating revenues include tuition and fees, operating grants and contracts, and sales and services (primarily from student housing, dining, bookstore, health, and other services). Operating revenues remained relatively stable compared to the previous year with only $0.45 million, or 1.54% increase. Grants and contracts decreased $0.47 million, or 81.03%, due to multiple exchange grants ending. Sales and services increased $0.51 million, or 5.15%, due to an increase in dorm rent.

Operating expenses, including depreciation of $4.77 million, totaled $118.98 million. Of this total, $54.50 million, or 45.81%, was used for instruction and academic support; $14.61 million, or 12.28%, was used for institutional support; $10.02 million, or 8.42%, was used for operations and maintenance of plant; $15.66 million, or 13.16%, was used for auxiliary enterprises. Other operating expenses included research of $0.55 million, or 0.46%, public service of $3.79 million, or 3.19%, student services of $4.75 million, or 3.99%, and student financial aid of $10.33 million, or 8.68%.

The increase in salaries and benefits of $3.87 million, or 5.33%, is primarily due to a legislative salary increase. The 2017 Appropriation Act provided a $1,000 legislative increase for eligible employees effective July 1, 2017. Supplies and materials increased $0.78 million, or 15.54%, due to multiple repair and renovation projects and new furniture being bought for UPA Residence Hall.

One of the University's greatest strengths is the diverse streams of revenues that supplement student tuition and fees, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, state appropriations, and investment income. The University has in the past and will continue to seek funding aggressively from all possible sources consistent with its mission, to supplement student tuition, and prudently manage the financial resources realized from these efforts to fund its operating activities.

Capital Assets

Capital projects for the fiscal year 2018 include expenditures related to the School of Business and Economic (SBE) Building ($0.11 million), Capel Building ($0.12 million), and Lyons Science Building ($0.60 million).

Total renovations completed and capitalized during the 2017-18 fiscal year totaled $2.54 million and included the WT Brown front entrance, WT Brown fountain, weight room, tennis court, Butler Data Center, Butler Theater, Butler elevator, Butler Chiller, and Chesnutt Chiller.

The total capital assets, net of accumulated depreciation, at June 30, 2018 were $179.86 million. For more detailed information about capital asset holdings, see Note 6 of the Notes to the Financial Statements.

Outstanding commitments on construction contracts totaled $2.15 million for the year ended June 30, 2018, which is an increase of $1.44 million from the previous fiscal year. The construction commitments increase is due to having new projects.

Long-Term Liabilities

The University incurs long-term debt to finance construction projects and other long-term liabilities.

(In Millions)	2018	2017 (as Restated)	Increase/ (Decrease)
Bonds Payable	$ 51.92	$ 52.84	$ (0.92)
Less: Unamortized Discount	(0.74)	(0.77)	0.03
Notes Payable	9.49	10.01	(0.52)
Capital Leases Payable	0.34	0.47	(0.13)
Pollution Remediation Payable	0.03	0.03	
Compensated Absences	3.86	3.64	0.22
Net Pension Liability	16.29	17.51	(1.22)
Net Other Postemployment Benefit Liability	85.02	123.41	(38.39)
Total Long-Term Liabilities	$ 166.21	$ 207.14	$ (40.93)

Long-term liabilities decreased by $40.93 million, primarily due to a decrease in the OPEB liability resulting from changes in actuarial assumptions.

For detailed information about long-term debt, see Note 8 of the Notes to the Financial Statements.

Factors Impacting Future Periods

Management believes that the University is positioned to continue its level of excellence in service to students, the community, and governmental agencies. However, it is becoming increasingly challenging to maintain service levels due to ongoing budget reductions. The University's ongoing efforts toward revenue diversification and cost containment will enable the University to provide the necessary resources to support this level of excellence. The University's management team continues to abide by the strategic priorities for the University. Management changes were minimal during fiscal year 2018 and are not considered to have a significant effect on the continued operations and financial position of the University.

A crucial element to the University's future will continue to be its relationship with the State of North Carolina as well as working to manage tuition and fees while staying competitive and providing an outstanding college education for its students. There is a direct relationship between the growth of state support and the University's ability to control tuition growth, as declines in state appropriations generally result in increased tuition levels. The University anticipates additional increases in state appropriations in fiscal year 2019.

The University continues to execute its long-range plan to modernize and expand its complement of facilities with a balance of new construction and renovations to older facilities. This strategy addresses the University's planned growth and the continuing effects of technology on teaching methodologies.

Private gifts are an important supplement to the fundamental support from the State, student tuition and fees, and other revenue sources. Gifts are a significant factor in the growth and support of academic units and support for student scholarships. Economic pressures affecting donors may affect the future level of support the University receives from corporate and individual giving, including the support received through the Fayetteville State University Foundation, Inc., and Subsidiary.

Starting in July 2012, the University embarked on a comprehensive multi-year $25 million fundraising effort for the advancement of the University called "The Campaign for Fayetteville State University". The Campaign ended in fiscal year 2018, with the fundraising efforts raising a total of $26.97 million in gifts and pledges.

The University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility.

While it is not possible to predict the ultimate results, management believes that with cost reduction measures implemented and the continued support of the State of North Carolina and faithful donors, the University's financial condition is strong enough to weather current economic uncertainties.

