

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

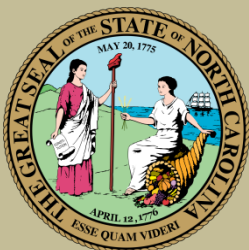


NORTH CAROLINA CENTRAL UNIVERSITY

DURHAM, 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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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of North Carolina Central 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.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

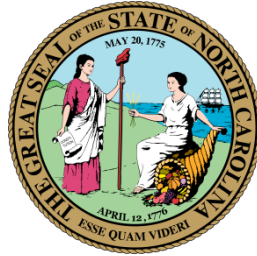


Beth A. Wood, CPA
State Auditor

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



INDEPENDENT AUDITOR'S REPORT

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Office of the State Auditor



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Central University
Durham, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the NCCU Real Estate Foundation, Inc., which represent 4 percent of the assets of the University; nor the financial statements of the North Carolina Central University Foundation, Inc. (NCCU Foundation, Inc.), the University's discretely presented component unit. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the NCCU Real Estate Foundation, Inc. and the NCCU Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

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

Emphasis of Matter

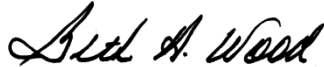
As discussed in Note 19 to the financial statements, during the year ended June 30, 2018, North Carolina Central University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, 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*

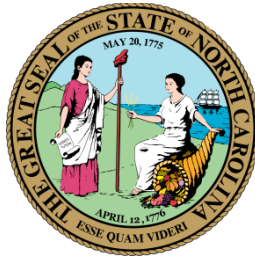
In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 13, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis is intended to give the reader an overview of factors that have affected operations and may affect operations in the future for North Carolina Central University (the University). Management has prepared the discussion and analysis to be read in conjunction with the financial statements and accompanying notes to the financial statements. The University is required by the Governmental Accounting Standards Board (GASB) to present three basic financial statements. Those statements are the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements provide both long-term and short-term financial information for the University.

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

Brief Institutional Highlights

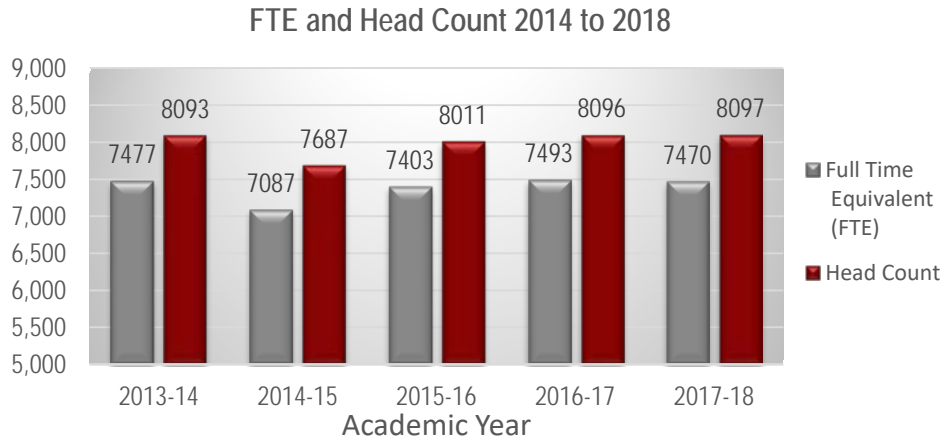
North Carolina Central University maintained a top spot in the 2018 U.S. News & World Report with a 4th place ranking among public historically black colleges and universities (HBCUs), and a 2nd place ranking among North Carolina's public HBCUs. The University received high marks for its freshman-to-sophomore retention rate, small class sizes and strength of full time faculty. The University's Master of Library Science was ranked by mastersprogramguide.com as one of the nation's top accredited programs for 2018, ranking 17 out of 50 selected library science programs in the United States. North Carolina Central University Online was ranked as one of the top 15 best universities for online education in the state of North Carolina by College Choice, an independent online publication for college-bound students.

The University is dedicated to the field of research and continues to apply for grants. For the fiscal year ended June 30, 2018, the Office of Sponsored Research submitted 147 grant proposals and received 96 grant awards of \$26.8 million to be received over the next three to five years. The National Institute of Health (NIH) made a five year award of \$16.3 million as part of its Research Centers in Minority Institutions (RCMI) program to enhance institutional research capacity within the areas of basic biomedical, behavioral, and or clinical research, and enable investigators of all levels to become more successful in obtaining competitive extramural support, especially from NIH, particularly on diseases that disproportionately affect minority and other health disparity populations. Duke University made a five year award of \$2.7 million towards a collaborative workforce development agreement to enhance the quality, pipeline diversity, and readiness of the clinical and translational research workforce in North Carolina, a collaborative community engagement agreement to develop hypotheses for future community engagement research and engage the Durham community to mitigate the disproportionate impact of certain diseases and disorders on low wealth and minority communities, and to establish a research project selection and funding program to encourage new collaborations in the areas of community-based health, behavioral health, basic science, translational, and biomanufacturing research.

For fiscal year ended June 30, 2018, the University's adjusted state appropriations were \$84.0 million, which is an increase of \$0.3 million, from the fiscal year 2017 adjusted state

appropriations of \$83.7 million. The University's fiscal year 2018 total state budget increased by \$1.7 million, or 1%, from \$134.1 million in 2017 to \$135.8 million in 2018. The stable state appropriations and budget are attributable to maintaining enrollment.

During fiscal year 2017-18, the University's total enrollment remained constant. This marks three years in a row of stable enrollment, for fiscal years 2015-16 through 2017-18. The first year full time freshman to sophomore retention rate remained consistent at 79% from 2016-17 to 2017-18, and indicates satisfaction among the student body. The positive trends in both enrollment and retention can be attributed to the University's recruitment, marketing, and innovative programs to target high-caliber students.



Financial Highlights

The Statement of Net Position reports all of the University's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The sum of assets and deferred outflows of resources, less the liabilities and deferred inflows of resources is reported as "net position." The statement classifies those assets and liabilities as current and noncurrent depending on the availability of the assets or satisfaction of the obligation within 12 months (current) or longer (noncurrent). The reader may use the net position to gauge the financial position of the University as of June 30, 2018.

Condensed Statement of Net Position

	June 30, 2018	June 30, 2017 (as Restated)
Assets		
Current Assets	\$ 56,768,540	\$ 52,070,450
Capital Assets, Net	261,225,319	265,035,437
Other Noncurrent Assets	46,640,925	40,737,918
Total Assets	364,634,784	357,843,805
Deferred Outflows of Resources	23,548,800	33,236,558
Liabilities		
Current Liabilities		
Long-Term Liabilities - Current Portion	4,968,941	2,975,038
Other Current Liabilities	7,593,203	6,780,529
Total Current Liabilities	12,562,144	9,755,567
Noncurrent Liabilities		
Long-Term Liabilities, Net	260,890,685	340,307,435
Other Noncurrent Liabilities	9,486,595	8,330,992
Total Noncurrent Liabilities	270,377,280	348,638,427
Total Liabilities	282,939,424	358,393,994
Deferred Inflows of Resources	70,358,768	2,168,375
Net Position		
Net Investment in Capital Assets	193,334,259	197,852,201
Restricted - Nonexpendable	17,312,370	17,004,809
Restricted - Expendable	29,373,939	24,428,789
Unrestricted	(205,135,176)	(208,767,805)
Total Net Position	\$ 34,885,392	\$ 30,517,994

As of June 30, 2018, the University's total assets were \$364.6 million as compared to \$357.8 million in the prior year, an increase of \$6.8 million. The change in assets reflects an increase of \$4.7 million in current assets, a decrease of \$3.8 million in net capital assets, and an increase of \$5.9 million in other noncurrent assets.

The increase in current assets of \$4.7 million is primarily due to a \$5.3 million increase in unrestricted cash related to an accumulation of unspent student fees that are going to be used for anticipated upgrades to the network infrastructure, to address deferred maintenance on capital infrastructure, and to service potential debt related to the planned new student union. The increase is also related to interest earnings due to increasing interest rates.

The net capital assets decrease of \$3.8 million primarily represents the accumulated depreciation increase of \$8.7 million netted against current year capital asset additions of \$5.1 million. The other noncurrent assets increase of \$5.9 million is mainly attributable to an increase of \$3.2 million in the endowment fund balance due to favorable market returns.

