

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



NORTH CAROLINA STATE UNIVERSITY

RALEIGH, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2019

A CONSTITUENT INSTITUTION OF THE UNIVERSITY OF NORTH CAROLINA
SYSTEM AND A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



NCOSA
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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 State University

We have completed a financial statement audit of North Carolina State University for the year ended June 30, 2019, 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

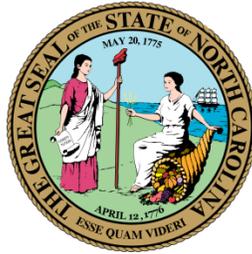


Beth A. Wood, CPA
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TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
UNIVERSITY EXHIBITS	
A-1 STATEMENT OF NET POSITION	15
A-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	17
A-3 STATEMENT OF CASH FLOWS.....	18
COMPONENT UNIT EXHIBITS	
B-1 STATEMENT OF FINANCIAL POSITION	20
B-2 STATEMENT OF ACTIVITIES.....	21
NOTES TO THE FINANCIAL STATEMENTS	22
REQUIRED SUPPLEMENTARY INFORMATION	
C-1 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN)	71
C-2 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN)	72
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN).....	73
C-3 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY OR ASSET (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	74
C-4 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	75
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	76
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 <i>GOVERNMENT AUDITING STANDARDS</i>	77
ORDERING INFORMATION	79

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 State University
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2019, 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 NC State Investment Fund, Inc., which represent 23 percent and 3 percent, respectively, of the assets and revenues of the University; nor the financial statements of the North Carolina State University Foundation, Inc. or The North Carolina Agricultural Foundation, Inc., the University's discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the North Carolina University 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 State University, and its discretely presented component units, as of June 30, 2019, 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.

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 October 23, 2019 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

October 23, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's Discussion and Analysis of the financial report provides an overview of the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes from the prior year. The overview also includes information on currently known facts, decisions, or conditions affecting the financial affairs of the North Carolina State University (University).

Financial Highlights

The University's net position increased by \$172.9 million to \$617.5 million in fiscal year 2019. Net position represents the University's equity. It is the residual of all the other elements of the statement of financial position, the assets and deferred outflows of resources less liabilities and deferred inflows of resources. The negative unrestricted net position balance decreased by \$85.9 million mainly due to fluctuations in Pension and OPEB reporting, increases in contracts and grants overhead, auxiliaries and sales and services. Net investment in capital assets increased \$71.3 million due to increases in capital projects. Restricted nonexpendable net position increased \$11.4 million driven mainly by the increase in gifts for professorships and the State matching for professorships. Restricted expendable net position increased \$4.4 million, driven by the increase in endowed professorships due to professorships reaching their minimum endowment level which allows spending to commence and overall increase in investment return.

Revenues increased by \$60.2 million or 3.7%, to \$1.67 billion in fiscal year 2019. Revenues represent amounts received or accrued that are either operating or nonoperating on the accompanying financial statements. Increases in research contracts and grants, tuition and fees, state appropriations, federal appropriations, sales and services, and noncapital gifts were major factors in the revenue growth.

Expenses grew 1.2% in 2019, up \$18.2 million over fiscal year 2018 expenses. Expenses represent amounts paid or accrued for operating or nonoperating purposes. Instruction, research, auxiliary enterprises, public service, and depreciation showed the largest increases, while other functional categories had small increases or decreases.

Using the Financial Statements

The University's financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting 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.

The 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 University blends two component units as if they were part of the University, and two entities are reported as discretely presented component units based on the nature and significance of their relationship to the University. Note 1A provides detailed information on the University's financial reporting entity.

The University's three financial statements are used to evaluate financial position as of June 30th and the results of operations for the fiscal year then ended. The *Statement of Net Position* provides information relative to the evaluation of financial position. The *Statement of Revenues, Expenses, and Changes in Net Position* provides information relative to the evaluation of the results of operations. Its ending net position agrees to the total net position on the *Statement of Net Position*.

The financial statements also include a *Statement of Cash Flows*. This statement is used to identify the University's sources and uses of cash. The ending cash on the *Statement of Cash Flows* agrees to the total cash reported on the *Statement of Net Position*. Also, this statement reconciles the net operating loss reported in the *Statement of Revenues, Expenses, and Changes in Net Position* to the net cash used by operating activities.

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

Comparative Condensed Financial Statement Information

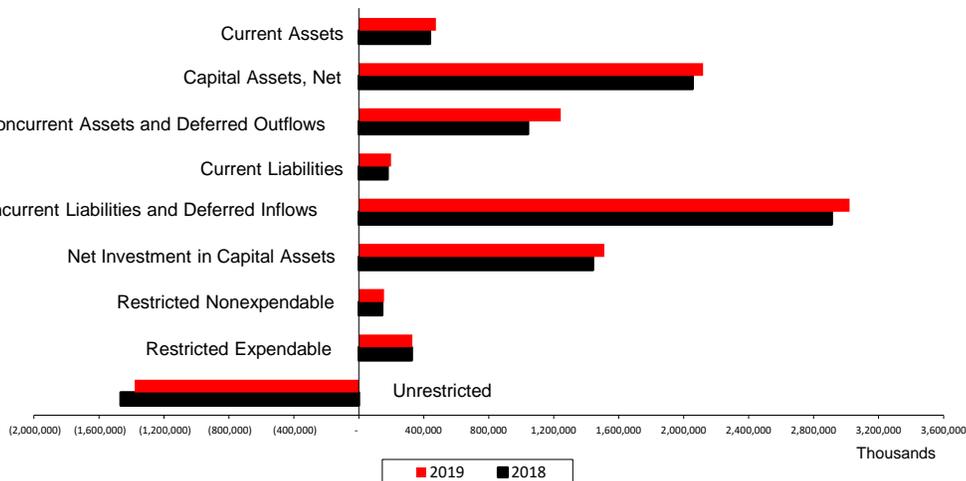
Statement of Net Position

The *Statement of Net Position* provides information regarding the University's assets, deferred outflows and inflows of resources, liabilities, and net position as of June 30, 2019. Asset and liability balances are classified as either current or noncurrent. Assets classified as current are those that are available to pay current liabilities or current year expenditures. Liabilities classified as current are those that are due and payable in the next fiscal year. The net position balances are classified as either net investment in capital assets, restricted or unrestricted. In addition, net position balances classified as restricted are classified as either nonexpendable or expendable. Overall, the *Statement of Net Position* provides information to evaluate the financial strength of the University and its ability to meet current and long-term obligations.

Following is a comparative analysis on the condensed balances reported in the *Statement of Net Position* as of June 30, 2019 and as of June 30, 2018.

	2019	As restated 2018	Changes
Assets			
Current Assets	\$ 474,267,240	\$ 436,701,540	\$ 37,565,700
Capital Assets, Net	2,119,308,245	2,054,306,415	65,001,830
Other Noncurrent Assets	947,235,217	904,233,884	43,001,333
Total Assets	3,540,810,702	3,395,241,839	145,568,863
Deferred Outflows of Resources			
Deferred Outflows Related to Asset Retirement Obligations	13,422,816	13,380,000	42,816
Deferred Outflows Related to Pensions	127,152,516	95,716,440	31,436,076
Deferred Outflows Related to OPEB	154,715,862	40,809,814	113,906,048
Total Deferred Outflows of Resources	295,291,194	149,906,254	145,384,940
Liabilities			
Current Liabilities	198,117,957	175,957,188	22,160,769
Noncurrent Liabilities			
Long-Term Liabilities	1,940,714,846	1,977,130,202	(36,415,356)
Other Noncurrent Liabilities	404,821,241	382,749,666	22,071,575
Total Liabilities	2,543,654,044	2,535,837,056	7,816,988
Deferred Inflows of Resources			
Deferred Inflows Related to Pensions	2,224,500	5,778,080	(3,553,580)
Deferred Inflows Related to OPEB	672,712,265	558,917,888	113,794,377
Total Deferred Inflows of Resources	674,936,765	564,695,968	110,240,797
Net Position			
Net Investment in Capital Assets	1,512,479,420	1,441,226,903	71,252,517
Restricted			
Nonexpendable	155,181,523	143,785,771	11,395,752
Expendable	329,816,454	325,436,076	4,380,378
Unrestricted	(1,379,966,310)	(1,465,833,681)	85,867,371
Total Net Position	\$ 617,511,087	\$ 444,615,069	\$ 172,896,018

The following graph illustrates the assets, deferred outflows, liabilities, deferred inflows and net position of the University as of June 30, 2019, as compared to restated June 30, 2018 balances.