FINANCIAL STATEMENTS

Fayetteville State University
Statement of Net Position
June 30, 2018

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	8,710,454.58
Restricted Cash and Cash Equivalents		6,383,795.13
Receivables, Net (Note 5)		4,320,705.65
Due from Primary Government		62,691.98
Inventories		156,862.33
Notes Receivable, Net (Note 5)		878,437.57
Total Current Assets		20,512,947.24
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		10,384,245.06
Receivables, Net (Note 5)		53,715.00
Endowment Investments		17,925,993.64
Other Investments		475,922.42
Notes Receivable, Net (Note 5)		887,952.02
Beneficial Interest in Assets Held by Others		8,729.27
Net Other Postemployment Benefits Asset		173,599.00
Capital Assets - Nondepreciable (Note 6)		2,706,826.08
Capital Assets - Depreciable, Net (Note 6)		177,148,771.90
Total Noncurrent Assets		209,765,754.39
Total Assets		230,278,701.63
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		9,493,100.56
Deferred Outflows Related to Other Postemployment Benefits (Note 14)		3,363,730.81
Total Deferred Outflows of Resources		12,856,831.37
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		2,702,738.23
Unearned Revenue		1,281,310.27
Interest Payable		563,291.63
Long-Term Liabilities - Current Portion (Note 8)		2,544,189.40
Total Current Liabilities		7,091,529.53
Noncurrent Liabilities:		
Funds Held for Others		566,236.34
U. S. Government Grants Refundable		1,349,363.97
Long-Term Liabilities, Net (Note 8)		163,667,002.83
Total Noncurrent Liabilities		165,582,603.14
Total Liabilities		172,674,132.67
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows for Irrevocable Split-Interest Agreements		8,729.27
Deferred Inflows Related to Pensions		723,978.00
Deferred Inflows Related to Other Postemployment Benefits (Note 14)		38,032,936.00
Total Deferred Inflows of Resources		38,765,643.27

NET POSITION	
Net Investment in Capital Assets	118,728,152.45
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,392,422.64
Endowed Professorships	5,149,554.99
Departmental Uses	1,026,487.50
Loans	467,487.45
Expendable:	
Scholarships and Fellowships	6,571,424.83
Endowed Professorships	2,713,130.62
Departmental Uses	415,506.65
Capital Projects	7,635,599.75
Debt Service	3,639,966.09
Other	332,970.78
Unrestricted	(120,376,946.69)
Total Net Position	$ 31,695,757.06

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

Fayetteville 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)	$ 18,056,316.61
Federal Grants and Contracts	107,990.24
Sales and Services, Net (Note 11)	10,414,776.54
Interest Earnings on Loans	7,934.71
Other Operating Revenues	1,022,366.44
Total Operating Revenues	29,609,384.54
EXPENSES	
Operating Expenses:	
Salaries and Benefits	76,524,562.38
Supplies and Materials	5,798,652.92
Services	18,493,202.37
Scholarships and Fellowships	10,327,149.82
Utilities	3,069,156.98
Depreciation	4,767,012.04
Total Operating Expenses	118,979,736.51
Operating Loss	(89,370,351.97)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	53,116,503.67
Noncapital Grants - Student Financial Aid	17,248,809.08
Noncapital Grants	15,766,722.51
Noncapital Gifts	1,563,843.14
Investment Income (Net of Investment Expense of $85,813.53)	2,150,627.15
Interest and Fees on Debt	(2,699,849.01)
Other Nonoperating Expenses	(339,647.84)
Net Nonoperating Revenues	86,807,008.70
Loss Before Other Revenues	(2,563,343.27)
Capital Appropriations	7,041,298.00
Capital Grants	432,546.38
Additions to Endowments	243,310.78
Increase in Net Position	5,153,811.89
NET POSITION	
Net Position - July 1, 2017, as Restated (Note 20)	26,541,945.17
Net Position - June 30, 2018	$ 31,695,757.06

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

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

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	27,929,317.91
Payments to Employees and Fringe Benefits		(75,489,547.84)
Payments to Vendors and Suppliers		(27,527,983.61)
Payments for Scholarships and Fellowships		(10,327,149.82)
Loans Issued		(462,600.34)
Collection of Loans		387,326.82
Other Receipts		1,009,039.48
Net Cash Used by Operating Activities		(84,481,597.40)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		53,116,503.67
Noncapital Grants - Student Financial Aid		17,104,884.20
Noncapital Grants		14,998,039.81
Noncapital Gifts		2,223,781.14
Additions to Endowments		243,310.78
William D. Ford Direct Lending Receipts		30,563,862.00
William D. Ford Direct Lending Disbursements		(30,536,309.00)
Related Activity Agency Receipts		10,117.42
Net Cash Provided by Noncapital Financing Activities		87,724,190.02
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Capital Appropriations		7,041,298.00
Capital Grants		432,546.38
Proceeds from Sale of Capital Assets		17,296.06
Acquisition and Construction of Capital Assets		(2,672,992.59)
Principal Paid on Capital Debt and Leases		(1,586,514.69)
Interest and Fees Paid on Capital Debt and Leases		(2,661,894.33)
Net Cash Provided by Capital Financing and Related Financing Activities		569,738.83
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		84,304.27
Investment Income		200,903.33
Purchase of Investments and Related Fees		(148,000.00)
Net Cash Provided by Investing Activities		137,207.60
Net Increase in Cash and Cash Equivalents		3,949,539.05
Cash and Cash Equivalents - July 1, 2017		21,528,955.72
Cash and Cash Equivalents - June 30, 2018	$	25,478,494.77