Deferred outflows of resources were \$23.5 million as of June 30, 2018, compared to \$33.2 million as of the prior fiscal year, a decrease of \$9.7 million. This decrease is mainly attributable to the difference between the projected versus actual investment earnings by the Teachers and State Employees Retirement System (TSERS) at the measurement date of

June 30, 2017. The other decreases are the amortization of the deferred loss on refunding on the Series 2016 Revenue Bond of \$2.2 million and the decrease in the fair value of the hedging derivative of \$0.3 million.

The University's liabilities totaled \$282.9 million at June 30, 2018, compared to \$358.4 million (as restated) at June 30, 2017, reflecting a \$75.5 million or 21% decrease in total liabilities. The net decrease of \$75.5 million is primarily attributable to the \$70.5 million decrease in the net other postemployment benefits (OPEB) liability. The OPEB liability represents the University's proportionate share (0.438%) of the State's OPEB liability for the Retiree Health Benefit Fund. The University's June 30, 2018 long-term liabilities balance is composed of the Series 2016 Revenue Bonds of \$55.9 million, the student housing 2003A Revenue Bonds of \$16.2 million, the net pension liability of \$28.2 million, the net OPEB liability of \$143.6 million, notes payable of \$9.0 million, capital leases payable of \$1.1 million and a compensated absences liability of \$6.8 million. See Note 8 to the audited financial statements for additional information regarding long-term liabilities.

The current liabilities balance of \$12.6 million was covered 4.5 times by current assets of \$56.8 million, which is an indication of the University's ability to pay current liabilities as they become due. Deferred inflows of resources increased by \$68.2 million, attributable to the recognition of amounts with the OPEB plans.

During the current fiscal year, the University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. 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's plans net OPEB liabilities, assets, deferred outflow of resources, deferred inflow of resources, and OPEB benefits expense, specifically for the Disability Income Plan of North Carolina (DIPNC) and the Retiree Health Benefit Fund (RHBF). For the purpose of reporting actuarial determined OPEB amounts for fiscal year 2018, the Statement of Net Position was restated as of June 30, 2017. The amounts for the restatement as well as the amounts for June 30, 2018 were based on the allocated proportionate shares from the State's plans as determined by actuarial valuation and the deferred outflows for current contributions as determined by the participating entity. See Note 15 for more information regarding the OPEB plans.

Significant to this reporting change was that the OPEB restatement for the RHBF resulted in a decrease in the University's June 30, 2017 unrestricted net position by \$209,351,309 that reduced the University's overall unrestricted net position balance to a negative \$208,767,805. Refer to Note 11 to understand the continuing impact of the GASB Statement No. 75 change as of June 30, 2018 and the effect of reporting the proportionate share of the RHBF as well as the University's share of the State's pension plan on unrestricted net position.

More information regarding the pension and OPEB plans can be located in Notes 14 and 15, respectively.

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

	2018	2017 (as Restated)
Operating Revenues		
Student Tuition and Fees, Net	\$ 47,200,956	\$ 46,955,074
Contracts and Grants	10,477,081	8,651,737
Sales and Services, Net	24,831,727	27,890,124
Other Operating Revenues	1,651,926	2,505,293
Total Operating Revenues	<u>84,161,690</u>	<u>86,002,228</u>
Operating Expenses		
Salaries and Benefits	124,549,750	121,807,465
Supplies and Materials	16,103,164	15,432,146
Services	34,202,346	32,739,548
Scholarships and Fellowships	13,764,667	13,148,983
Utilities	5,744,748	5,565,397
Depreciation	8,708,049	8,816,791
Operating Expenses	<u>203,072,724</u>	<u>197,510,330</u>
Operating Loss	<u>(118,911,034)</u>	<u>(111,508,102)</u>
Nonoperating Revenues and Expenses		
State Appropriations	84,046,914	83,728,634
Noncapital Grants	35,784,346	33,940,013
Noncapital Gifts	543,938	427,796
Investment Income, Net	4,750,080	4,312,143
Interest and Fees on Debt	(5,065,866)	(5,089,301)
Other Nonoperating Revenue	217,500	340,695
Income Before Other Revenues	<u>1,365,878</u>	<u>6,151,878</u>
Additions to Endowments		1,000,000
Capital Grants and Appropriations	3,001,520	1,656,470
Increase in Net Position	4,367,398	8,808,348
Net Position - Beginning of Year	30,517,994	230,464,510
Restatement - GASB 75 Implementation		(208,754,864)
Net Position - End of Year	<u>\$ 34,885,392</u>	<u>\$ 30,517,994</u>

Fiscal year 2018 total revenues are \$212,505,988 and total expenses are \$208,138,590.

Fiscal year 2017 total revenues are \$211,407,979 and total expenses are \$202,599,631.

The Statement of Revenues, Expenses, and Changes in Net Position reports the revenues earned and expenses incurred during the fiscal year. The increase or decrease of revenues over expenses directly affects (increases/decreases) the total net position reported on the Statement of Net Position. These transactions are classified as operating or nonoperating. Operating revenues primarily consist of student tuition and fees reported net of discounts and scholarship allowances, federal and state contracts and grants, and auxiliary sales and services revenues. Operating expenses consist of salaries, supplies, services, scholarships, utilities, and depreciation.

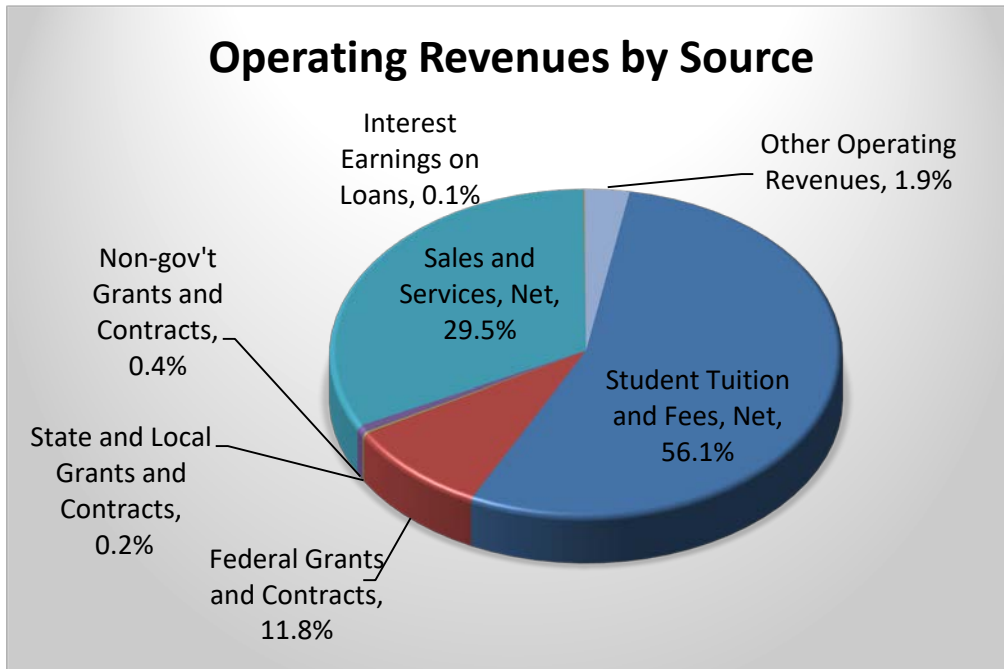
The University's operating revenues were \$84.2 million for fiscal year 2018 and \$86.0 million for fiscal year 2017, which equates to a decrease of \$1.8 million or 2.1%. Revenues from tuition and fees increased by \$0.2 million, which is attributable to maintaining enrollment. Sales and service revenue, which is primarily comprised of student housing and meal plan sales, decreased by \$3.1 million. The decrease is primarily attributable to reduced housing revenue of \$1 million and athletics revenue of \$1.6 million. In the prior year, athletics revenue increased from the University's football championship season. Grant revenue experienced an increase of \$1.8 million due to continued efforts in applying for exchange-type federal grant funding, and all other operating revenue decreased by \$0.9 million, to include other revenue items such as interest charges and late payment penalties.

Total operating expenses for fiscal year 2018 increased by \$5.6 million, or 2.8% over fiscal year 2017. Salaries and benefits expenses increased by \$2.7 million, attributable to a legislative pay increase effective July 1, 2017 as authorized by North Carolina General Assembly. Services expenses increased by \$1.5 million primarily representing renovations and student marketing.

Overall, the University sustained a total operating loss of \$118.9 million in fiscal year 2018, which is \$7.4 million higher than the fiscal year 2017 operating loss of \$111.5 million. Operating losses are projected to continue in the future, due to the accounting requirement to categorize state appropriations, a significant source of funding, as nonoperating revenues. The state appropriations for fiscal year 2018 were \$84.0 million.