Assets totaled \$3.54 billion, an increase of \$145.6 million over the prior year. This change in assets includes an increase in current assets of \$37.6 million, an overall increase in net capital assets of \$65.0 million and an increase in other noncurrent assets of \$43.0 million.

Current assets increased by \$37.6 million in fiscal year 2019. This increase was primarily the result of a \$33.5 million increase in cash and cash equivalents, driven by a \$22.4 million increase in the area of auxiliaries, \$12.4 million increase in contracts and grants overhead, \$6.5 million increase in miscellaneous sales and services activities and \$4.0 million increase in discretionary trust funds. This was offset by decreases in contracts and grants of \$8.1 million and internal loan program of \$5.0 million. Current receivables increased \$6.7 million, mainly due to increases in contract and grants receivable. Current restricted cash and cash equivalents decreased \$2.5 million as a result of decreases in capital improvements, investment in plant and sales and services which was offset by increases in gifts, endowment funds and debt funds. Other current assets changed by small amounts.

The increase in net capital assets of \$65.0 million is due largely to an increase in spending on construction projects, driven by several large projects such as Fitts-Woolard Hall, Carmichael addition and Plant Sciences buildings.

The \$43.0 million increase in other noncurrent assets is made up of increases in endowment investments, restricted investments and restricted cash. Noncurrent investments increased \$35.8 million due to increases in unrealized and realized gains due to market fluctuations. Noncurrent restricted cash and cash equivalents increased \$9.9 million in fiscal year 2019. The remaining difference was made up of numerous smaller items.

The deferred outflows of resources for the University's asset retirement obligations, the deferred outflows for pensions and deferred outflows for OPEB are shown in a separate section of the financial statements. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was implemented in fiscal year 2013, established deferred sections of the financial statements. The deferred outflow for the asset retirement obligation is the University's obligation and cost to retire the nuclear reactor on campus. This amount was restated for 2018 but there was no overall effect on prior year net position. The deferred outflows for pensions and OPEB accounts reflect the University's allocated portion of deferred outflows for the TSERS cost-sharing pension plan and the State's OPEB plans. Amounts in these accounts are amortized over time as pension and OPEB expenses. Deferred outflows of resources increased \$145.4 million in current year relating to pension and OPEB. The \$31.4 million increase in the deferred outflows of pensions and the \$113.9 million increase in deferred outflows of OPEB are due to changes in the pension and OPEB contributions and the University's proportionate share of contributions to the plans.

Liabilities totaled \$2.54 billion, an increase of \$7.8 million over the prior year. The increase in liabilities is attributable to an increase in current liabilities of \$22.2 million and an increase in other noncurrent liabilities of \$22.1 million, offset by a decrease in noncurrent long-term liabilities of \$36.4 million.

Current liabilities totaled \$198.1 million. These liabilities include accounts payable and accrued liabilities, payables to other entities, unearned revenue, interest payable and the current portion of University debt. The current liabilities increase of \$22.2 million was primarily caused by increases in accounts payable, short-term debt and unearned revenue. Accounts payables and accrued liabilities increased \$12.9 million mainly due to increases in construction projects.

The University issued an additional \$5.0 million in outstanding commercial paper in fiscal year 2019 for ongoing construction projects. In addition, unearned revenue increased \$1.0 million due to increases in football tickets sales.

Noncurrent liabilities totaled \$2.35 billion, and include deposits payable, funds held for other entities, funds held in trust in the investment pool, unearned revenue, and long-term liabilities. The primary factors in the \$14.3 million decrease in noncurrent liabilities was long-term liabilities, funds held in trust for pool participants and funds held for others. Long-term liabilities decreased by \$36.4 million, primarily due to a decrease in net OPEB liability of \$68.1 million which was offset by an increase in the net pension liability for the Teachers' and State Employees' Retirement System (TSERS) plan of \$45.0 million which was the result of the difference between the projected and actual investment earnings in both plans. Revenue bonds decreased \$21.5 million and notes from Direct Borrowings decreased \$4.0, both due to annual principal payments. Compensated absences increased \$12.0 million due to adding the bonus leave and special bonus leave from previous years. The decrease in long-term liabilities was offset by net increases in other noncurrent liabilities of \$22.1 million. Funds held in trust for pool participants increased \$18.0 million due to increases in unrealized gains due to market fluctuations and participant increases to the fund. Funds held for others increased \$6.1 million from fiscal year 2018 and the remaining difference is made up of multiple smaller items.

Deferred inflows for pensions and deferred inflows for OPEB, are required by the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) and are shown in a separate section in the financial statements. This \$674.9 million deferred inflows of resources is another allocation of TSER's cost-sharing pension plan balances and OPEB plan balances. The \$110.2 million increase in deferred inflows is driven by the higher pension and OPEB liabilities related to the difference between projected and actual investment earnings. These deferred inflows for pensions and OPEB are amortized over time as pension expense and OPEB expense.

Net position totaled \$617.5 million, an increase of \$172.9 million over the prior year. The negative unrestricted net position balance decreased by \$85.9 million mainly due to fluctuations in Pension and OPEB reporting, increases in contracts and grants overhead, increases in auxiliaries and sales and services. Net investment in capital assets increased \$71.3 million due to increases in capital projects. Restricted nonexpendable net position increased \$11.4 million driven mainly by the increase in gifts for professorships and the State matching for professorships. Restricted expendable net position increased \$4.4 million, driven by the increase in endowed professorships due to professorships reaching their minimum endowment level which allows spending to commence and overall increase in investment return.

In fiscal year 2018, the University implemented GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). As a result of this new accounting and reporting change, participants in the State's OPEB plans, including the University, were allocated a proportionate share of the OPEB plan's net OPEB liabilities/assets, deferred outflows of resources, deferred inflows of resources and OPEB benefit expense, specifically for the Disability Income Plan of North Carolina (DIPNC) and the Retiree Health Benefit Fund (RHBF). Previous years and current year amounts were based on the allocated proportionate shares from the State's plans as determined by actuarial valuation and the deferred outflows for current contributions as determined by the participating entity.

Significant to this reporting change was that the OPEB for the RHBF resulted in a significant decrease in the University's unrestricted net position. To understand the continuing impact of the GASB 75 change as of June 30, 2019 and the effect of reporting the proportionate share of the RHBF as well as the University's proportionate share of the State's pension plan on unrestricted net position, see Note 11 "Net Position". As reported in Note 11, the total impact from reporting the RHBF as well as the pension plan obligations at June 30, 2019 was a negative \$1.71 billion. The difference between the net effect amount reported in Note 11 and the unrestricted net position reported on financial statements (a negative \$1.38 billion) is a positive \$332.1 million. This positive difference represents unrestricted funds held by the University in its institutional trust, special, debt, and investment funds, as well as any unrestricted funds held by the University's blended component units, and also includes any operating state funds authorized for carryforward.

The University's current assets are more than sufficient to cover current liabilities, with a ratio of 2.4 times compared to 2.5 times in the prior year. The University's total assets are more than the University's liabilities with a ratio 1.4 times as compared to 1.4 times in the prior year. These financial ratios are indicators of the University's financial strength and its ability to meet current and long-term obligations.

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* provides information regarding the University's activities for the year ending June 30, 2019. The activity balances are classified as operating, nonoperating, or other revenues, expense, gains or losses. Activities classified as operating include all revenues of the University except those considered nonoperating, or those associated with funds received to enhance capital assets or permanent endowments. Operating expenses are all expenses except those related to interest expense on financing activities, loss on disposal of capital assets, and investment expenses (shown as net against investment income). Activities classified as nonoperating include state appropriations, noncapital gifts and grants revenue, investment income (net of investment expenses), and gains or losses on disposal of capital assets. Activities classified as other include capital appropriations, capital grants and gifts and additions to permanent endowments. Overall, the *Statement of Revenues, Expenses, and Changes in Net Position* provides information to evaluate the University's management of operations and maintenance of financial strength.

Following is a comparative analysis on the condensed balances reported in the *Statement of Revenues, Expenses, and Changes in Net Position* for the fiscal years ended June 30, 2019, and June 30, 2018.