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

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

Operating Loss	$	(89,370,351.97)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		4,767,012.04
Allowances and Write-Offs		651,823.13
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(1,817,888.08)
Inventories		(24,801.63)
Notes Receivable, Net		(75,273.52)
Beneficial Interest in Assets Held by Others		(8,729.27)
Net Other Postemployment Benefits Asset		(10,568.00)
Deferred Outflows Related to Pensions		2,834,913.58
Deferred Outflows Related to Other Postemployment Benefits		(303,005.81)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		226,427.81
Unearned Revenue		413,952.73
Net Pension Liability		(1,219,887.00)
Net Other Postemployment Benefits Liability		(38,388,051.00)
Government Grants Refundable		(25,131.68)
Compensated Absences		226,917.00
Deferred Inflows for Irrevocable Split-Interest Agreements		8,729.27
Deferred Inflows Related to Pensions		(400,621.00)
Deferred Inflows Related to Other Postemployment Benefits		38,032,936.00
Net Cash Used by Operating Activities	$	(84,481,597.40)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	8,710,454.58
Restricted Cash and Cash Equivalents		6,383,795.13
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		10,384,245.06
Total Cash and Cash Equivalents - June 30, 2018	$	25,478,494.77

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	84,572.42
Change in Fair Value of Investments		1,949,723.82
Loss on Disposal of Capital Assets		(339,647.84)
Amortization of Bond Discount		30,957.72
Increase in Receivables Related to Nonoperating Income		374,787.17

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. Fayetteville 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 blended in the University's financial statements. See below for further discussion of the University's component units. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Blended Component Units - Although legally separate, Fayetteville State University Student Housing Corporation and Subsidiary (Corporation) and Fayetteville State University Foundation, Inc., and Subsidiary (Foundation), component units of the University, are reported as if they were part of the University.

The Corporation is governed by a board consisting of nine appointed directors. The Corporation's purpose is to develop, finance, prepare, and provide residential housing facilities for the students of the University. Because the directors of the Corporation are appointed by the University and the Corporation's sole purpose is to benefit Fayetteville State University, its financial statements have been blended with those of the University.

The Foundation is governed by a 21-member board consisting of eight ex-officio directors and 13 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the Foundation's operations are so intertwined with the University, its financial statements, as well as those of its wholly owned subsidiaries, have been included with those of the University.

Separate financial statements for the Corporation and the Foundation may be obtained from Fayetteville State University, c/o Vice Chancellor for

Business and Finance, 1200 Murchison Road, Fayetteville, NC 28301, or by calling 910-672-1151.

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

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

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

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

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

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

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

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

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out method, except for fuel oil which is valued using the last invoice cost method and medical supplies which are valued using the average cost method.

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

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

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

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

The University does not capitalize its art collection. This collection adheres to the University's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

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, and endowment and other restricted investments.

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

Revenue bonds payable and limited obligation bonds payable are reported net of unamortized discounts. The University amortizes bond discounts over the life of the bonds using the straight-line method that approximates the effective interest method.

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 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 for irrevocable split-interest agreements, 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.

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, and postal services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes $23,496,572.44, 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 $3,075.86. The carrying amount of the University's deposits not with the State Treasurer was $1,978,846.47, and the bank balance was $1,978,996.60. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2018, the University's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was $1,547,639.35.

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

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

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

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

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

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

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

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

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

UNC Investment Fund, LLC - At June 30, 2018, the University and the Foundation had $11,506,026.19 and $6,419,967.45, respectively, for a total of $17,925,993.64 invested in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

	Amount
Investment Type	
Other Securities	
Investments in Real Estate	$ 475,922.42

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

	Amount
Investment Type	
Other Securities	
UNC Investment Fund	$ 17,925,993.64
Investments in Real Estate	475,922.42
Total Investments	$ 18,401,916.06

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	$	3,075.86
Amount of Deposits with Private Financial Institutions		1,978,846.47
Deposits in the Short-Term Investment Fund		23,496,572.44
UNC Investment Fund		17,925,993.64
Non-Pooled Investments		475,922.42
Total Deposits and Investments	$	43,880,410.83
Deposits		
Current:		
Cash and Cash Equivalents	$	8,710,454.58
Restricted Cash and Cash Equivalents		6,383,795.13
Noncurrent:		
Restricted Cash and Cash Equivalents		10,384,245.06
Total Deposits		25,478,494.77
Investments		
Noncurrent:		
Endowment Investments		17,925,993.64
Other Investments		475,922.42
Total Investments		18,401,916.06
Total Deposits and Investments	$	43,880,410.83

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Other Securities				
Investment in Real Estate	$ 475,922.42	$ 0.00	$ 0.00	$ 475,922.42
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	23,496,572.44			
UNC Investment Fund	17,925,993.64			
Total Investments as a Position in an External Investment Pool	41,422,566.08			
Total Investments Measured at Fair Value	$ 41,898,488.50			

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.

Investments in Real Estate - The Foundation currently holds 23 parcels of land that were gifted to the Foundation. These parcels were appraised at the time of gift and recorded at a value of $475,922.42. This investment is classified at Level 3. These properties will be held as investments until a sale can be realized at the discretion of the Foundation.

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds including the Foundation's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). The University's endowment spending policy governs the rate at which funds are released to the operating budget from the endowment. The University uses a disciplined spending rate with a long term spending rule. The target rate for spending is set as up to 5.00% and 4.5%, respectively of the University's and Foundation endowment's trailing three-year average year end market value. In order to preserve the purchasing power of the endowment, the portfolio is invested with the expectation of generating a long term rate of return at least equal to the payout plus rate of inflation.