Nonoperating revenues and expenses stem from transactions that occur outside of the primary scope of the University's purpose for existence and for which no goods or services are provided. State appropriations, noncapital grants and gifts, investment income and expenses, and debt related interest primarily represent the nonoperating revenues and expenses. At June 30, 2018, investment income was \$4.8 million, an increase of \$0.5 million from the prior fiscal year due to favorable market returns. Noncapital grants revenue increased by \$1.8 million due to continued efforts in applying for federal grant awards.

Capital grants and appropriations increased by \$1.3 million, representing appropriations for repairs and renovations across the campus. There were no additions to endowments during the current year as compared to \$1.0 million in the prior year.



Capital Assets and Debt Administration

As of June 30, 2018, there was \$2.0 million of construction in progress for design work on the new Student Union building and the new School of Business. During fiscal year 2018, there was \$1.1 million in land purchases related to the new Student Union and new School of Business, and \$2.6 million in equipment purchases. For additional information concerning capital assets, see Notes 1(H), 6 and 17(A) in the Notes to the Financial Statements.

As of June 30, 2018, the University had \$82.2 million in outstanding bonds, notes, and leases payable. This is comprised of \$55.9 million of 2016 Revenue Bonds issued to advance refund the 2009C UNC System Pool Revenue Bonds for the construction of Chidley North Residence Hall, Latham Parking Deck, and renovations to the Walker Athletic Complex, \$16.2 million of 2003A Revenue Bonds for the construction of Eagle's Landing Residence Hall, \$9.0 million in notes payable for energy and housing projects, and \$1.1 million in capital leases.

The University's Moody's Investor Service rating at June 30, 2018 was A3, with a stable outlook. The rating has the potential to affect the cost of capital for any future borrowing that the University undertakes.

For additional information concerning debt administration, see Note 8 in the Notes to the Financial Statements.

The University is in the process of entering a partnership with a private non-profit entity for the construction of three new residence halls that will provide 1,270 new beds in semi-suite and apartment style units. The private non-profit entity will be borrowing approximately \$120 million for the construction of the units. No details or specifics of this partnership have been finalized.

Economic Outlook

The University will stay the course for building upon the foundation that has produced stable enrollment and a freshman to sophomore retention rate that has remained greater than 78%. These positive trends are the result of strategic initiatives that include expanding partnerships with other academic institutions, building a robust online platform, offering innovative programs that increase opportunities to underserved populations, and increasing recruitment and marketing efforts to target high-caliber students.

The University has committed to raising funds for the Cheatham-White scholarships that will offer a fully funded four-year merit scholarship to cover all costs of attendance for up to 50 selected students. State appropriations will match the fundraising for the scholarships to the students who meet the merit requirements.

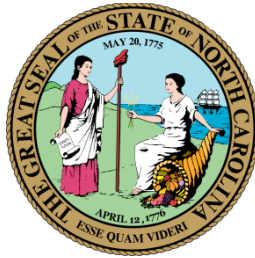
The continual growth of North Carolina especially in the Triangle area, the desirability of a college degree, the underserved community that are our customers, and our continued outreach through partnerships and innovative programs to not only traditional students but to non-traditional students as well is a basis for forecasting that there will be an increasing demand for our product.

The Eagle Promise has established the following strategic priorities: to embrace student success and offer multiple access points for students seeking higher education; to expand the University's portfolio of academic offerings and research initiatives and provide new opportunities for global immersion; to expand partnerships with higher education institutions,

community colleges, K-12, private industry and nonprofits to recruit, support, and employ students; to facilitate the development of innovative strategies with Durham County, the City of Durham, and the Research Triangle to create economic opportunity and revitalization in areas surrounding the University; to reinforce and invest in improved security measures to enhance campus safety and well-being; and to improve and build new infrastructure to better accommodate the University community as it grows and thrives.

The University remains at the forefront of research within the State of North Carolina. The Julius L. Chambers Biomedical/Biotechnology Research Institute (BBRI) and the Biomanufacturing Research Institute and Technology Enterprise (BRITE) provide a wealth of research opportunities for undergraduate and Ph.D. students. The University actively applies for grants in support of research and other academic programs, and receives grant funding from numerous sponsors.

The above trends all point toward a bright future ahead for the University. Under the veteran leadership of Chancellor Akinleye, North Carolina Central University is prepared to deliver on the Eagle Promise and to soar to new heights.



FINANCIAL STATEMENTS

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

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 37,680,350
Restricted Cash and Cash Equivalents	8,438,740
Restricted Short-Term Investments	1,446,343
Receivables, Net (Note 5)	8,194,792
Due from University Component Units	72,562
Inventories	730,754
Notes Receivable, Net (Note 5)	204,999

Total Current Assets	56,768,540
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	6,828,940
Endowment Investments	35,183,067
Restricted Investments	1,476,801
Notes Receivable, Net (Note 5)	2,864,443
Net Other Postemployment Benefits Asset	287,674
Capital Assets - Nondepreciable (Note 6)	12,246,420
Capital Assets - Depreciable, Net (Note 6)	248,978,899

Total Noncurrent Assets	307,866,244
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Total Assets	364,634,784
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DEFERRED OUTFLOWS OF RESOURCES

Accumulated Decrease in Fair Value of Hedging Derivatives	529,950
Deferred Loss on Refunding	2,748,541
Deferred Outflows Related to Pensions	15,072,017
Deferred Outflows Related to Other Postemployment Benefits (Note 15)	5,198,292

Total Deferred Outflows of Resources	23,548,800
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	5,845,382
Funds Held for Others	72,562
Unearned Revenue	910,567
Interest Payable	764,692
Long-Term Liabilities - Current Portion (Note 8)	4,968,941

Total Current Liabilities	12,562,144
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Noncurrent Liabilities:

Deposits Payable	400
Funds Held for Others	1,440,928
Unearned Revenue	5,743,480
U. S. Government Grants Refundable	1,771,837
Hedging Derivative Liability	529,950
Long-Term Liabilities, Net (Note 8)	260,890,685

Total Noncurrent Liabilities	270,377,280
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Total Liabilities	282,939,424
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North Carolina Central University
Statement of Net Position
June 30, 2018

Exhibit A-1
Page 2 of 2

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	1,291,192
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	69,067,576
	<hr/>
Total Deferred Inflows of Resources	70,358,768
	<hr/>

NET POSITION

Net Investment in Capital Assets	193,334,259
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,688,106
Endowed Professorships	10,943,855
Loans	1,680,409
Expendable:	
Scholarships and Fellowships	2,216,745
Research	21,834
Endowed Professorships	17,221,453
Departmental Uses	1,771,032
Capital Projects	7,545,786
Other	597,089
Unrestricted	(205,135,176)
	<hr/>
Total Net Position	\$ 34,885,392
	<hr/> <hr/>

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

North Carolina Central University
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2018

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 12)	\$ 47,200,956
Federal Grants and Contracts	9,949,035
State and Local Grants and Contracts	149,950
Nongovernmental Grants and Contracts	378,096
Sales and Services, Net (Note 12)	24,831,727
Interest Earnings on Loans	72,562
Other Operating Revenues	<u>1,579,364</u>
Total Operating Revenues	<u>84,161,690</u>

EXPENSES

Operating Expenses:

Salaries and Benefits	124,549,750
Supplies and Materials	16,103,164
Services	34,202,346
Scholarships and Fellowships	13,764,667
Utilities	5,744,748
Depreciation	<u>8,708,049</u>

Total Operating Expenses 203,072,724

Operating Loss (118,911,034)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	84,046,914
Noncapital Grants - Student Financial Aid	23,411,285
Noncapital Grants	12,373,061
Noncapital Gifts, Net	543,938
Investment Income (Net of Investment Expense of \$172,433)	4,750,080
Interest and Fees on Debt	(5,065,866)
Other Nonoperating Revenues	<u>217,500</u>