	2019	2018	Changes
Operating Revenues			
Student Tuition and Fees, Net	\$ 343,851,837	\$ 330,352,213	\$ 13,499,624
Federal Appropriations	28,197,987	21,625,829	6,572,158
Grants and Contracts	313,640,309	294,193,287	19,447,022
Sales and Services, Net	270,041,526	263,608,903	6,432,623
Other	19,539,014	16,909,824	2,629,190
Total Operating Revenues	<u>975,270,673</u>	<u>926,690,056</u>	<u>48,580,617</u>
Operating Expenses			
Salaries and Benefits	945,930,602	949,374,759	(3,444,157)
Supplies and Materials	132,420,628	132,990,562	(569,934)
Services	297,769,165	272,120,504	25,648,661
Scholarships and Fellowships	45,860,068	45,026,871	833,197
Utilities	34,269,987	33,344,861	925,126
Depreciation/Amortization	100,283,057	98,921,388	1,361,669
Total Operating Expenses	<u>1,556,533,507</u>	<u>1,531,778,945</u>	<u>24,754,562</u>
Operating Loss	<u>(581,262,834)</u>	<u>(605,088,889)</u>	<u>23,826,055</u>
Nonoperating Revenues (Expenses)			
State Appropriations	522,482,253	515,352,773	7,129,480
Noncapital Grants - Student Financial Aid	49,547,118	48,459,424	1,087,694
Other Noncapital Grants and Gifts	81,510,256	77,560,949	3,949,307
Investment Income	41,460,883	41,274,045	186,838
Other	(18,358,018)	(24,218,206)	5,860,188
Net Nonoperating Revenues	<u>676,642,492</u>	<u>658,428,985</u>	<u>18,213,507</u>
Income Before Other Revenues	95,379,658	53,340,096	42,039,562
Capital Appropriations, Gifts, and Grants	65,918,646	30,518,036	35,400,610
Additions to Permanent Endowments	11,597,714	11,690,484	(92,770)
Increase in Net Position	<u>172,896,018</u>	<u>95,548,616</u>	<u>77,347,402</u>
Beginning Net Position	444,615,069	349,066,453	95,548,616
Ending Net Position	<u>\$ 617,511,087</u>	<u>\$ 444,615,069</u>	<u>\$ 172,896,018</u>

Fiscal Year 2018-2019 total revenues are \$1,748,931,975 and total expenses are \$1,576,035,957.
 Fiscal Year 2017-2018 total revenues are \$1,653,430,195 and total expenses are \$1,557,881,579.

Operating and Nonoperating Activities

The following illustrates the relationships of operating and nonoperating revenue sources and expense functions to total revenue/expenses for the fiscal year 2019 and 2018, and the consistency of relationships between the two years.

Operating and Nonoperating Revenues

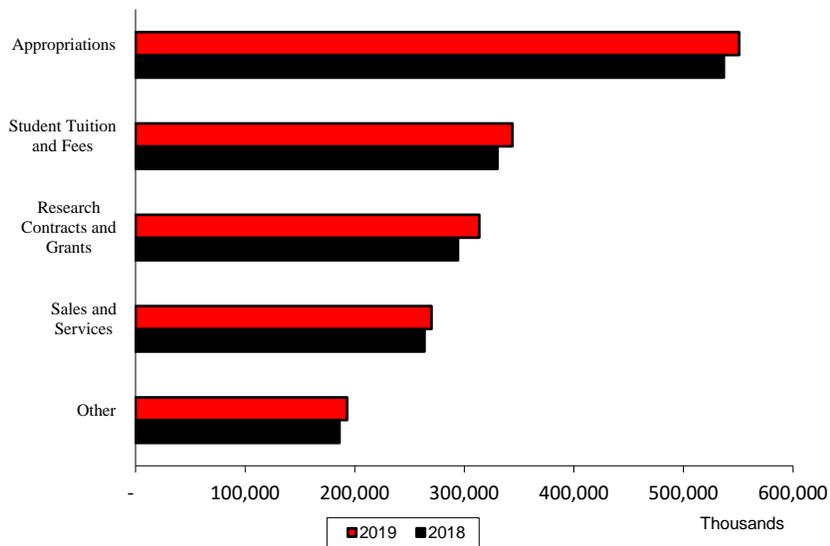
Title	% to Total 2019	% to Total 2018
State Appropriations	31%	32%
Research Contracts and Grants	19%	18%
Student Tuition and Fees	20%	21%
Sales and Services	16%	16%
Noncapital Grants and Gifts	8%	8%
Federal Appropriations	2%	1%
Other	4%	4%
Total	<u>100%</u>	<u>100%</u>

Operating and Nonoperating Expenses

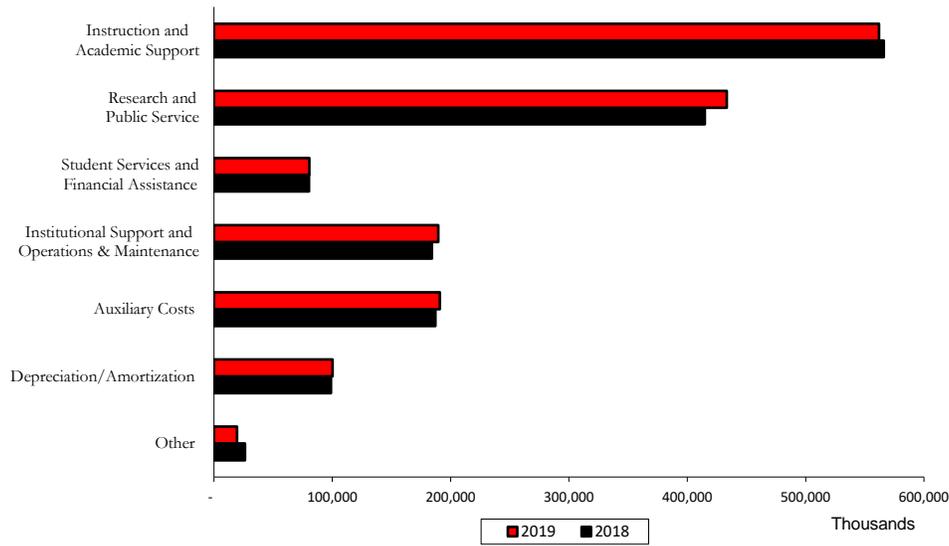
Title	% to Total 2019	% to Total 2018
Instruction	30%	31%
Research	19%	18%
Public Service	9%	8%
Auxiliary Enterprises	12%	12%
Operations & Maintenance of Plant	5%	5%
Academic Support	6%	6%
Institutional Support	7%	7%
Depreciation/Amortization	6%	6%
Student Financial Aid	3%	3%
Student Services	2%	2%
Other	1%	2%
Total	100%	100%

The following graphs illustrate the University's operating and nonoperating revenues/expenses by source/function (*in thousands*).

Operating and Nonoperating Revenues



Operating and Nonoperating Expenses



Total revenues (operating, nonoperating, and other) increased \$95.5 million or 5.8% compared to the prior year. Research contracts and grants rose by \$19.4 million, mostly in state and local and nongovernmental contracts and grants. Student tuition and fees increased \$13.5 million, as enrollment increased 3.0% in 2019. Sales and services revenues grew \$6.4 million or 2.4% with increases in housing, dining and athletics. Federal appropriations increased \$6.6 million, state appropriations increased \$7.1 million and noncapital gifts increased \$4.5 million. Other activity increased \$35.3 million from the prior year. The increase is primarily an increase in capital grants of \$33.2 million due to increases in construction related bond activity. Capital gifts increased \$5.9 million, due to receiving more gifts from foundations. This was offset by a decrease of \$3.7 million from the State in capital appropriations. The remaining difference is made up of numerous small items.

Total expenses (operating and nonoperating) increased \$18.2 million or 1.2% compared to the prior year. Services grew \$25.7 million, driven by an increase in subcontract services, maintenance and service agreements. Research and auxiliary enterprise showed the largest increase in services. This increase was offset by interest and fees on debt which decreased \$6.7 million. There were no bond issuance fees in 2019 as compared to prior year. Salaries and benefits decreased \$3.4 million in 2019. The increase in salaries due to wage increases was offset by the decrease in OPEB expense. The remaining difference is made up of numerous small items.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITIES

Capital Assets

As shown in the following table, the University increased its net capital assets by \$65.0 million during fiscal year 2019.