At June 30, 2018, net appreciation of $8,107,931.64 was available to be spent, of which $6,804,647.14 was classified in net position as restricted, expendable for scholarships and fellowships, endowed professorships, and departmental uses, as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,822,586.49	$ 882,387.08	$ 2,940,199.41
Intergovernmental	1,106,436.89	26,412.81	1,080,024.08
Pledges	41,156.00	1,564.00	39,592.00
Interest on Loans	205,897.25	192,784.27	13,112.98
Other	247,777.18		247,777.18
Total Current Receivables	$ 5,423,853.81	$ 1,103,148.16	$ 4,320,705.65
Noncurrent Receivables:			
Pledges	$ 67,010.00	$ 13,295.00	$ 53,715.00
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 892,794.69	$ 14,357.12	$ 878,437.57
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 1,544,558.12	$ 656,606.10	$ 887,952.02

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 1,766,577.98	$ 0.00	$ 0.00	$ 1,766,577.98
Construction in Progress	1,626,354.73	1,850,550.82	2,536,657.45	940,248.10
Total Capital Assets, Nondepreciable	3,392,932.71	1,850,550.82	2,536,657.45	2,706,826.08
Capital Assets, Depreciable:				
Buildings	202,148,097.70	1,713,527.54	113,000.00	203,748,625.24
Machinery and Equipment	17,909,828.69	907,014.19	748,952.07	18,067,890.81
General Infrastructure	19,262,721.98	823,129.91		20,085,851.89
Total Capital Assets, Depreciable	239,320,648.37	3,443,671.64	861,952.07	241,902,367.94
Less Accumulated Depreciation:				
Buildings	48,404,044.70	3,142,050.06	113,000.00	51,433,094.76
Machinery and Equipment	8,109,026.89	860,238.88	392,008.17	8,577,257.60
General Infrastructure	3,978,520.58	764,723.10		4,743,243.68
Total Accumulated Depreciation	60,491,592.17	4,767,012.04	505,008.17	64,753,596.04
Total Capital Assets, Depreciable, Net	178,829,056.20	(1,323,340.40)	356,943.90	177,148,771.90
Capital Assets, Net	$ 182,221,988.91	$ 527,210.42	$ 2,893,601.35	$ 179,855,597.98

During the year ended June 30, 2018, the University incurred $2,690,556.91 in interest costs related to the acquisition and construction of capital assets. All of these costs are included 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 Agreement (agreement) dated September 1, 2014. The value of the energy savings improvement assets associated with the agreement is $386,164.20 and is subject to security provisions in the agreement to ensure timely debt payments. Additional information regarding the UNC System Energy Savings Installment Finance Agreement – Note Payable can be found in Note 8.

The University has pledged energy conservation equipment, including but not limited to heating and air conditioning systems, chilled water and hot water systems, water conservation devices, lighting and lighting control systems, and high efficiency mechanical drives with a carrying value of $9,530,664.95 as security for FSU Energy Savings Installment Financing Contract. Additional information regarding FSU Energy Savings Installment Financing Contract – Note Payable can be found in Note 8.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 1,303,867.60
Accounts Payable - Capital Assets	112,506.07
Accrued Payroll	1,274,269.33
Contract Retainage	12,095.23
Total Accounts Payable and Accrued Liabilities	$ 2,702,738.23

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 33,284,000.00	$ 0.00	$ 494,000.00	$ 32,790,000.00	$ 1,030,000.00
Limited Obligation Bonds Payable	19,555,000.00		430,000.00	19,125,000.00	440,000.00
Less: Unamortized Discount	(766,478.60)		(30,957.72)	(735,520.88)	
Total Revenue Bonds Payable and Limited Obligation Bonds Payable, Net	52,072,521.40		893,042.28	51,179,479.12	1,470,000.00
Notes Payable	10,014,682.88		529,328.32	9,485,354.56	592,050.09
Capital Leases Payable	471,196.92		133,186.37	338,010.55	137,629.31
Pollution Remediation Payable	25,250.00	4,750.00		30,000.00	
Total Long-Term Debt	62,583,651.20	4,750.00	1,555,556.97	61,032,844.23	2,199,679.40
Other Long-Term Liabilities					
Compensated Absences	3,637,252.00	3,004,764.00	2,777,847.00	3,864,169.00	344,510.00
Net Pension Liability	17,511,675.00		1,219,887.00	16,291,788.00	
Net Other Postemployment Benefits Liability	123,410,442.00		38,388,051.00	85,022,391.00	
Total Other Long-Term Liabilities	144,559,369.00	3,004,764.00	42,385,785.00	105,178,348.00	344,510.00
Total Long-Term Liabilities, Net	$ 207,143,020.20	$ 3,009,514.00	$ 43,941,341.97	$ 166,211,192.23	$ 2,544,189.40

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Revenue Bonds Payable						
Fayetteville State University Series 2013A Bond						
Student Center Renovation	2013A	3.00%-5.125%	04/01/2043	$ 21,410,000.00	$ 525,000.00	$ 20,885,000.00
Fayetteville State University Series 2013B Bond						
Student Center Renovation	2013B	4.25%	04/01/2021	2,000,000.00	1,215,000.00	785,000.00
Fayetteville State University Series 2015 General Revenue Refunding Bond						
Dining	2015	3.26%	04/01/2023	1,497,000.00	527,000.00	970,000.00
Fayetteville State University Housing Fdn, LLC Facilities Revenue Refunding Bond						
University Place Apartments	2017	2.82%	11/01/2033	` 10,150,000.00		10,150,000.00
Total Revenue Bonds Payable				35,057,000.00	2,267,000.00	32,790,000.00
Limited Obligation Bonds Payable						
Fayetteville State University Housing LLC Limited Obligation Bonds						
Student Housing Project	2011	3.25% -5.00%	04/01/2043	20,715,000.00	1,590,000.00	19,125,000.00
Total Revenue Bonds Payable and Limited Obligation Bonds Payable (principal only)				$ 55,772,000.00	$ 3,857,000.00	51,915,000.00
Less: Unamortized Discount						(735,520.88)
Total Revenue Bonds Payable and Limited Obligation Bonds Payable, Net						$ 51,179,479.12