Net Nonoperating Revenues 120,276,912

Income Before Other Revenues 1,365,878

Capital Appropriations	2,754,600
Capital Grants	<u>246,920</u>

Increase in Net Position 4,367,398

NET POSITION

Net Position - July 1, 2017, as Restated (Note 20) 30,517,994

Net Position - June 30, 2018 \$ 34,885,392

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

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

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 85,186,048
Payments to Employees and Fringe Benefits	(123,862,211)
Payments to Vendors and Suppliers	(55,632,367)
Payments for Scholarships and Fellowships	(13,764,667)
Loans Issued	(401,291)
Collection of Loans	540,601
Interest Earned on Loans	70,928
Other Payments	(99,855)
	<hr/>
Net Cash Used by Operating Activities	(107,962,814)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	84,046,914
Noncapital Grants - Student Financial Aid	23,411,285
Noncapital Grants	13,247,167
Noncapital Gifts	543,938
William D. Ford Direct Lending Receipts	93,009,665
William D. Ford Direct Lending Disbursements	(93,009,665)
Related Activity Agency Receipts	369,535
	<hr/>
Net Cash Provided by Noncapital Financing Activities	121,618,839

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Appropriations	2,754,600
Capital Grants	248,152
Acquisition and Construction of Capital Assets	(5,154,587)
Principal Paid on Capital Debt and Leases	(1,963,070)
Interest and Fees Paid on Capital Debt and Leases	(3,174,742)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(7,289,647)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	9,298,710
Investment Income	30,348
Purchase of Investments and Related Fees	(9,600,353)
	<hr/>
Net Cash Used by Investing Activities	(271,295)

Net Increase in Cash and Cash Equivalents	6,095,083
Cash and Cash Equivalents - July 1, 2017	46,852,947
	<hr/>
Cash and Cash Equivalents - June 30, 2018	<u>\$ 52,948,030</u>

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

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (118,911,034)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	8,708,049
Allowances, Write-Offs, and Amortizations	651,784
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(717,624)
Inventories	60,149
Notes Receivable, Net	139,310
Net Other Postemployment Benefits Asset	787
Deferred Outflows Related to Pensions	7,351,442
Deferred Outflows Related to Other Postemployment Benefits	(178,792)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	970,474
Due to Federal Agencies	(24,461)
U.S. Refundable Grant	(99,855)
Unearned Revenue	1,318,305
Net Pension Liability	(5,034,430)
Net Other Postemployment Benefits Liability	(70,498,037)
Compensated Absences	110,726
Deferred Inflows Related to Pensions	(877,183)
Deferred Inflows Related to Other Postemployment Benefits	69,067,576
Net Cash Used by Operating Activities	<u>\$ (107,962,814)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 37,680,350
Restricted Cash and Cash Equivalents	8,438,740
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>6,828,940</u>
Total Cash and Cash Equivalents - June 30, 2018	<u>\$ 52,948,030</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 267,530
Change in Fair Value of Investments	3,759,783
Loss on Disposal of Capital Assets	(248,310)
Amortization of Bond Premiums/Discounts	(313,912)

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

North Carolina Central University Foundation, Inc.
Statement of Financial Position
June 30, 2018

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	4,567,236
Investments		15,538,051
Cash Surrender Value of Life Insurance		321,840
Assets Held in Charitable Trusts and Annuities		1,887,652
Security Deposits		170
Receivables, Net		718,533
Property and Equipment, Net		152,370
		<hr/>
Total Assets	\$	<u>23,185,852</u>

LIABILITIES

Accounts Payable and Accrued Expenses	\$	65,055
Due to University and Other Foundations		72,562
		<hr/>
Total Liabilities		<u>137,617</u>

NET ASSETS

Unrestricted		1,000,140
Temporarily Restricted		6,808,002
Permanently Restricted		15,240,093
		<hr/>
Total Net Assets		<u>23,048,235</u>
		<hr/>
Total Liabilities and Net Assets	\$	<u>23,185,852</u>

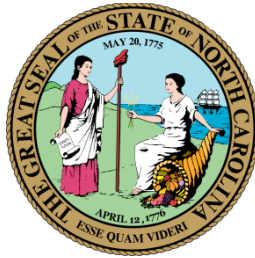
The accompanying notes to the financial statements are an integral part of this statement.

**North Carolina Central University Foundation, Inc.
Statement of Activities and Changes in Net Assets
For the Fiscal Year Ended June 30, 2018**

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 472,155	\$ 3,437,792	\$ 1,269,488	\$ 5,179,435
Interest and Dividends, Net	36,114	250,206	11,444	297,764
Realized and Unrealized Gain on Investments	54,439	917,569	28,923	1,000,931
Change in Value of Beneficial Interest in Perpetual Trust		52,743	10,369	63,112
Other Income	26,950	270,527		297,477
Net Assets Released from Restrictions	2,814,087	(2,814,087)		
Total Support and Revenue	<u>3,403,745</u>	<u>2,114,750</u>	<u>1,320,224</u>	<u>6,838,719</u>
EXPENSES				
Program Services:				
Scholarships and Grants	841,095			841,095
University Support	1,736,413			1,736,413
Management and General	587,071			587,071
Provision for Bad Debts		(20,590)	88,694	68,104
Total Expenses	<u>3,164,579</u>	<u>(20,590)</u>	<u>88,694</u>	<u>3,232,683</u>
Changes in Net Assets Before Net Asset Transfers	<u>239,166</u>	<u>2,135,340</u>	<u>1,231,530</u>	<u>3,606,036</u>
Transfers	<u>(77,823)</u>	<u>(8,243)</u>	<u>86,066</u>	
Changes in Net Assets	<u>161,343</u>	<u>2,127,097</u>	<u>1,317,596</u>	<u>3,606,036</u>
NET ASSETS				
Net Assets - Beginning of Year	<u>838,797</u>	<u>4,680,905</u>	<u>13,922,497</u>	<u>19,442,199</u>
Net Assets - End of Year	<u>\$ 1,000,140</u>	<u>\$ 6,808,002</u>	<u>\$ 15,240,093</u>	<u>\$ 23,048,235</u>

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. North Carolina Central 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 either blended or discretely presented in the University's financial statements. See below for further discussion of the University's component units. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Blended Component Unit - Although legally separate, the NCCU Real Estate Foundation, Inc. (Real Estate Foundation), a component unit of the University, is reported as if it were part of the University.

The Real Estate Foundation is governed by a five-member board whose purpose is to acquire property and to construct and own residential facilities for students. Because the elected directors of the Real Estate Foundation are appointed by the Chancellor, and the Real Estate Foundation's sole purpose is to benefit North Carolina Central University, its financial statements have been blended with those of the University.

Separate financial statements for the Real Estate Foundation may be obtained from the University Comptroller's Office, 1801 Fayetteville Street, Durham, North Carolina 27707, or by calling 919-530-7432.

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

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

The NCCU Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The NCCU Foundation board consists of 18 members. Although the University does not control the timing or amount of receipts from the NCCU Foundation, the majority of resources, or income thereon, that the NCCU Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the NCCU Foundation can only be used by, or for the benefit of the University, the NCCU Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2018, the NCCU Foundation distributed \$1,736,413 to the University for both restricted and unrestricted purposes. Complete financial statements for the NCCU Foundation can be obtained from the University Comptroller's Office, 1801 Fayetteville Street, Durham, North Carolina 27707, or by calling 919-530-7432.

- 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.

Money market mutual funds are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.
- 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:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	50-75 years
Machinery and Equipment	5-25 years
General Infrastructure	10-75 years

The art collection is capitalized at cost or acquisition value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

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

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

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

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

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 15 for further

information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

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

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

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

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 11 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 from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to

satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$52,895,375, 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 \$2,400. The carrying amount of the University's deposits not with the State Treasurer was \$50,255 and the bank balance was \$190,624. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2018, the University's bank balance was not exposed to custodial credit risk.

B. Investments

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

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

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

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

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

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

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

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

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

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.