	<u>2019</u>	<u>2018</u>	<u>Changes</u>
Land and Permanent Easements	\$ 77,037,303	\$ 74,815,569	\$ 2,221,734
Construction in Progress	138,639,796	81,586,636	57,053,160
Buildings	2,379,610,247	2,333,867,437	45,742,810
Machinery and Equipment	414,796,798	401,631,210	13,165,588
General Infrastructure	233,595,721	214,650,572	18,945,149
Computer Software	<u>32,315,054</u>	<u>29,141,865</u>	<u>3,173,189</u>
Total Capital Assets	3,275,994,919	3,135,693,289	140,301,630
Accumulated Depreciation/Amortization	<u>(1,156,686,674)</u>	<u>(1,081,386,874)</u>	<u>(75,299,800)</u>
Net Capital Assets	<u>\$ 2,119,308,245</u>	<u>\$ 2,054,306,415</u>	<u>\$ 65,001,830</u>

In addition to costs incurred, the University had \$205,383,577 million in outstanding commitments for construction as of June 30, 2019.

During fiscal year 2019, the University continued construction on new facilities and work on renovations to modernize campus. Funding for these improvements came from funds provided by University debt financing, Connect NC bonds and state capital aid.

The Centennial Cogeneration Energy Performance Project removed a boiler in the Centennial Central Utility Plant and installed a high efficiency cogeneration system. The cogeneration system utilizes natural gas and steam to produce 6.5 megawatts of electricity and the waste heat from the process produces steam. Utility savings are realized due to a reduction in the total cost of electricity and steam production through increased efficiency. The new system is projected to also reduce the campus greenhouse gas emissions by about 4% (approximately 16,000 EMTCO₂).

The Varsity Research Building was renovated to combine the Plant Pathology department into one research space after being spread out on campus in multiple buildings. The renovation affects approximately 44,000 square feet of research space and various research modules to allow people greater ease in movement between program activities.

Another project completed in fiscal year 2019 was the Murphy Center Broadcast Studio. This project renovates approximately 5,500 square feet in the Murphy Center taking the existing racquetball court, conference rooms, and office space and converting that space into a state of the art media broadcast studio. Electrical and mechanical capacity has been modified to support the new equipment.

Long-Term Debt Activities

The University incurs long-term debt to finance construction projects and to purchase or lease equipment. As shown in the following table, the University decreased its long-term debt during fiscal year 2019.

	2019	2018	Changes
Revenue Bonds	\$ 478,399,566	\$ 499,877,810	\$ (21,478,244)
Notes from Direct Borrowings	61,211,497	65,224,375	(4,012,878)
Capital Leases Payable	344,644	556,237	(211,593)
Total Long-term Debt	<u>\$ 539,955,707</u>	<u>\$ 565,658,422</u>	<u>\$ (25,702,715)</u>

Long-term debt decreased \$25.7 million, driven by \$21.5 million decrease in revenue bonds and \$4.0 million decrease in notes from direct borrowings due to regular principal payments.

Economic Factors That Will Affect the Future

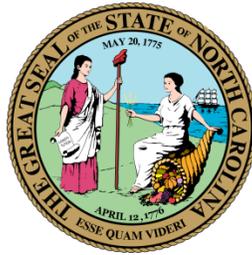
The State of North Carolina continues to experience steady economic growth, although that growth has been at a slower rate than the nation. Recent positive reports show that payroll employment increased and the unemployment rate remained steady. North Carolina employers are adding jobs in the majority of State's industries, including trade, transportation, services and utilities. The unemployment rate for the State in mid-summer 2019 was 4.2%, with real personal income rising through the first quarter of 2019.

A protracted negotiation process in the North Carolina legislature has delayed implementation of a budget for the State for Fiscal Year 2019-2020. The University of North Carolina System is running on a continuing budget resolution until the final budget is approved.

The University continues to plan and construct two large capital projects partially funded by the State through the Connect NC Bonds. The Fitts-Woolard Hall, a \$137 million project to build a fourth engineering building on Centennial Campus broke ground in April 2018 and is on schedule to open in summer 2020. The NC Plant Sciences Building, a \$160 million project, will create a collaboration and interdisciplinary space for the College of Agriculture and Life Sciences, also on Centennial Campus. Work has begun on this site and anticipated completion is spring 2022.

For fall semester 2019, the University again broke enrollment records with its highest enrollment to date, with over 36,000 students. The University is focused on targeted growth, intent on increasing the number of transfer students at the undergraduate level as well as increased post-baccalaureate study in the STEM (Science, Technology, Engineering, Mathematics) disciplines. The quality of the undergraduate student body continues to increase as well as year over year retention rates. University students are graduating at a quicker pace with very modest levels of student debt when compared to other major public research universities. The University continues to be rated as one of the country's best values in higher education.

Fiscal year 2019-2020 will mark the tenth year of the University's strategic plan "The Pathway to the Future". In many ways, the goals and metrics of this plan affect the strategic allocation and spending of resources at the University. Information about the Strategic Plan and associated metrics can be found at <https://strategicplan.ncsu.edu/pathway-to-the-future/>.



FINANCIAL STATEMENTS

North Carolina State University
Statement of Net Position
June 30, 2019

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 234,287,455
Restricted Cash and Cash Equivalents	135,834,711
Receivables, Net (Note 5)	79,854,691
Due from Primary Government	9,713,028
Due from State of North Carolina Component Units	4,141,952
Due from University Component Units	654,282
Inventories	6,922,887
Notes Receivable, Net (Note 5)	2,858,234
	<hr/>
Total Current Assets	474,267,240

Noncurrent Assets:

Restricted Cash and Cash Equivalents	151,128,563
Endowment Investments	372,836,438
Restricted Investments	250,087,974
Other Investments	165,449,964
Notes Receivable, Net (Note 5)	6,550,278
Net Other Postemployment Benefits Asset	1,182,000
Capital Assets - Nondepreciable (Note 6)	215,677,099
Capital Assets - Depreciable, Net (Note 6)	1,903,631,146
	<hr/>
Total Noncurrent Assets	3,066,543,462

Total Assets

3,540,810,702

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Asset Retirement Obligations	13,422,816
Deferred Outflows Related to Pensions (Note 14)	127,152,516
Deferred Outflows Related to Other Postemployment Benefits (Note 15)	154,715,862
	<hr/>
Total Deferred Outflows of Resources	295,291,194

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	69,572,613
Due to Primary Government	10,805,573
Due to State of North Carolina Component Units	692,241
Unearned Revenue	58,556,748
Interest Payable	5,145,065
Short-Term Debt (Note 8)	25,135,631
Long-Term Liabilities - Current Portion (Note 9)	28,210,086
	<hr/>
Total Current Liabilities	198,117,957

North Carolina State University
Statement of Net Position
June 30, 2019

Exhibit A-1
Page 2 of 2

Noncurrent Liabilities:	
Deposits Payable	4,013,193
Funds Held for Others	51,829,437
Unearned Revenue	70,509,205
U. S. Government Grants Refundable	3,028,026
Funds Held in Trust for Pool Participants	275,441,380
Long-Term Liabilities, Net (Note 9)	1,940,714,846
	<hr/>
Total Noncurrent Liabilities	2,345,536,087
	<hr/>
Total Liabilities	2,543,654,044
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions (Note 14)	2,224,500
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	672,712,265
	<hr/>
Total Deferred Inflows of Resources	674,936,765
	<hr/>
NET POSITION	
Net Investment in Capital Assets	1,512,479,420
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	13,028,299
Endowed Professorships	122,598,308
Departmental Uses	11,310,323
Loans	8,244,593
Expendable:	
Scholarships and Fellowships	36,317,939
Research	28,761,172
Endowed Professorships	104,400,445
Departmental Uses	70,256,270
Loans	1,465,352
Capital Projects	62,627,594
Debt Service	20,749,065
Other	5,238,617
Unrestricted	(1,379,966,310)
	<hr/>
Total Net Position	\$ 617,511,087
	<hr/>

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

North Carolina State University
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2019

Exhibit A-2

OPERATING REVENUES

Student Tuition and Fees, Net (Note 12)	\$ 343,851,837
Federal Appropriations	28,197,987
Federal Grants and Contracts	169,220,251
State and Local Grants and Contracts	48,648,864
Nongovernmental Grants and Contracts	95,771,194
Sales and Services, Net (Note 12)	270,041,526
Interest Earnings on Loans	244,847
Other Operating Revenues, Net (Note 12)	19,294,167
	<hr/>
Total Operating Revenues	975,270,673