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

	Annual Requirements					
	Revenue Bonds Payable		Limited Obligation Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 1,030,000.00	$ 1,384,341.90	$ 440,000.00	$ 899,793.76	$ 592,050.09	$ 326,504.76
2020	1,088,000.00	1,351,189.64	455,000.00	885,493.76	613,854.99	306,007.57
2021	1,139,000.00	1,314,619.36	470,000.00	870,706.26	636,436.50	284,760.79
2022	1,196,000.00	1,276,626.28	485,000.00	854,256.26	659,823.24	262,737.49
2023	1,158,000.00	1,237,474.45	505,000.00	836,068.76	664,465.59	239,909.63
2024-2028	5,623,000.00	5,625,252.34	2,855,000.00	3,854,162.52	3,405,649.50	846,040.74
2029-2033	7,374,000.00	4,423,689.32	3,560,000.00	3,140,250.00	2,913,074.65	199,927.72
2034-2038	6,332,000.00	2,918,099.20	4,550,000.00	2,155,750.00		
2039-2043	7,850,000.00	1,260,493.78	5,805,000.00	898,750.00		
Total Requirements	$ 32,790,000.00	$ 20,791,786.27	$ 19,125,000.00	$ 14,395,231.32	$ 9,485,354.56	$ 2,465,888.70

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Energy Savings Loan - University Project	Bank of America	3.60%	02/15/2032	$ 10,400,044.00	$ 1,249,488.00	$ 9,150,556.00
UNC System Guaranteed Energy Savings	Bank of America	1.84%	02/14/2023	472,939.00	138,140.44	334,798.56
Total Notes Payable				$ 10,872,983.00	$ 1,387,628.44	$ 9,485,354.56

E. Pollution Remediation Payable - The University has recognized a pollution remediation liability for underground tank removal at the Lily Building. The amount of the estimated liability is $15,000.00. The University has also recognized a pollution remediation liability for underground tank removal at the Lyons Science Building. The amount of estimated liability is $15,000.00. The estimate was calculated using the estimated costs of removal. This liability is subject to potential changes due to potential increases in the cost of work to be performed.

NOTE 9 - LEASE OBLIGATIONS

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

Fiscal Year	Amount
2019	$ 147,449.65
2020	104,116.32
2021	104,116.32
Total Minimum Lease Payments	355,682.29
Amount Representing Interest (2.57%-5.20% Rate of Interest)	17,671.74
Present Value of Future Lease Payments	$ 338,010.55

Machinery and equipment acquired under capital lease amounted to $650,581.60 at June 30, 2018.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $65,058.16 at June 30, 2018.

B. Operating Lease Obligations - The University entered into operating leases for FSU Bookstore, storage space, managed printing, and equipment for the mailroom and the FSU Print Shop. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

Fiscal Year		Amount
2019	$	45,959.76
2020		27,996.51
2021		21,272.76
2022		12,409.11
Total Minimum Lease Payments	$	107,638.14

Rental expense for all operating leases during the year was $359.675.38.

NOTE 10 - NET POSITION

The deficit in unrestricted net position of $120,376,946.69 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	$ 9,493,100.56	$ 0.00	$ 9,493,100.56
Deferred Outflows Related to OPEB		3,203,941.03	3,203,941.03
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	16,291,788.00		16,291,788.00
Net OPEB Liability		85,022,391.00	85,022,391.00
Deferred Inflows Related to Pensions	723,978.00		723,978.00
Deferred Inflows Related to OPEB		38,032,518.00	38,032,518.00
Net Effect on Unrestricted Net Position	$ (7,522,665.44)	$ (119,850,967.97)	$ (127,373,633.41)

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	$ 29,687,254.81	$ 0.00	$ 11,375,967.40	$ 254,970.80	$ 18,056,316.61
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 8,471,277.53	$ 0.00	$ 3,140,364.66	$ 29,288.44	$ 5,301,624.43
Dining	5,382,773.93	27,067.80	2,051,665.03	25,575.74	3,278,465.36
Bookstore	443,062.03			19,731.56	423,330.47
Central Store	15.00				15.00
Copy Center	82,138.54	80,616.35			1,522.19
Athletic	89,027.69				89,027.69
Parking	311,417.89			55.60	311,362.29
Other	302,599.80			6,176.20	296,423.60
Sales and Services of Education and Related Activities	713,005.51				713,005.51
Total Sales and Services, Net	$ 15,795,317.92	$ 107,684.15	$ 5,192,029.69	$ 80,827.54	$ 10,414,776.54

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 41,440,678.57	$ 732,987.22	$ 2,277,005.06	$ 0.00	$ 0.00	$ 0.00	$ 44,450,670.85
Research	331,514.19	86,450.29	133,162.28				551,126.76
Public Service	2,022,142.92	549,127.19	1,222,982.98		2,600.00		3,796,853.09
Academic Support	6,496,673.84	1,121,786.29	2,424,998.50		875.00		10,044,333.63
Student Services	3,857,466.01	255,522.89	636,979.62				4,749,968.52
Institutional Support	10,790,252.14	1,001,959.49	2,802,173.31		16,840.18		14,611,225.12
Operations and Maintenance of Plant	5,778,418.67	963,003.89	1,226,620.82		2,050,543.09		10,018,586.47
Student Financial Aid				10,327,149.82			10,327,149.82
Auxiliary Enterprises	5,807,416.04	1,087,815.66	7,769,279.80		998,298.71		15,662,810.21
Depreciation						4,767,012.04	4,767,012.04
Total Operating Expenses	$ 76,524,562.38	$ 5,798,652.92	$ 18,493,202.37	$ 10,327,149.82	$ 3,069,156.98	$ 4,767,012.04	$ 118,979,736.51

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 $2,017,359.31, and the University's contributions were $3,624,522.22 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 $16,291,788.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the University's proportion was 0.20533%, which was an increase of 0.0148 from its proportion measured as of June 30, 2016, which was 0.19053%.