UNC Investment Fund, LLC - At June 30, 2018, the University's investments include \$29,443,593, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

Investment Type	Investment Maturities (in Years)	
	Amount	Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 1,578,834	\$ 1,578,834
Other Securities		
Domestic Stocks	7,083,784	
Total Non-Pooled Investments	\$ 8,662,618	

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

	Amount	Aaa
Money Market Mutual Funds	\$ 1,578,834	\$ 1,578,834
Rating Agency: Moody's		

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

Investment Type	Amount
Debt Securities	
Money Market Mutual Funds	\$ 1,578,834
Other Securities	
UNC Investment Fund	29,443,593
Domestic Stocks	7,083,784
Total Investments	\$ 38,106,211

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

Investment Type	Amount
Money Market Funds	\$ 697,004
Mutual Funds	3,528,918
Equity Securities	7,007,615
Debt Securities	2,004,524
U. S. Government Obligations	1,095,866
Commodities	1,204,124
Total Investments	\$ 15,538,051

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	\$ 2,400
Amount of Deposits with Private Financial Institutions	50,255
Deposits in the Short-Term Investment Fund	52,895,375
Investment in the UNC Investment Fund	29,443,593
Non-Pooled Investments	<u>8,662,618</u>
Total Deposits and Investments	<u>\$ 91,054,241</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 37,680,350
Restricted Cash and Cash Equivalents	8,438,740
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>6,828,940</u>
Total Deposits	<u>52,948,030</u>
Investments	
Current:	
Restricted Short-Term Investments	1,446,343
Noncurrent:	
Endowment Investments	35,183,067
Restricted Investments	<u>1,476,801</u>
Total Investments	<u>38,106,211</u>
Total Deposits and Investments	<u>\$ 91,054,241</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

University - To the extent available, the University's investments and derivatives 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 or liabilities 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 or liability, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs for an asset or liability 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				
Domestic Stocks	\$ 7,083,784	\$ 7,083,784	\$ 0	\$ 0
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	52,895,375			
UNC Investment Fund	29,443,593			
Total Investments as a Position in an External Investment Pool	<u>82,338,968</u>			
Total Investments Measured at Fair Value	<u>\$ 89,422,752</u>			
Derivative Instruments				
Hedging Derivative Instruments				
Interest Rate Swaps	\$ (529,950)	\$ 0	\$ (529,950)	\$ 0

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.

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

Derivative Instruments - Derivative Instruments classified as Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates. This method calculates the present value of the future net settlement payments required by the yield curve to correctly anticipate future spot interest rates.

Component Unit - The following table summarizes the NCCU Foundation's investments within the fair value hierarchy at June 30, 2018:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Money Market Funds	\$ 697,004	\$ 697,004	\$ 0	\$ 0
Mutual Funds	3,528,918	3,528,918		
Equity Securities	7,007,615	7,007,615		
Debt Securities	2,004,524		2,004,524	
U. S. Government Obligations	1,095,866		1,095,866	
Commodities	1,204,124	1,204,124		
Total Investments by Fair Value Level	\$ 15,538,051	\$ 12,437,661	\$ 3,100,390	\$ 0

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are determined by 5.5% of the 12-quarter moving average of the fund's market value. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation to make up the difference. Expenditures in excess of the payout are authorized by the University's Board of Trustees of the Endowment Fund. At June 30, 2018, net appreciation of \$19,564,996 was available to be spent, of which \$18,490,547 was classified in net position as Restricted Expendable: Scholarships and Fellowships and Restricted Expendable Endowed Professorships, as it is restricted for specific purposes. The remaining portion

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 8,800,961	\$ 5,396,841	\$ 3,404,120
Accounts	1,039,609		1,039,609
Intergovernmental	3,417,084		3,417,084
Interest on Loans	187,252		187,252
Other	146,727		146,727
Total Current Receivables	\$ 13,591,633	\$ 5,396,841	\$ 8,194,792
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 475,506	\$ 270,507	\$ 204,999
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 6,759,375	\$ 3,894,932	\$ 2,864,443

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	\$ 8,334,991	\$ 1,075,000	\$ 0	\$ 9,409,991
Art, Literature, and Artifacts	864,840			864,840
Construction in Progress	487,553	1,484,036		1,971,589
Total Capital Assets, Nondepreciable	9,687,384	2,559,036		12,246,420
Capital Assets, Depreciable:				
Buildings	333,660,310			333,660,310
Machinery and Equipment	43,168,958	2,587,205	541,285	45,214,878
General Infrastructure	21,769,608			21,769,608
Total Capital Assets, Depreciable	398,598,876	2,587,205	541,285	400,644,796
Less Accumulated Depreciation for:				
Buildings	104,397,589	5,367,463		109,765,052
Machinery and Equipment	23,964,829	2,417,859	292,975	26,089,713
General Infrastructure	14,888,405	922,727		15,811,132
Total Accumulated Depreciation	143,250,823	8,708,049	292,975	151,665,897
Total Capital Assets, Depreciable, Net	255,348,053	(6,120,844)	248,310	248,978,899
Capital Assets, Net	\$ 265,035,437	\$ (3,561,808)	\$ 248,310	\$ 261,225,319

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014. The carrying value of the energy savings improvement assets associated with the agreement is \$1,709,340 and is subject to security provisions in the agreement to ensure timely debt service payments. Additional information

regarding the UNC System Energy Savings Installment Financing Agreement 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:

	<u>Amount</u>
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 3,096,081
Accounts Payable - Capital Assets	771,557
Accrued Payroll	1,635,544
Intergovernmental Payables	334,107
Other	<u>8,093</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 5,845,382</u>

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	\$ 72,685,000	\$ 0	\$ 565,000	\$ 72,120,000	\$ 2,385,000
Plus: Unamortized Premium	5,598,255		320,784	5,277,471	
Less: Unamortized Discount	<u>(118,542)</u>		<u>(6,872)</u>	<u>(111,670)</u>	
Total Revenue Bonds Payable, Net	78,164,713		878,912	77,285,801	2,385,000
Notes Payable	10,154,513		1,198,187	8,956,326	1,247,164
Capital Leases Payable	<u>1,013,893</u>	<u>275,876</u>	<u>199,883</u>	<u>1,089,886</u>	<u>236,838</u>
Total Long-Term Debt	<u>89,333,119</u>	<u>275,876</u>	<u>2,276,982</u>	<u>87,332,013</u>	<u>3,869,002</u>
Other Long-Term Liabilities					
Compensated Absences	6,667,378	4,764,035	4,653,309	6,778,104	1,099,939
Net Pension Liability	33,219,151		5,034,430	28,184,721	
Net Other Postemployment Benefits Liability	<u>214,062,825</u>		<u>70,498,037</u>	<u>143,564,788</u>	
Total Other Long-Term Liabilities	<u>253,949,354</u>	<u>4,764,035</u>	<u>80,185,776</u>	<u>178,527,613</u>	<u>1,099,939</u>
Total Long-Term Liabilities, Net	<u>\$ 343,282,473</u>	<u>\$ 5,039,911</u>	<u>\$ 82,462,758</u>	<u>\$ 265,859,626</u>	<u>\$ 4,968,941</u>

Additional information regarding capital lease obligations is included in Note 10.

Additional information regarding the net pension liability is included in Note 14.

Additional information regarding the net other postemployment benefits liability is included in Note 15.

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

Purpose	Series	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018	See Table Below
Revenue Bonds Payable							
The University of North Carolina System Pool Revenue Bonds							
Refunded Bonds, Deferred Maintenance, and Infrastructure Improvements	2016	3.0% to 5.0%	10/01/2034	\$ 55,940,000	\$ 0	\$ 55,940,000	
NCCU Real Estate Foundation, Inc.							
Real Estate Foundation Housing System	2003A	3.57%*	10/01/2034	21,475,000	5,295,000	16,180,000	(1)
Total Revenue Bonds Payable (principal only)				\$ 77,415,000	\$ 5,295,000	72,120,000	
Plus: Unamortized Premium						5,277,471	
Less: Unamortized Discount						(111,670)	
Total Revenue Bonds Payable, Net						\$ 77,285,801	

* For variable rate debt, interest rates in effect at June 30, 2018 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Housing Revenues	\$ 20,565,869	\$ 929,032	\$ 565,000	\$ 182,236	40.23%

C. Demand Bonds - Included in bonds payable is a variable rate demand bond issue. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the University’s remarketing or paying agents.

With regards to the following demand bonds, the University has not entered into legal agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

Student Housing Facilities Revenue Bonds (Series 2003): In October of 2003, the North Carolina Capital Facilities Finance Agency issued revenue bonds consisting of Series 2003A for \$21,475,000 that have a final maturity date of October 1, 2034. The series was issued to provide funds to the NCCU Real Estate Foundation, Inc. (Real Estate Foundation) for the purpose of financing the acquisition and construction of certain student housing facilities at North Carolina Central University. The bond proceeds were used to fund a portion of construction period interest, to fund a debt service reserve fund for the 2003A bonds, and to pay certain costs of issuance of the bonds. The University entered into a loan agreement with the Real Estate Foundation dated October 1, 2003, whereby the bond proceeds were loaned to the Real Estate Foundation. Under the terms of the loan agreement, the Real Estate Foundation agrees to provide funds for the principal and interest payments due on the bonds. The loan will be repaid over a 30-year period with variable interest rates set on a weekly basis, which was 1.51% for Series 2003A bonds at June 30, 2018. The interest rate can be converted from time to time to another interest rate made at the option of the Real Estate Foundation

given certain established criteria. The 2003A bonds are subject to mandatory sinking fund redemption at the principal amount on the interest payment dates.