OPERATING EXPENSES

Salaries and Benefits	945,930,602
Supplies and Materials	132,420,628
Services	297,769,165
Scholarships and Fellowships	45,860,068
Utilities	34,269,987
Depreciation/Amortization	100,283,057
	<hr/>
Total Operating Expenses	1,556,533,507
	<hr/>
Operating Loss	(581,262,834)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	522,482,253
Noncapital Grants - Student Financial Aid	49,547,118
Noncapital Grants	425,302
Noncapital Gifts	81,084,954
Investment Income (Net of Investment Expense of \$1,783,148)	41,460,883
Interest and Fees on Debt	(19,411,869)
Federal Interest Subsidy on Debt	1,144,432
Other Nonoperating Expenses	(90,581)
	<hr/>
Net Nonoperating Revenues	676,642,492
	<hr/>
Income Before Other Revenues	95,379,658
Capital Appropriations	4,737,293
Capital Grants	48,520,885
Capital Gifts	12,660,468
Additions to Endowments	11,597,714
	<hr/>
Increase in Net Position	172,896,018

NET POSITION

Net Position - July 1, 2018	<hr/> 444,615,069
Net Position - June 30, 2019	<hr/> <hr/> \$ 617,511,087

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

North Carolina State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 945,570,609
Payments to Employees and Fringe Benefits	(990,442,370)
Payments to Vendors and Suppliers	(462,161,319)
Payments for Scholarships and Fellowships	(45,860,068)
Loans Issued	(151,739)
Collection of Loans	1,785,145
Interest Earned on Loans	245,904
Other Receipts	19,150,369
	<hr/>
Net Cash Used by Operating Activities	(531,863,469)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	522,482,253
Noncapital Grants - Student Financial Aid	49,547,118
Noncapital Grants	231,910
Noncapital Gifts	81,977,497
Additions to Endowments	11,597,714
William D. Ford Direct Lending Receipts	118,034,329
William D. Ford Direct Lending Disbursements	(118,087,108)
Related Activity Agency Receipts	97,911,916
Related Activity Agency Disbursements	(91,816,207)
External Participation in Investment Fund Receipts	23,635,000
External Participation in Investment Fund Disbursements	(30,414,893)
Other Receipts	1,585,586
	<hr/>
Net Cash Provided by Noncapital Financing Activities	666,685,115

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	140,320,631
Capital Appropriations	4,737,293
Capital Grants	51,208,062
Capital Gifts	12,243,413
Proceeds from Sale of Capital Assets	780,028
Proceeds from Insurance on Capital Assets	212,077
Acquisition and Construction of Capital Assets	(155,275,618)
Principal Paid on Capital Debt and Leases	(158,490,489)
Interest and Fees Paid on Capital Debt and Leases	(20,599,573)
Federal Interest Subsidy on Debt Received	1,144,432
Other Payments	(547,421)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(124,267,165)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	51,566,722
Investment Income	9,225,764
Purchase of Investments and Related Fees	(30,402,313)
	<hr/>
Net Cash Provided by Investing Activities	30,390,173
	<hr/>
Net Increase in Cash and Cash Equivalents	40,944,654
Cash and Cash Equivalents - July 1, 2018	480,306,075
	<hr/>
Cash and Cash Equivalents - June 30, 2019	\$ 521,250,729

North Carolina State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (581,262,834)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	100,283,057
Allowances and Write-Offs	697,999
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(7,431,827)
Due from Primary Government	(2,799,502)
Inventories	(659,390)
Notes Receivable, Net	1,650,104
Net Other Postemployment Benefits Asset	1,172,190
Deferred Outflows Related to Asset Retirement Obligations	(13,422,816)
Deferred Outflows Related to Pensions	(31,436,076)
Deferred Outflows Related to Other Postemployment Benefits	(113,906,048)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	677,380
Due to Primary Government	1,875,388
Due to State of North Carolina Component Units	292,872
Unearned Revenue	(829,122)
Net Pension Liability	45,041,896
Net Other Postemployment Benefits Liability	(68,141,377)
Workers' Compensation Liability	365,356
Asset Retirement Obligation	13,727,880
Compensated Absences	11,964,050
Deposits Payable	36,554
Deferred Inflows Related to Pensions	(3,553,580)
Deferred Inflows Related to Other Postemployment Benefits	113,794,377
Net Cash Used by Operating Activities	<u>\$ (531,863,469)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 12,207,708
Assets Acquired through a Gift	417,055
Change in Fair Value of Investments	24,223,183
Loss on Disposal of Capital Assets	(1,835,467)
Amortization of Bond Premiums/Discounts	(2,527,226)
Change in Receivables Related to Nonoperating Income	(3,386,327)
Change in Payables Related to Nonoperating Expenses	(894,978)

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

North Carolina State University Foundations
Statement of Financial Position
June 30, 2019

Exhibit B-1

	North Carolina State University Foundation, Inc.	The North Carolina Agricultural Foundation, Inc.
ASSETS		
Cash and Cash Equivalents	\$ 31,038,361	\$ 20,428,404
Intermediate Investments	7,110,125	19,016,508
Long-term Investments	399,185,879	103,550,394
Assets Held in Charitable Trusts and Annuities	3,383,727	645,000
Donated Property and Land	2,526,350	32,135,480
Receivables, Net	598,612	793,291
Pledges Receivable/Promises	16,273,231	6,002,391
Property and Equipment, Net	6,278,925	34,191
Other Assets	268,143	17,111
	<u>\$ 466,663,353</u>	<u>\$ 182,622,770</u>
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 813,112	\$ 506,994
Due to University		654,282
Due to Others	259,919	110,643
Life Income Funds Payable	5,294,083	6,043,463
Deferred Revenue	6,000	56,083
Funds Held for Others	88,645	
	<u>6,461,759</u>	<u>7,371,465</u>
NET ASSETS		
Without Donor Restrictions	16,144,188	3,759,916
With Donor Restrictions	444,057,406	171,491,389
	<u>460,201,594</u>	<u>175,251,305</u>
Total Net Assets	<u>\$ 466,663,353</u>	<u>\$ 182,622,770</u>
Total Liabilities and Net Assets	<u>\$ 466,663,353</u>	<u>\$ 182,622,770</u>

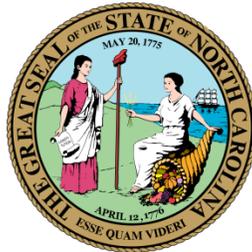
The accompanying notes to the financial statements are an integral part of this statement.

North Carolina State University Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2019

Exhibit B-2

	North Carolina State University Foundation, Inc.	The North Carolina Agricultural Foundation, Inc.
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and Gains:		
Contributions	\$ 19,068	\$ 174,641
Donated Services and Salaries	1,402,000	1,329,000
Disposal of Other Assets		(1,500)
Net Investment Income	909,680	587,827
Interest and Dividends	618,811	833,663
Other Income	1,757,193	
Net Assets Released from Restrictions: Program or Time Restrictions	<u>23,315,271</u>	<u>20,080,497</u>
Total Revenues and Gains Without Donor Restrictions	28,022,023	23,004,128
Expenses:		
Scholarships and Fellowships	7,638,644	3,623,055
University Support	9,767,448	10,361,003
University Facilities Support	1,896,671	5,737,992
Administrative	616,680	318,300
Fund Raising	5,095,500	1,881,098
Other	<u>1,949,815</u>	<u>12,226</u>
Total Expenses	<u>26,964,758</u>	<u>21,933,674</u>
Increase in Net Assets Without Donor Restrictions	<u>1,057,265</u>	<u>1,070,454</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	33,404,492	11,748,017
Grant Revenue		523,939
Change in Pledges Receivables	(16,602,195)	1,283,631
Disposal of Other Assets	(800,169)	(476,869)
Net Investment Income	25,397,808	6,049,869
Royalties		393,262
Change in Value of Split Interest Agreements and Trusts	(653,725)	78,600
Interest and Dividends	947,178	303,078
Other Income	4,407,072	3,006,458
Net Assets Released from Restrictions: Program or Time Restrictions	<u>(23,315,271)</u>	<u>(20,080,497)</u>
Increase in Net Assets with Donor Restrictions	<u>22,785,190</u>	<u>2,829,488</u>
Increase in Net Assets	23,842,455	3,899,942
Net Assets at Beginning of Year	<u>436,359,139</u>	<u>171,351,363</u>
Net Assets at End of Year	<u>\$ 460,201,594</u>	<u>\$ 175,251,305</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 State University (University) is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are 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 Units - Although legally separate, the NC State Investment Fund, Inc. (Investment Fund) and the NC State University Partnership Corporation (Corporation), component units of the University, are reported as if they were part of the University.