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%)
$ 33,535,243.00	$ 16,291,788.00	$ 1,843,970.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the University recognized pension expense of $4,532,408.00. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 353,176.00	$ 532,989.00
Changes of Assumptions	2,573,857.34	
Net Difference Between Projected and Actual Earnings on Plan Investments	2,204,831.00	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	736,714.00	190,989.00
Contributions Subsequent to the Measurement Date	3,624,522.22	
Total	$ 9,493,100.56	$ 723,978.00

The amount of $3,624,522.22 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

Year Ended June 30:	Amount
2019	$ 1,038,209.34
2020	3,266,659.00
2021	1,722,129.00
2022	(882,397.00)
Total	$ 5,144,600.34

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 $58,233,106.30, of which $19,335,047.92 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $1,160,102.88 and $1,322,517.28, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions.

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 $3,203,941.03 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 $74,140.78 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 $85,022,391.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The University's proportion of the net OPEB liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the University's proportion was 0.25932%, which was a decrease of 0.02436 from its proportion measured as of June 30, 2016, which was 0.28368%.

Net OPEB Asset: At June 30, 2018, the University reported an asset of $173,599.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The University's proportion of the net OPEB asset was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the University's proportion was 0.28403%, which was an increase of 0.02150 from its proportion measured as of June 30, 2016, which was 0.26253%.

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	$ 101,426,535.00	$ 85,022,391.00	$ 72,011,245.00
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (147,585.00)	$ (173,599.00)	$ (199,673.00)

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

	1% Decrease (Medical - 4.00 - 5.50%, Pharmacy - 4.00 - 6.25%, Med. Advantage - 3.00 - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00 - 6.50%, Pharmacy - 5.00 - 7.25%, Med. Advantage - 4.00 - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00 - 7.50%, Pharmacy - 6.00 - 8.25%, Med. Advantage - 5.00 - 6.00%, Administrative - 4.00%)
RHBF Net OPEB Liability	$ 69,455,369.00	$ 85,022,391.00	$ 105,712,682.00
DIPNC Net OPEB Asset	N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the University recognized OPEB expense of $2,517,299.00 for RHBF and $92,094.00 for DIPNC. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 0.00	$ 47,598.00	$ 47,598.00
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		38,051.00	38,051.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions			
Contributions Subsequent to the Measurement Date	3,203,941.03	74,140.78	3,278,081.81
Total	$ 3,203,941.03	$ 159,789.78	$ 3,363,730.81

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 6,096,262.00	$ 0.00	$ 6,096,262.00
Changes of Assumptions	23,414,778.00		23,414,778.00
Net Difference Between Projected and Actual Earnings on Plan Investments	31,598.00		31,598.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	8,489,880.00	418.00	8,490,298.00
Total	$ 38,032,518.00	$ 418.00	$ 38,032,936.00

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

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

Year Ended June 30:	RHBF	DIPNC
2019	$ (7,608,084.00)	$ 25,244.00
2020	(7,608,084.00)	25,244.00
2021	(7,608,084.00)	25,236.00
2022	(7,608,084.00)	9,507.00
2023	(7,600,182.00)	
Total	$ (38,032,518.00)	$ 85,231.00

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

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

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

The University also purchased, through the Fund, extended coverage for "all risks" for all buildings and contents, excluding accounts, bills, currency, deeds, evidences of debt, money, notes or securities, animals, paved surfaces except building foundations, and costs of excavations, grading, backfilling, or filling. "All risks" provides coverage to property for risk of direct physical loss. While conditions to the general policy still apply, “all risks” takes the place of exclusions in the general policy. Losses covered by the “all risks” policy are subject to a $25,000 per occurrence deductible. The University also purchased additional insurance for any loss or damage to fine arts as well as a boiler and machinery policy.

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. In addition, the University purchased first party comprehensive and collision coverage on certain vehicles. This coverage is subject to a $100 deductible and is purchased separately through the North Carolina Department of Insurance.

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.

The University purchased intercollegiate Sports Accident Insurance from a private insurance company through the North Carolina Department of Insurance. This policy covers medical expenses incurred for the treatment of injuries to covered persons. Covered persons include all student athletes, student managers, and student trainers whose names are on the official team roster of the FSU's sponsored and supervised sports teams including basketball, bowling, cheerleading, cross country, football, tennis, track and field, softball, and volleyball. This coverage is effective during play, practice, and team related travel. There is a $3,000 deductible for all sports (disappearing deductible).

The University purchased Camper's Accidental Insurance policies for the Upward Bound Residential Institute and the 21st Century Learning Center camps from a private insurance company through the North Carolina Department of Insurance. This policy includes a $7,500 accidental death benefit, $15,000 maximum accidental dismemberment benefit, and a $25,000 maximum accident medical expense benefit. Covered persons include each camp attendee. This coverage is effective for the period the attendee is scheduled to be at the Camp including while on the camp's premises during the day, not on camp premises but traveling to and from and attending or participating in camp activity supervised by camp authorities and traveling between camp and home. There is not a deductible for this policy.

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 $2,150,845.60 and on other purchases were $2,758,023.52 at June 30, 2018.