The payment of principal and interest on the Series 2003A bonds is secured by an irrevocable, direct-pay letter of credit issued by a financial institution, which originally expired on October 15, 2006. The letter of credit was subsequently extended until September 30, 2019 as agreed to by the Real Estate Foundation and Wells Fargo Bank, N.A. as part of an amendment to the existing agreement. The Real Estate Foundation is entitled to draw up to \$16,363,373. A commitment fee was paid to the financial institution in the amount of \$109,098 for the letter of credit on the date the bonds were issued. The Real Estate Foundation is required to pay a quarterly fee for the letter of credit of 1.2% per annum based on the unused portion of the letter of credit commitment. The Real Estate Foundation paid credit facility fees in the amount of \$201,325 during the year ended June 30, 2018. The total amount drawn and paid on the letter of credit for the year ended June 30, 2018 was \$747,236.

Under the letter of credit agreement, the proceeds of each drawing under the letter of credit to pay the portion of the purchase price of Series 2003A bonds allocable to principal will constitute a tender advance and must be reimbursed as provided in the agreement. The Real Estate Foundation is required to repay each tender advance to Wells Fargo Bank, N.A. plus an interest rate of prime plus 1.0%. According to the Reimbursement Agreement Amendment dated May 2008, the amount of any tender advance made is repaid based on the earliest to occur of the date the credit provider bonds purchased pursuant to such tender advances are remarketed, the close of business on the date that is 366 days after the tender was made, and/or the termination date.

The Series 2003A bonds have remarketing fees, an upfront charge paid to the remarketing agent to reset the interest rates on a weekly basis. At June 30, 2018, the remarketing fee rate for the bonds was 0.125%. During the year ended June 30, 2018, the Real Estate Foundation paid remarketing fees of \$20,196.

Swap Payments and Associated Debt: As rates vary, variable-rate debt and net swap payments will vary. As of June 30, 2018, debt service requirements of the University's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their terms were as follows:

Fiscal Year	Interest Rate Swap					
	Variable-Rate Bond			Remarketing	Interest Rate Swaps, Net	Total
	Principal	Interest	Letter of Credit			
2019	\$ 595,000	\$ 238,087	\$ 189,208	\$ 19,709	\$ 130,523	\$ 1,172,527
2020	630,000	229,308	182,232	18,982	124,370	1,184,892
2021	665,000	218,760	173,849	18,109	119,362	1,195,080
2022	700,000	208,301	165,537	17,243	113,701	1,204,782
2023	740,000	197,257	156,760	16,329	107,758	1,218,104
2024-2028	4,365,000	798,718	634,743	66,119	134,891	5,999,471
2029-2033	5,720,000	413,575	328,669	34,236		6,496,480
2034-2035	2,765,000	32,031	25,455	2,652		2,825,138
Total Requirements	\$ 16,180,000	\$ 2,336,037	\$ 1,856,453	\$ 193,379	\$ 730,605	\$ 21,296,474

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

Fiscal Year	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2019	\$ 2,385,000	\$ 2,443,237	\$ 130,523	\$ 1,247,164	\$ 305,379
2020	3,060,000	2,359,008	124,370	1,293,468	269,191
2021	3,190,000	2,249,360	119,362	1,339,147	231,401
2022	3,345,000	2,122,276	113,701	1,391,245	191,994
2023	3,520,000	1,975,607	107,758	1,363,602	150,810
2024-2028	20,525,000	7,403,968	134,891	2,321,700	286,681
2029-2033	24,820,000	3,233,800			
2034-2035	11,275,000	289,281			
Total Requirements	\$ 72,120,000	\$ 22,076,537	\$ 730,605	\$ 8,956,326	\$ 1,435,456

The effective interest rate on the variable rate Student Housing Facilities Revenue Bonds (including the effect of the swap) is calculated at 3.57% at June 30, 2018. Interest rates are reset each week by the remarketing agent based upon a combination of the University's credit rating and market conditions.

This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 9 Derivative Instruments.

E. Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2018, the outstanding balance of prior year defeased bonds was \$51,955,000.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Energy Performance Contract	Fifth Third Bank	4.81%	12/09/2026	\$ 6,532,959	\$ 1,948,921	\$ 4,584,038
2014 Refund Note 2004B Bonds	PNC Bank National Association	2.06%	04/01/2023	4,987,000	2,089,000	2,898,000
UNC ESCO Energy Project	Bank of America Public Capital Corp.	1.84%	02/14/2023	2,082,589	608,301	1,474,288
Total Notes Payable				<u>\$ 13,602,548</u>	<u>\$ 4,646,222</u>	<u>\$ 8,956,326</u>

NOTE 9 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2018 are as follows:

Type	Notional	Change in Value		Value at June 30, 2018	
		Classification	Increase	Classification	Liability
<i>Hedging Derivative Instruments</i>					
<i>Cash Flow Hedges</i>					
<i>Pay-Fixed Interest Rate</i>					
Swap 2003A Bonds	\$ 6,472,000	Deferred Outflow of Resources	<u>\$ 316,276</u>	Hedging Derivative	<u>\$ (529,950)</u>

Hedging derivative instruments held at June 30, 2018 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
<i>Hedging Derivative Instruments</i>					
<i>Cash Flow Hedges</i>					
<i>Pay-Fixed Interest Rate</i>					
Swap 2003A Bonds	Hedge of Changes in Cash Flows on the Student Facilities Revenue Series 2003A Bonds	\$ 6,472,000	4/1/2004	10/1/2024	Pay 3.515% Receive 70% 1 Mo. LIBOR

The fair value of the pay-fixed interest rate swap was developed by the financial institution. This method calculates the present value of the future net settlements payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. The fair value is the present value of these payments.

The University's interest rate swap hedging derivative has been determined to be effective as of June 30, 2018 using the regression analysis method.

Hedging Derivative Risks

Credit Risk: At June 30, 2018, the Real Estate Foundation was not exposed to credit risk because the swap had a negative fair value. When the fair value of the swap is negative, the Real Estate Foundation owes the counterparty and, therefore, it does not possess credit risk. However, should interest rates change and the fair value of the swap becomes positive, the Real Estate Foundation would be exposed to credit risk. Wells Fargo's current long-term ratings are Aa2 by Moody's Investor's Service and A+ by Standard & Poor's Corporation (S&P).

Interest Rate Risk: The Real Estate Foundation is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. Because bonds are trading at a yield above 70% of USD-LIBOR-BBA Index, the swap has a negative value as of June 30, 2018.

Basis Risk: The swap exposes the Real Estate Foundation to basis risk when the variable payment received is based on an index other than SIFMA. Should the relationship between LIBOR and SIFMA converge, the synthetic rates on the debt would change. The Real Estate Foundation received 70% of 1-month USD-LIBOR-BBA Index. If the relationship of the Real Estate Foundation's bonds trade to a percentage of LIBOR greater than 70%, the Real Estate Foundation will experience an increase in debt service above the fixed rate on the swap. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.52% and the actual rate of 3.57% at June 30, 2018. As of June 30, 2018, the rate on the Real Estate Foundation's bonds was 1.51% whereas 70% of LIBOR was 1.463%.

Termination Risk: The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the Real Estate Foundation being required to make an unanticipated termination payment.

Rollover Risk: The University is exposed to rollover risk when the swap matures on October 1, 2024. When the swap matures, the interest rate on the underlying debt will return to a variable rate until it matures on October 1, 2034.

NOTE 10 - LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 273,589
2020	725,119
2021	60,809
2022	60,809
2023	<u>35,471</u>
Total Minimum Lease Payments	1,155,797
Amount Representing Interest (2.98 to 7.9% Rate of Interest)	<u>65,911</u>
Present Value of Future Lease Payments	<u>\$ 1,089,886</u>

Building improvements of \$246,541 were made under capital lease at June 30, 2018. General Infrastructure acquired under capital lease amounted to \$566,900 and machinery and equipment acquired under capital lease amounted to \$1,690,124 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 \$569,049 at June 30, 2018.

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

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 143,964
2020	143,964
2021	<u>59,985</u>
Total Minimum Lease Payments	<u>\$ 347,913</u>

Rental expense for all operating leases during the year was \$492,651.