The Investment Fund is governed by a board consisting of six ex officio directors and five elected directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. Because the elected directors of the Investment Fund are appointed by the members of the North Carolina State University Board of Trustees and the Investment Fund's primary purpose is to benefit North Carolina State University, its financial statements have been blended with those of the University.

The Corporation is governed by a five member Board of Directors appointed based on their positions held with North Carolina State University. Additional members of the board may be appointed by the Chancellor of North Carolina State University. The Corporation's purpose is to support and benefit the University with the aims of creating new knowledge and improving the lives of the people of North Carolina. The Corporation formed NC State University Centennial Development, LLC on January 25, 2002 to construct, own and operate a golf course located on

the North Carolina State University Centennial Campus. In addition, the Corporation formed NC State Upfit, LLC on October 27, 2006 to develop, construct, own, finance, manage and otherwise upfit facilities and other infrastructure on Centennial Campus. Also, the Corporation formed NC State CBC Land I, LLC on June 1, 2007 to acquire, develop, own, lease, hold, manage, sell, and otherwise exercise all right of ownership of land and flex lab facilities on Centennial Biomedical Campus. Additionally, the Corporation formed NC State American Home, LLC on August 8, 2007 and changed its name to Bell Tower Holdings, LLC on December 14, 2009. The purposes of Bell Tower Holdings, LLC are to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all right of ownership of real property and enter into any related agreements for assisting with the acquisition, development, financing, construction, management and operation of real property. On March 31, 2008, the Corporation formed NC State CC Holdings I, LLC to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all right of ownership of land and facilities on Centennial Campus. Leaders in Innovation and Nonwovens Commercialization, LLC (LINC), was established on July 9, 2012 to foster economic development and creation of new knowledge by facilitating commercialization of technologies developed at the Nonwovens Institute at NC State University. On September 27, 2016, the Corporation established the Wolfpack Investor Network, LLC (WIN) to connect the NC State alumni network with the NC State entrepreneurial community. C2I, LLC was formed on December 21, 2018 to act as an intermediary between the University and private parties in connection with certain real estate operations, execute innovation space management agreements, and procure resources for enhanced innovation, activation and programming. Because the Corporation's Board consists of University employees and members appointed by the Chancellor and its sole purpose is to support and benefit the University, the Corporation and the LLCs are considered part of the University for financial reporting purposes.

Separate financial statements for the Investment Fund, for the Corporation and the LLCs may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

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

Discretely Presented Component Units - The North Carolina State University Foundation, Inc. (Foundation) and The North Carolina Agricultural Foundation, Inc. (Agricultural Foundation) are legally separate nonprofit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Foundation and Agricultural Foundation are legally separate, tax-exempt component units of the University. These entities act primarily as fund-raising organizations to supplement the resources that are available to the University in support of its programs. Separate Boards of

Directors govern these entities independent of the University's Board of Trustees. Although the University does not control the timing or amount of receipts from these entities, the majority of resources, or income thereon that these entities hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by these entities can only be used by, or for the benefit of the University, these entities are considered component units of the University and are reported in separate financial statements because of the difference in their reporting model, as described below.

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

During the year ended June 30, 2019, the Foundation distributed \$20,093,458 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

During the year ended June 30, 2019, the Agricultural Foundation distributed \$18,763,793 to the University for both restricted and unrestricted purposes. Complete financial statements for the Agricultural Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

- 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, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

Domestic stocks are reported at cost since there are no readily determinable fair values. These investments consist of technology transfer stocks and the Wolfpack Investor Network's Seed Capital Endowment Fund stocks.

The Kamphoefner art collection, a gift to the Endowment Fund in 1979, is recorded at estimated fair value as of the date of donation. Mineral rights were a gift to the Endowment Fund in 1987. The most recent sale from 2016 was used to adjust the value per acre.

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.

Restricted investments include funds of affiliated entities that are neither part of the University's reporting entity nor reported discretely but invested through the Investment Fund.

- 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 and merchandise for resale, are valued at cost using the first-in, first-out method. Exceptions are the bookstore which uses the retail inventory method, and physical plant, which uses the moving weighted average method.
- H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater.

Depreciation and amortization are 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	10-50 years
Machinery and Equipment	4-22 years
General Infrastructure	15-75 years
Computer Software	2-15 years

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

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

- J. Funds Held in Trust for Pool Participants** - Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.
- K. 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. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes: revenue bonds, revenue bonds from direct placement, notes from direct borrowings, and capital leases. Other long-term liabilities include: pollution remediation, asset retirement obligations, compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

Revenue bonds are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Losses on refunding and issuance costs on bonds are not material to the accompanying financial statements and are expensed in the year 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 2018 *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 2018 *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.

- L. 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.

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

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.

- N. 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.

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

- P. **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.

- Q. 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, the Creamery, Telecommunications, Physical Plant, and Motor Pool. 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, 2019, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$519,194,823, 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 1.3 years as of June 30, 2019. 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, 2019 was \$446,443. The carrying amount of the University's deposits not with the State Treasurer was \$1,609,463, and the bank balance was \$2,648,238. 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 follows the Cash Management Plan (Plan) approved by the North Carolina Office of the State Controller. As provided by the Plan, imprest checking accounts are established with outside banks when considered effective in meeting management objectives. All imprest checking accounts are authorized by the University Treasurer and are limited to the minimum amount needed for sanctioned purposes. In addition, pursuant to G.S. 116-36(e), the University invests certain endowment funds with outside bank accounts. The University does not have a deposit policy for custodial credit risk. As of June 30, 2019, the University's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$1,860,217.

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

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

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

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

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

Investments of the Endowment Fund, including those invested in the Investment Fund, a University component unit, 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.

Investment Fund - The Investment Fund began operations in April 1999 and is classified as a non-rated 2a7-like governmental external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. The Endowment Fund of North Carolina State University, The North Carolina Agricultural Foundation, Inc., and the North Carolina State University Foundation, Inc. represent the Investment Fund’s internal participants. The North Carolina Agricultural Foundation, Inc. and the North Carolina State University Foundation, Inc. are discretely presented component units in the accompanying financial statements. Other affiliated organizations not included in the University’s reporting entity represent the Investment Fund’s external participants. The external portion of the Investment Fund is presented in the accompanying financial statements as “Funds Held in Trust for Pool Participants.” The Investment Fund includes the Long-Term Investment Pool (LTIP) and the Intermediate Term Fund (ITF) which was established on July 3, 2014 for the collective investment of the participants’ excess operating funds.

The Investment Fund is not subject to any formal oversight other than that provided by the Investment Fund Members Board or its Board of Directors. The Members Board is responsible for adopting investment objectives and policies and for monitoring policy implementation and investment performance. The Members Board has chosen not to make individual security selection decisions. The Board of Directors has the responsibility to oversee the allocation of the Investment Fund’s portfolio among the asset classes, investment vehicles, and investment managers. Authority to manage the ITF in accordance with the investment policy has been

granted jointly to the University's Vice Chancellor and Associate Vice Chancellor for Finance and Administration.

Bank of New York Mellon is the custodian for the Investment Fund and provides the University with quarterly statements defining income and fair value information, which is then allocated among the fund's participants. Each participant holds Master Trust Units of the Investment Fund. The unit price fluctuates based on the investment experience of the investment pool. There are no involuntary participants in the Investment Fund. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Investment Fund's investments. The annual financial report for the Investment Fund may be obtained from the Foundations Accounting and Investment Office, Campus Box 7207, Raleigh, NC 27695 or by calling (919) 513-7149 or at <http://foundationsaccounting.ofa.ncsu.edu/investment-fund>.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2019, for the Investment Fund.