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

NOTE 17 - RELATED PARTIES

Foundations - There are three separately incorporated nonprofit foundations associated with the University. These foundations are the:

Fayetteville State University Alumni Association, Incorporated

Fayetteville State University Development Corporation

Fayetteville State University Research Corporation

These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the foundations, except for support from each organization to the University. This support approximated $31,018.76 for the year ended June 30, 2018.

NOTE 18 - BLENDED COMPONENT UNITS

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

Condensed Statement of Net Position

June 30, 2018

	Fayetteville State University	Fayetteville State University Foundation Inc., and Subsidiary	Fayetteville State University Student Housing Corporation and Subsidiary	Eliminations	Total
ASSETS					
Current Assets	$ 15,461,915.24	$ 3,869,202.00	$ 1,181,830.00	$ 0.00	$ 20,512,947.24
Capital Assets, Net	179,855,597.98				179,855,597.98
Other Noncurrent Assets	22,960,551.41	6,949,605.00			29,910,156.41
Component Unit Receivable from Primary Government		10,198,765.00	19,349,948.00	(29,548,713.00)	
Primary Government Receivable from Component Unit	283,232.00			(283,232.00)	
Total Assets	218,561,296.63	21,017,572.00	20,531,778.00	(29,831,945.00)	230,278,701.63
TOTAL DEFERRED OUTFLOWS OF RESOURCES	12,856,831.37				12,856,831.37
LIABILITIES					
Current Liabilities	5,840,235.53	586,346.00	664,948.00		7,091,529.53
Long-Term Liabilities, Net	135,341,002.83	9,641,000.00	18,685,000.00		163,667,002.83
Other Noncurrent Liabilities	1,915,600.31				1,915,600.31
Primary Government Payable to Component Unit	29,548,713.00			(29,548,713.00)	
Component Unit Payable to Primary Government			283,232.00	(283,232.00)	
Total Liabilities	172,645,551.67	10,227,346.00	19,633,180.00	(29,831,945.00)	172,674,132.67
TOTAL DEFERRED INFLOWS OF RESOURCES	38,765,643.27				38,765,643.27
NET POSITION					
Net Investment in Capital Assets	118,728,152.45				118,728,152.45
Restricted - Nonexpendable	8,522,967.58	3,512,985.00			12,035,952.58
Restricted - Expendable	16,927,646.72	4,380,952.00			21,308,598.72
Unrestricted	(124,171,833.69)	2,896,289.00	898,598.00		(120,376,946.69)
Total Net Position	$ 20,006,933.06	$ 10,790,226.00	$ 898,598.00	$ 0.00	$ 31,695,757.06

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

	Fayetteville State University	Fayetteville State University Foundation Inc., and Subsidiary	Fayetteville State University Student Housing Corporation and Subsidiary	Eliminations	Total
OPERATING REVENUES					
Student Tuition and Fees, Net	$ 18,056,316.61	$ 0.00	$ 0.00	$ 0.00	$ 18,056,316.61
Federal Grants and Contracts	107,990.24				107,990.24
Sales and Services, Net	10,414,776.54				10,414,776.54
Interest Earnings on Loans	7,934.71				7,934.71
Other Operating Revenues	1,013,859.44	1,678,938.00		(1,670,431.00)	1,022,366.44
Total Operating Revenues	29,600,877.54	1,678,938.00		(1,670,431.00)	29,609,384.54
OPERATING EXPENSES					
Operating Expenses	115,474,100.47	933,251.00	13,800.00	(2,208,427.00)	114,212,724.47
Depreciation	4,767,012.04				4,767,012.04
Total Operating Expenses	120,241,112.51	933,251.00	13,800.00	(2,208,427.00)	118,979,736.51
Operating Income (Loss)	(90,640,234.97)	745,687.00	(13,800.00)	537,996.00	(89,370,351.97)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	53,116,503.67				53,116,503.67
Noncapital Grants - Student Financial Aid	17,248,809.08				17,248,809.08
Noncapital Grants	15,766,722.51				15,766,722.51
Noncapital Gifts	1,547,932.14	15,911.00			1,563,843.14
Investment Income (Net of Expenses)	1,456,049.15	971,723.00	923,324.00	(1,200,469.00)	2,150,627.15
Interest and Fees on Debt	(1,497,655.01)	(291,000.00)	(911,194.00)		(2,699,849.01)
University Support		(662,473.00)		662,473.00	
Other Nonoperating Expenses	(339,647.84)				(339,647.84)
Net Nonoperating Revenues	87,298,713.70	34,161.00	12,130.00	(537,996.00)	86,807,008.70
Capital Appropriations	7,041,298.00				7,041,298.00
Capital Grants	432,546.38				432,546.38
Additions to Endowments	36,626.78	206,684.00			243,310.78
Increase (Decrease) in Net Position	4,168,949.89	986,532.00	(1,670.00)		5,153,811.89
NET POSITION					
Net Position, July 1, 2017, as Restated	15,837,983.17	9,803,694.00	900,268.00		26,541,945.17
Net Position, June 30, 2018	$ 20,006,933.06	$ 10,790,226.00	$ 898,598.00	$ 0.00	$ 31,695,757.06

Condensed Statement of Cash Flows
June 30, 2018

	Fayetteville State University	Fayetteville State University Foundation Inc., and Subsidiary	Fayetteville State University Student Housing Corporation and Subsidiary	Total
Net Cash Provided (Used) by Operating Activities	$ (85,036,411.40)	$ 568,614.00	$ (13,800.00)	$ (84,481,597.40)
Net Cash Provided by Noncapital Financing Activities	87,504,131.02	220,059.00		87,724,190.02
Net Cash Provided (Used) by Capital and Related Financing Activities	1,806,407.83	(322,250.00)	(914,419.00)	569,738.83
Net Cash Provided (Used) by Investing Activities	(955,009.40)	165,668.00	926,549.00	137,207.60
Net Increase (Decrease) in Cash and Cash Equivalents	3,319,118.05	632,091.00	(1,670.00)	3,949,539.05
Cash and Cash Equivalents, July 1, 2017	17,147,936.72	3,197,519.00	1,183,500.00	21,528,955.72
Cash and Cash Equivalents, June 30, 2018	$ 20,467,054.77	$ 3,829,610.00	$ 1,181,830.00	$ 25,478,494.77

The condensed combining financial statements include the elimination of capital lease transactions between the University and the blended component units relating to residence halls built by the blended component units and the elimination of payables related to services by the University on behalf of the blended component units.