NOTE 11 - NET POSITION

The deficit in unrestricted net position of \$205,135,176 has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources. A summary of the balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	<u>TSERS</u>	<u>Retiree Health Benefit Fund</u>	<u>Total</u>
Deferred Outflows Related to Pensions	\$ 15,072,017	\$ 0	\$ 15,072,017
Deferred Outflows Related to OPEB		4,931,739	4,931,739
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	28,184,721		28,184,721
Net OPEB Liability		143,564,788	143,564,788
Deferred Inflows Related to Pensions	1,291,192		1,291,192
Deferred Inflows Related to OPEB		<u>69,067,576</u>	<u>69,067,576</u>
Net Effect on Unrestricted Net Position	<u>\$ (14,403,896)</u>	<u>\$ (207,700,625)</u>	<u>\$ (222,104,521)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees, Net	\$ 64,536,378	\$ 0	\$ 16,912,354	\$ 423,068	\$ 47,200,956
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 14,789,656	\$ 0	\$ 3,420,944	\$ 0	\$ 11,368,712
Dining	10,371,030	9,860	2,752,441		7,608,729
Student Union Services	1,403,068		371,202		1,031,866
Health, Physical Education, and Recreation Services	828,630	2,694	219,226		606,710
Bookstore	210,292				210,292
Parking	1,451,062	29,120			1,421,942
Athletic	1,997,046	783,159	393,952		819,935
Other	3,306,382	1,678,723			1,627,659
Sales and Services of Education and Related Activities	175,290	39,408			135,882
Total Sales and Services, Net	\$ 34,532,456	\$ 2,542,964	\$ 7,157,765	\$ 0	\$ 24,831,727

NOTE 13 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 62,445,688	\$ 3,519,534	\$ 6,011,848	\$ 0	\$ 233	\$ 0	\$ 71,977,303
Research	5,826,008	1,805,187	2,220,785				9,851,980
Public Service	827,747	22,459	126,033				976,239
Academic Support	13,956,003	4,288,635	3,948,186				22,192,824
Student Services	3,992,250	387,512	1,582,644				5,962,406
Institutional Support	14,150,131	429,807	4,360,282				18,940,220
Operations and Maintenance of Plant	8,257,507	2,129,549	2,007,410		5,251,238		17,645,704
Student Financial Aid	1,487,283	2,283	114,424	13,764,667			15,368,657
Auxiliary Enterprises	13,607,133	3,518,198	13,830,734		493,277		31,449,342
Depreciation						8,708,049	8,708,049
Total Operating Expenses	\$ 124,549,750	\$ 16,103,164	\$ 34,202,346	\$ 13,764,667	\$ 5,744,748	\$ 8,708,049	\$ 203,072,724

NOTE 14 - PENSION PLANS

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs)

and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2018 was 10.78% of covered payroll. Employee contributions to the pension plan were \$3,293,220, and the University's contributions were \$5,916,819 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 \$28,184,721 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 0.355%, which was a decrease of 0.006 from its proportion measured as of June 30, 2016, which was 0.361%.

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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
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	1% Increase (8.20%)
\$ 58,015,823	\$ 28,184,721	\$ 3,190,060

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the University recognized pension expense of \$7,507,606. 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	\$ 610,993	\$ 922,069
Changes of Assumptions	4,452,761	
Net Difference Between Projected and Actual Earnings on Plan Investments	3,814,349	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	277,095	369,123
Contributions Subsequent to the Measurement Date	5,916,819	
Total	\$ 15,072,017	\$ 1,291,192

The amount of \$5,916,819 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended

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

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

<u>Year Ended June 30:</u>	<u>Amount</u>
2019	\$ 1,453,035
2020	5,305,561
2021	2,631,953
2022	<u>(1,526,543)</u>
Total	<u>\$ 7,864,006</u>

B. Defined Contribution Plan - The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and staff of the University may join ORP instead of TSERS. The Board of Governors of the University of North Carolina is responsible for the administration of ORP and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under ORP and approves the form and contents of the contracts and trust agreements.

Participants in ORP are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in ORP. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Member and employer contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2018, these rates were set at 6% of covered payroll for members and 6.84% of covered payroll for employers. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$96,009,026, of which \$26,629,347 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$1,597,761 and \$1,821,447, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions.

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information

about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

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

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

B. Plan Descriptions

1. Health Benefits

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

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former

employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

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

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 16. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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

The Plan's and RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina

General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The University's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The University's contributions to the RHBF were \$4,931,739 for the year ended June 30, 2018.

2. Disability Income

Plan Administration: As discussed in Note 16, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

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

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

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The University's contributions to DIPNC were \$114,123 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 \$143,564,788 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 0.438%, which was a decrease of 0.054 from its proportion measured as of June 30, 2016, which was 0.492%.

Net OPEB Asset: At June 30, 2018, the University reported an asset of \$287,674 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 0.471%, which was an increase of 0.006 from its proportion measured as of June 30, 2016, which was 0.465%.

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	\$	171,266,078	\$ 143,564,788	\$ 121,596,036
		1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$	(244,565)	\$ (287,674)	\$ (330,881)

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	\$ 117,280,260	\$ 143,564,788	\$ 178,503,275
DIPNC Net OPEB Asset	N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the University recognized OPEB expense of \$3,281,055 for RHBF and \$156,341 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	\$ 78,875	\$ 78,875
Changes of Assumptions			0
Net Difference Between Projected and Actual Earnings on Plan Investments		63,056	63,056
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		10,499	10,499
Contributions Subsequent to the Measurement Date	4,931,739	114,123	5,045,862
Total	\$ 4,931,739	\$ 266,553	\$ 5,198,292

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 10,293,859	\$ 0	\$ 10,293,859
Changes of Assumptions	39,537,087		39,537,087
Net Difference Between Projected and Actual Earnings on Plan Investments	53,355		53,355
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>19,183,275</u>		<u>19,183,275</u>
Total	<u>\$ 69,067,576</u>	<u>\$ 0</u>	<u>\$ 69,067,576</u>

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

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

<u>Year Ended June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2019	\$ (13,816,183)	\$ 45,564
2020	(13,816,183)	45,564
2021	(13,816,183)	45,549
2022	(13,816,183)	15,753
2023	<u>(13,802,844)</u>	
Total	<u>\$ (69,067,576)</u>	<u>\$ 152,430</u>

NOTE 16 - RISK MANAGEMENT

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

A. Employee Benefit Plans**1. State Health Plan**

University employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 15, Other Postemployment Benefits, for additional information regarding retiree health benefits.

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 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 15, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities**1. Automobile, Fire, and Other Property Losses**

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The University maintains Broad Form Coverage on all University buildings, including those not supported by the General Fund. Broad Form covers loss from fire and lightning as well as, falling objects, weight of snow, ice or sleet, water damage, collapse, and glass breakage. All buildings have a \$5,000 deductible.

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These types of insurance include master musical insurance to cover musical instruments owned by the University; fine art insurance to protect items considered works of art; boiler and machinery insurance to cover heavy equipment; and postal bond insurances to cover possible losses of United States Postal Service property.

The University also carries professional internship insurance on students working in health fields. Departments that secure this coverage include Nursing, Psychology, Communication Disorders, Physical Education and Recreation, Athletic Training, and Social Work. Medical liability insurance is carried on employees of the University who are accredited medical professionals and who practice in a clinical setting on campus.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$4,218,946 at June 30, 2018.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 18 - BLENDED COMPONENT UNIT

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

*Condensed Statement of Net Position
June 30, 2018*

	University	NCCU Real Estate Foundation, Inc.	Eliminations	Total
ASSETS				
Current Assets	\$ 54,225,901	\$ 8,002,067	\$ (5,459,428)	\$ 56,768,540
Capital Assets, Net	247,799,660	13,425,659		261,225,319
Other Noncurrent Assets	46,640,925			46,640,925
Total Assets	<u>348,666,486</u>	<u>21,427,726</u>	<u>(5,459,428)</u>	<u>364,634,784</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>23,018,850</u>	<u>529,950</u>		<u>23,548,800</u>
LIABILITIES				
Current Liabilities	11,695,608	866,536		12,562,144
Long-Term Liabilities, Net	245,417,355	15,473,330		260,890,685
Other Noncurrent Liabilities	9,486,595	5,459,428	(5,459,428)	9,486,595
Total Liabilities	<u>266,599,558</u>	<u>21,799,294</u>	<u>(5,459,428)</u>	<u>282,939,424</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>69,828,818</u>	<u>529,950</u>		<u>70,358,768</u>
NET POSITION				
Net Investment in Capital Assets	194,449,874	(1,115,615)		193,334,259
Restricted - Nonexpendable	17,312,370			17,312,370
Restricted - Expendable	29,373,939			29,373,939
Unrestricted	(205,879,223)	744,047		(205,135,176)
Total Net Position	<u>\$ 35,256,960</u>	<u>\$ (371,568)</u>	<u>\$ 0</u>	<u>\$ 34,885,392</u>