Investment Fund

Investment Type	Amount	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Collective Investment Funds	\$ 105,923,549	\$ 80,161,600	\$ 9,475,477	\$ 16,286,472
Debt Mutual Funds	187,934,765		160,113,256	27,821,509
Total Debt Securities	293,858,314	<u>\$ 80,161,600</u>	<u>\$ 169,588,733</u>	<u>\$ 44,107,981</u>
Other Securities				
UNC Investment Fund	919,627,814			
Private Equity Limited Partnerships	23,115,694			
Total Investment Fund	<u>\$ 1,236,601,822</u>			

At June 30, 2019, investments in the Investment Fund had the following credit quality distribution for securities with credit exposure (based on S&P rating):

	Amount	AAA Aaa	A	Baa BBB	BB/Ba and below	Unrated	Exempt
Collective Investment Funds	\$ 105,923,549	\$ 8,944,572	\$ 16,286,472	\$ 0	\$ 530,905	\$ 0	\$ 80,161,600
Debt Mutual Funds	187,934,765			114,079,941	27,821,509	46,033,315	
Totals	<u>\$ 293,858,314</u>	<u>\$ 8,944,572</u>	<u>\$ 16,286,472</u>	<u>\$ 114,079,941</u>	<u>\$ 28,352,414</u>	<u>\$ 46,033,315</u>	<u>\$ 80,161,600</u>

UNC Investment Fund, LLC - At June 30, 2019, the University's investments include \$919,627,814, 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, 2019, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Amount	Investment Maturities (in Years) <u>Less</u> <u>Than 1</u>
Debt Securities		
Money Market Mutual Funds	\$ 2,131	<u>\$ 2,131</u>
Other Securities		
Domestic Stocks	330,611	
Collections and Mineral Rights	<u>65,134</u>	
Total Non-Pooled Investments	<u>\$ 397,876</u>	

At June 30, 2019, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure (based on Moody's and S&P ratings):

	Amount	AAA Aaa
Money Market Mutual Funds	<u>\$ 2,131</u>	<u>\$ 2,131</u>

Total Investments - The following table presents the total investments at June 30, 2019:

Investment Type	Amount
Debt Securities	
Collective Investment Funds	\$ 105,923,549
Debt Mutual Funds	187,934,765
Money Market Mutual Funds	2,131
Other Securities	
UNC Investment Fund	919,627,814
Private Equity Limited Partnerships	23,115,694
Domestic Stocks	330,611
Collections and Mineral Rights	<u>65,134</u>
Total Investments	<u>\$ 1,236,999,698</u>

Total investments include \$448,625,322 held in the Investment Fund for the North Carolina State University Foundation, Inc. and The North Carolina Agricultural Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments are recorded at fair value as of June 30, 2019. 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, 2019:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Collective Investment Funds	\$ 105,923,549	\$ 105,923,549	\$ 0	\$ 0
Debt Mutual Funds	187,934,765	187,934,765		
Money Market Mutual Funds	2,131	2,131		
Total Investments by Fair Value Level	293,860,445	\$ 293,860,445	\$ 0	\$ 0
Investments Measured at the Net Asset Value (NAV)				
Private Equity Limited Partnerships	23,115,694			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	519,194,823			
UNC Investment Fund	919,627,814			
Total Investments as a Position in an External Investment Pool	1,438,822,637			
Total Investments Measured at Fair Value	\$ 1,755,798,776			

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

Short-Term Investment Fund - Ownership interests of the STIF are 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.

The following table presents the valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) at June 30, 2019.

Investments Measured at the NAV	Fair Value	Unfunded Commitments	Redemption	Redemption
			Frequency (If Currently Eligible)	Notice Period
Private Equity Limited Partnerships	\$ 23,115,694	\$ 45,468,121	N/A	N/A

Private Equity Limited Partnerships - Private equities include venture capital partnerships, buy-outs, and international funds. The valuation of the underlying

private companies requires significant judgment and interpretation by the general partners of the underlying investment partnerships due to the absence of quoted market values, inherent lack of liquidity and the long-term nature of such investments. Private companies are initially valued based upon transaction price, with subsequent adjustments to values which reflect the consideration of available market data, including primarily observations of the trading multiples of public companies considered comparable to the private companies being valued. Valuations are also adjusted to give consideration to the financial condition and operating results specific to the issuer, the lack of liquidity inherent in a non-public investment, credit markets, and the fact that comparable public companies are not identical to the companies being valued.

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, or applicable State of NC law. 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 pooled endowment funds are determined by applying 4% (the Board approved spending rate) to the average market value of the long term investment pool (for a twenty quarter period), divided by the number of investment units in the pool to determine the "average spending amount" per unit of investment. The individual endowment fund payout or spending budget is then determined by applying the "average spending amount" to the number of investment units held by the individual endowment fund. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted and unrestricted, expendable net position endowment balances to make up the difference. At June 30, 2019, net appreciation of \$217,936,130 was available to be spent, of which \$190,410,981 was restricted to specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2019, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,240,113	\$ 1,363,215	\$ 876,898
Student Sponsors	1,823,243		1,823,243
Accounts	10,292,282	1,690,943	8,601,339
Intergovernmental	44,214,017		44,214,017
Grant Sponsors	23,988,969		23,988,969
Interest on Loans	531,585	487,031	44,554
Federal Interest Subsidy on Debt	305,671		305,671
Total Current Receivables	\$ 83,395,880	\$ 3,541,189	\$ 79,854,691
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 2,544,324	\$ 10,640	\$ 2,533,684
Institutional Student Loan Programs	326,830	2,280	324,550
Total Notes Receivable - Current	\$ 2,871,154	\$ 12,920	\$ 2,858,234
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 7,101,932	\$ 746,129	\$ 6,355,803
Institutional Student Loan Programs	350,772	156,297	194,475
Total Notes Receivable - Noncurrent	\$ 7,452,704	\$ 902,426	\$ 6,550,278

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2019, is presented as follows:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 74,815,569	\$ 2,221,734	\$ 0	\$ 77,037,303
Construction in Progress	81,586,636	130,160,073	73,106,913	138,639,796
Computer Software in Development		3,173,189	3,173,189	
Total Capital Assets, Nondepreciable	156,402,205	135,554,996	76,280,102	215,677,099
Capital Assets, Depreciable:				
Buildings	2,333,867,437	54,161,764	8,418,954	2,379,610,247
Machinery and Equipment	401,631,210	32,345,385	19,179,797	414,796,798
General Infrastructure	214,650,572	18,945,149		233,595,721
Computer Software	29,141,865	3,173,189		32,315,054
Total Capital Assets, Depreciable	2,979,291,084	108,625,487	27,598,751	3,060,317,820
Less Accumulated Depreciation/Amortization for:				
Buildings	751,794,628	67,264,402	7,403,663	811,655,367
Machinery and Equipment	236,560,933	23,625,066	17,579,594	242,606,405
General Infrastructure	73,896,588	5,355,976		79,252,564
Computer Software	19,134,725	4,037,613		23,172,338
Total Accumulated Depreciation/Amortization	1,081,386,874	100,283,057	24,983,257	1,156,686,674
Total Capital Assets, Depreciable, Net	1,897,904,210	8,342,430	2,615,494	1,903,631,146
Capital Assets, Net	\$ 2,054,306,415	\$ 143,897,426	\$ 78,895,596	\$ 2,119,308,245

During the year ended June 30, 2019, the University incurred \$23,059,830 in interest costs related to the acquisition and construction of capital assets. Of this total, \$21,535,407 was charged in interest expense, and \$1,524,422 was capitalized.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2019, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 20,966,289
Accounts Payable - Capital Assets	25,705,687
Accrued Payroll	6,305,804
Contract Retainage	5,075,158
Other	11,519,675
	<hr/>
Total Current Accounts Payable and Accrued Liabilities	\$ 69,572,613

NOTE 8 - SHORT-TERM DEBT - COMMERCIAL PAPER PROGRAM AND LINE OF CREDIT

The University has available Commercial Paper Program financing for short-term debt credit up to \$100,000,000 to finance capital construction projects. The University's available funds are pledged to the Commercial Paper Program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2019, \$25,000,000 in Taxable Commercial Paper was outstanding. The outstanding commercial paper contains a provision that on the occurrence and continuance of an event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds to be immediately due and payable (except if matured installments are paid before any judgment or decree is obtained). Events of default are defined as (1) failure to make any payment when due or (2) failure to perform any covenant, condition, agreement, or provision (other than failure to pay), which failure continues for a period of 30 days after written notice, specifying such failure and requesting that it be remedied.

The NC State University Partnership Corporation (Corporation), through the NC State University Centennial Development LLC, has available a Line of Credit, from Paragon Bank, up to \$300,000 for operations at the Lonnie Poole Golf Course. The line is unsecured and must maintain a zero balance for at least 30 consecutive days during each twelve months. As of June 30, 2019, \$135,631 was outstanding. The outstanding Line of Credit contains an event of default provision that if the Corporation is unable to make any payment when due, all commitments and obligations of the Lender immediately will terminate and, at Lender's option, all indebtedness immediately will become due and payable. Also, upon default, the interest rate on the Line of Credit will be increased by an additional 3% margin, subject to the maximum interest rate limitations under applicable law.