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

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

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*

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. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

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

NOTE 20 - NET POSITION RESTATEMENT

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

	Amount
July 1, 2017 Net Position as Previously Reported	$ 146,728,631.17
Restatement:	
Record the University's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	(120,186,686.00)
July 1, 2017 Net Position as Restated	$ 26,541,945.17

REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.20533%	0.19053%	0.19931%	0.21146%	0.21480%
Proportionate Share of TSERS Collective Net Pension Liability	$ 16,291,788.00	$ 17,511,675.00	$ 7,344,968.00	$ 2,479,201.00	$ 12,924,556.81
Covered Payroll	$ 35,015,412.22	$ 29,708,166.27	$ 30,607,328.10	$ 30,894,777.52	$ 31,862,338.89
Net Pension Liability as a Percentage of Covered Payroll	46.53%	58.95%	24.00%	8.02%	40.56%
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.

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

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 3,624,522.22	$ 3,494,538.14	$ 2,718,297.21	$ 2,800,570.52	$ 2,684,756.17
Contributions in Relation to the Contractually Determined Contribution	3,624,522.22	3,494,538.14	2,718,297.21	2,800,570.52	2,684,756.17
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 33,622,655.13	$ 35,015,412.22	$ 29,708,166.27	$ 30,607,328.10	$ 30,894,777.52
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	$ 2,654,132.13	$ 2,342,704.39	$ 1,569,436.16	$ 1,127,912.09	$ 1,082,006.49
Contributions in Relation to the Contractually Determined Contribution	2,654,132.13	2,342,704.39	1,569,436.16	1,127,912.09	1,082,006.49
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 31,862,338.89	$ 31,487,962.18	$ 31,834,404.79	$ 31,594,176.31	$ 32,202,573.97
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.

Fayetteville 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* .

Fayetteville 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 B-3*

	2017	2016
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	0.25932%	0.28368%
Proportionate Share of Collective Net OPEB Liability	$ 85,022,391.00	$ 123,410,442.00
Covered Payroll	$ 52,433,341.48	$ 46,320,282.18
Net OPEB Liability as a Percentage of Covered Payroll	162.15%	266.43%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%
Disability Income Plan of North Carolina		
Proportionate Share Percentage of Collective Net OPEB Asset	0.28403%	0.26253%
Proportionate Share of Collective Net OPEB Asset	$ 173,599.00	$ 163,031.00
Covered Payroll	$ 52,433,341.48	$ 46,320,282.18
Net OPEB Asset as a Percentage of Covered Payroll	0.33%	0.35%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	116.23%	116.06%

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

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

Retiree Health Benefit Fund	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 3,203,941.03	$ 3,046,377.14	$ 2,593,935.80	$ 2,607,671.71	$ 2,588,428.64
Contributions in Relation to the Contractually Determined Contribution	3,203,941.03	3,046,377.14	2,593,935.80	2,607,671.71	2,588,428.64
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 52,957,703.05	$ 52,433,341.48	$ 46,320,282.18	$ 47,498,574.02	$ 47,933,853.69
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	$ 2,541,841.34	$ 2,354,394.22	$ 2,320,933.70	$ 2,121,516.40	$ 1,964,254.92
Contributions in Relation to the Contractually Determined Contribution	2,541,841.34	2,354,394.22	2,320,933.70	2,121,516.40	1,964,254.92
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 47,959,270.49	$ 47,087,884.27	$ 47,365,993.69	$ 47,144,808.89	$ 47,908,656.56
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%

Disability Income Plan of North Carolina	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 74,140.78	$ 199,246.69	$ 189,913.16	$ 194,744.15	$ 210,909.00
Contributions in Relation to the Contractually Determined Contribution	74,140.78	199,246.69	189,913.16	194,744.15	210,909.00
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 52,957,703.05	$ 52,433,341.48	$ 46,320,282.18	$ 47,498,574.02	$ 47,933,853.69
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	$ 211,020.80	$ 244,857.02	$ 246,303.18	$ 245,153.01	$ 249,125.01
Contributions in Relation to the Contractually Determined Contribution	211,020.80	244,857.02	246,303.18	245,153.01	249,125.01
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 47,959,270.49	$ 47,087,884.27	$ 47,365,993.69	$ 47,144,808.89	$ 47,908,656.56
Contributions as a Percentage of Covered Payroll	0.44%	0.52%	0.52%	0.52%	0.52%

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

Fayetteville 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

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

Board of Trustees
Fayetteville State University
Fayetteville, 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 Fayetteville 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, 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 14, 2018. Our report includes a reference to other auditors who audited the financial statements of Fayetteville State University Foundation, Inc., and Subsidiary and Fayetteville State University Housing Corporation and Subsidiary, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 14, 2018

ORDERING INFORMATION

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NC OSA
The Taxpayers' Watchdog

This audit required 620 hours at an approximate cost of $63,860.