NOTES TO THE FINANCIAL STATEMENTS

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

	University	NCCU Real Estate Foundation, Inc.	Eliminations	Total
OPERATING REVENUES				
Operating Revenues	\$ 84,161,690	\$ 2,138,405	\$ (2,138,405)	\$ 84,161,690
OPERATING EXPENSES				
Operating Expenses	195,504,610	998,470	(2,138,405)	194,364,675
Depreciation	8,354,288	353,761		8,708,049
Total Operating Expenses	203,858,898	1,352,231	(2,138,405)	203,072,724
Operating Income (Loss)	(119,697,208)	786,174		(118,911,034)
NONOPERATING REVENUES (EXPENSES)				
State Appropriations	84,046,914			84,046,914
Noncapital Gifts and Grants	36,328,284			36,328,284
Investment Income, Net	4,737,503	12,577		4,750,080
Other Nonoperating Revenues	217,500			217,500
Other Nonoperating Expenses	(4,489,963)	(575,903)		(5,065,866)
Net Nonoperating Revenues (Expenses)	120,840,238	(563,326)		120,276,912
Capital Appropriations	2,754,600			2,754,600
Capital Grants	246,920			246,920
Increase in Net Position	4,144,550	222,848		4,367,398
NET POSITION				
Net Position, July 1, 2017, as Restated	31,112,410	(594,416)		30,517,994
Net Position, June 30, 2018	<u>\$ 35,256,960</u>	<u>\$ (371,568)</u>	<u>\$ 0</u>	<u>\$ 34,885,392</u>

*Condensed Statement of Cash Flows
June 30, 2018*

	University	NCCU Real Estate Foundation, Inc.	Total
Net Cash Provided (Used) by Operating Activities	\$ (110,251,315)	\$ 2,288,501	\$ (107,962,814)
Net Cash Provided by Noncapital Financing Activities	121,592,275	26,564	121,618,839
Net Cash Used by Capital and Related Financing Activities	(6,133,221)	(1,156,426)	(7,289,647)
Net Cash Used by Investing Activities	(285,079)	13,784	(271,295)
Net Increase in Cash and Cash Equivalents	4,922,660	1,172,423	6,095,083
Cash and Cash Equivalents, July 1, 2017	40,080,181	6,772,766	46,852,947
Cash and Cash Equivalents, June 30, 2018	<u>\$ 45,002,841</u>	<u>\$ 7,945,189</u>	<u>\$ 52,948,030</u>

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

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

GASB Statement No. 85, Omnibus 2017

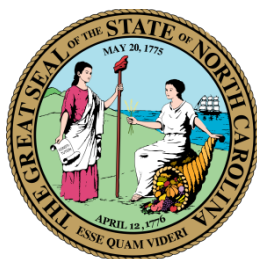
GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

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

NOTE 20 - NET POSITION RESTATEMENT

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

	<u>Amount</u>
July 1, 2017 Net Position as Previously Reported	\$ 239,272,858
Restatement:	
Record the University's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	<u>(208,754,864)</u>
July 1, 2017 Net Position as Restated	<u>\$ 30,517,994</u>



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.355%	0.361%	0.363%	0.391%	0.394%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 28,184,721	\$ 33,219,151	\$ 13,381,322	\$ 4,589,911	\$ 23,919,815
Covered Payroll	\$ 53,664,238	\$ 52,900,534	\$ 48,803,246	\$ 54,290,369	\$ 55,276,382
Net Pension Liability as a Percentage of Covered Payroll	52.52%	62.80%	27.42%	8.45%	43.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	94.64%	98.24%	90.60%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as amended.

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

Exhibit C-2

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 5,916,819	\$ 5,355,691	\$ 4,840,399	\$ 4,465,497	\$ 4,717,833
Contributions in Relation to the Contractually Determined Contribution	<u>5,916,819</u>	<u>5,355,691</u>	<u>4,840,399</u>	<u>4,465,497</u>	<u>4,717,833</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 54,887,002	\$ 53,664,238	\$ 52,900,534	\$ 48,803,246	\$ 54,290,369
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 4,604,523	\$ 4,155,823	\$ 2,762,230	\$ 2,335,363	\$ 2,075,446
Contributions in Relation to the Contractually Determined Contribution	<u>4,604,523</u>	<u>4,155,823</u>	<u>2,762,230</u>	<u>2,335,363</u>	<u>2,075,446</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 55,276,382	\$ 55,857,838	\$ 56,029,005	\$ 65,416,340	\$ 61,769,224
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.

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

Changes of Benefit Terms:

										<u>Cost of Living Increase</u>
<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	
N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	

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

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

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

**North Carolina Central University
 Required Supplementary Information
 Schedule of the Proportionate Net OPEB Liability or Asset
 Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
 Last Two Fiscal Years**

Exhibit C-3

	<u>2017</u>	<u>2016</u>
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	0.438%	0.492%
Proportionate Share of Collective Net OPEB Liability	\$ 143,564,788	\$ 214,062,825
Covered Payroll	\$ 79,897,368	\$ 78,205,625
Net OPEB Liability as a Percentage of Covered Payroll	179.69%	273.72%
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	0.471%	0.465%
Proportionate Share of Collective Net OPEB Asset	\$ 287,674	\$ 288,461
Covered Payroll	\$ 79,897,368	\$ 78,205,625
Net OPEB Asset as a Percentage of Covered Payroll	0.36%	0.37%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	116.23%	116.06%

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

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

Exhibit C-4

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Retiree Health Benefit Fund					
Contractually Required Contribution	\$ 4,931,739	\$ 4,642,037	\$ 4,379,515	\$ 4,034,776	\$ 4,212,332
Contributions in Relation to the Contractually Determined Contribution	<u>4,931,739</u>	<u>4,642,037</u>	<u>4,379,515</u>	<u>4,034,776</u>	<u>4,212,332</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 81,516,349	\$ 79,897,368	\$ 78,205,625	\$ 73,493,188	\$ 78,006,148
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 4,163,223	\$ 3,971,843	\$ 3,807,785	\$ 3,878,540	\$ 3,359,940
Contributions in Relation to the Contractually Determined Contribution	<u>4,163,223</u>	<u>3,971,843</u>	<u>3,807,785</u>	<u>3,878,540</u>	<u>3,359,940</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 78,551,364	\$ 79,436,923	\$ 77,710,000	\$ 86,189,808	\$ 81,949,808
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Disability Income Plan of North Carolina					
Contractually Required Contribution	\$ 114,123	\$ 303,610	\$ 320,643	\$ 301,322	\$ 342,227
Contributions in Relation to the Contractually Determined Contribution	<u>114,123</u>	<u>303,610</u>	<u>320,643</u>	<u>301,322</u>	<u>342,227</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 81,516,349	\$ 79,897,368	\$ 78,205,625	\$ 73,493,188	\$ 78,006,148
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 345,626	\$ 413,072	\$ 404,092	\$ 448,187	\$ 426,139
Contributions in Relation to the Contractually Determined Contribution	<u>345,626</u>	<u>413,072</u>	<u>404,092</u>	<u>448,187</u>	<u>426,139</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 78,551,364	\$ 79,436,923	\$ 77,710,000	\$ 86,189,808	\$ 81,949,808
Contributions as a Percentage of Covered Payroll	0.44%	0.52%	0.52%	0.52%	0.52%

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

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

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

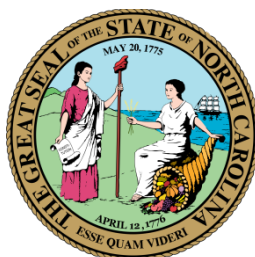
Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the Retiree Health Benefit Fund. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina. See Note 15 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

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

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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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
North Carolina Central University
Durham, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Carolina Central University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 13, 2018. Our report includes a reference to other auditors who audited the financial statements of the NCCU Real Estate Foundation, Inc. and the NCCU Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the NCCU Real Estate Foundation, Inc. and the NCCU Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 13, 2018

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For additional information contact:
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919-807-7513



This audit required 740 hours at an approximate cost of \$76,220.