Short-term debt activity for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Draws	Repayments	Balance June 30, 2019
Commercial Paper Program	\$ 20,000,000	\$ 140,000,000	\$ 135,000,000	\$ 25,000,000
Partnership Corporation - Line of Credit	130,000	320,631	315,000	135,631
Total Short-Term Debt	\$ 20,130,000	\$ 140,320,631	\$ 135,315,000	\$ 25,135,631

Unused Line of Credit - The NC State University Partnership Corporation, through the NC State University Centennial Development LLC, has an unused portion of their Line of Credit in the amount of \$164,369.

NOTE 9 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2019, is presented as follows:

	Balance July 1, 2018 (as Restated)	Additions	Reductions	Balance June 30, 2019	Current Portion
Long-Term Debt Payable					
Revenue Bonds	\$ 421,735,000	\$ 0	\$ 14,690,000	\$ 407,045,000	\$ 13,250,000
Revenue Bonds from Direct Placement	46,343,316		4,261,019	42,082,297	4,368,469
Plus: Unamortized Premium	31,799,494		2,527,225	29,272,269	
Total Revenue Bonds, Net	499,877,810		21,478,244	478,399,566	17,618,469
Notes from Direct Borrowings	65,224,375		4,012,878	61,211,497	4,505,104
Capital Leases	556,237		211,593	344,644	200,866
Total Long-Term Debt Payable	565,658,422		25,702,715	539,955,707	22,324,439
Other Long-Term Liabilities					
Pollution Remediation	4,645,973		154,254	4,491,719	103,451
Asset Retirement Obligations	13,380,000	347,880		13,727,880	
Employee Benefits					
Compensated Absences	71,474,078	57,367,574	45,403,523	83,438,129	3,783,627
Net Pension Liability	176,617,483	45,041,896		221,659,379	
Net Other Postemployment Benefit Liability	1,161,399,772		68,141,377	1,093,258,395	
Workers' Compensation	12,028,367	4,142,842	3,777,486	12,393,723	1,998,569
Total Other Long-Term Liabilities	1,439,545,673	106,900,192	117,476,640	1,428,969,225	5,885,647
Total Long-Term Liabilities, Net	\$ 2,005,204,095	\$ 106,900,192	\$ 143,179,355	\$ 1,968,924,932	\$ 28,210,086

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 benefit liability is included in Note 15

B. Revenue Bonds and Revenue Bonds from Direct Placement - The University was indebted for revenue bonds and revenue bonds from direct placement 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, 2019	Principal Outstanding June 30, 2019
<u>General Revenue</u>						
Various Construction Projects	2010A	5%	10/01/2022	\$ 18,065,000	\$ 11,445,000	\$ 6,620,000
Various Construction Projects	2010B	5.079% - 6.027% *	10/01/2035	59,565,000		59,565,000
Adv Refund 2005A / Wolf Ridge Housing	2013A	2% - 5%	10/01/2042	132,440,000	6,780,000	125,660,000
Adv Refund 2005A / Talley Student Union	2013B	1.716% - 4%	10/01/2041	141,650,000	9,520,000	132,130,000
Refund 2003B and 2015	2018	5%	10/01/2028	87,165,000	4,095,000	83,070,000
Total Revenue Bonds				438,885,000	31,840,000	407,045,000
<u>General Revenue Direct Placement</u>						
Various Construction Projects	2017	2.58%	10/01/2031	50,438,952	8,356,655	42,082,297
Total Revenue Bonds and Revenue Bonds from Direct Placement (principal only)				\$ 489,323,952	\$ 40,196,655	449,127,297
Plus: Unamortized Premium						29,272,269
Total Revenue Bonds and Revenue Bonds from Direct Placement, Net						\$ 478,399,566

* The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 32% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

C. Terms of Debt Agreements - The University's debt agreements are subject to the following collateral requirements and terms with finance-related consequences:

Revenue Bonds and Revenue Bonds from Direct Placement - The outstanding revenue bonds and revenue bonds from direct placement contain provisions that on the occurrence and continuance of an event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds to be immediately due and payable (except if matured installments are paid before any judgment or decree is obtained). Events of default are defined as (1) failure to make any payment when due or (2) failure to perform any covenant, condition, agreement, or provision (other than failure to pay), which failure continues for a period of 30 days after written notice, specifying such failure and requesting that it be remedied.

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the outstanding notes from direct borrowings. The outstanding notes from direct borrowings also contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of nonappropriation from the State occurs, or (3) the University fails to perform any warranty, covenant, condition, or agreement within 30 days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within 30 days.

Upon the occurrence of any event of default, the lender may, without any further demand or notice, declare the unpaid principal amount plus any accrued and unpaid interest be due and payable immediately. The lender may also exercise all remedies available by law or in the equity provided under the agreement, including sale of the secured assets, and apply the proceeds of any such sale to the amounts due after deducting all costs and expenses related to the recovery, repair, storage, and sale of the secured assets, including court costs and reasonable attorneys' fees incurred.

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2019, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds		Revenue Bonds from Direct Placement		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 13,250,000	\$ 18,525,533	\$ 4,368,469	\$ 1,029,370	\$ 4,505,104	\$ 2,296,412
2021	13,790,000	17,956,322	4,296,318	917,594	4,987,707	2,114,936
2022	14,415,000	17,320,735	4,408,612	805,301	5,500,029	1,913,907
2023	15,060,000	16,663,008	4,523,840	690,072	6,085,066	1,691,346
2024	15,735,000	15,968,576	3,629,012	584,900	6,600,585	1,446,955
2025-2029	92,590,000	67,308,661	14,407,879	1,698,233	33,533,006	2,899,399
2030-2034	88,455,000	42,026,763	6,448,167	252,405		
2035-2039	78,310,000	24,602,123				
2040-2043	75,440,000	6,894,600				
Total Requirements	\$ 407,045,000	\$ 227,266,321	\$ 42,082,297	\$ 5,977,875	\$ 61,211,497	\$ 12,362,955

E. Notes from Direct Borrowings - The University was indebted for notes from direct borrowings 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, 2019	Principal Outstanding June 30, 2019
Energy Conservation Loan	BB&T	3.245%	09/01/2028	\$ 19,700,703	\$ 5,171,844	\$ 14,528,859
Energy Conservation Loan	Bank of America	4.07%	08/17/2028	56,060,010	9,377,372	46,682,638
Total Notes from Direct Borrowings				\$ 75,760,713	\$ 14,549,216	\$ 61,211,497

F. Pollution Remediation - The University has recognized a pollution remediation liability for remediation of Lot 86 which the University used as a burial site for hazardous chemical and low level radioactive waste generated in the University's laboratories. The amount of the estimated liability is \$4,491,719. This estimate was calculated at its expected amount, using the expected cash flow technique. This liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

G. Asset Retirement Obligations - The University has asset retirement obligations arising from federal regulations to perform certain

decommissioning activities at the time of disposal of its PULSTAR reactor facility. These activities include removal of all activated reactor components, demolition of the reactor biological shield, and disposal costs for radioactive materials. The amount of the estimated liability is \$13,727,880. The liability was estimated by analyzing the actual decommissioning costs of a representative university reactor facility and adjusting the costs to be consistent with the NC State PULSTAR facility. Costs were also adjusted for the effects of inflation. At year-end, the estimated remaining useful life of the PULSTAR reactor facility was 44 years. In accordance with 10 CFR 50.75(e)(1)(iv), the University has provided the following Statement of Intent regarding decommissioning funding. The University is a State government organization and decommissioning funding obligations are fully backed by the State of North Carolina. Decommissioning funds will be appropriated when necessary following the provisions of NC General Statute 116-11(9)(a).

NOTE 10 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to 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, 2019:

<u>Fiscal Year</u>	<u>Amount</u>
2020	\$ 222,709
2021	133,853
2022	<u>20,110</u>
Total Minimum Lease Payments	376,672
Amount Representing Interest (8.5% Rate of Interest)	<u>32,028</u>
Present Value of Future Lease Payments	<u>\$ 344,644</u>

Machinery and equipment acquired under capital lease amounted to \$978,676 at June 30, 2019.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$677,151 at June 30, 2019.

B. Operating Lease Obligations - The University entered into operating leases for equipment and property rental. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2019:

<u>Fiscal Year</u>	<u>Amount</u>
2020	\$ 12,386,305
2021	11,564,684
2022	10,967,831
2023	9,584,161
2024	9,393,120
2025-2029	27,981,400
2030-2034	1,334,315
Total Minimum Lease Payments	<u>\$ 83,211,816</u>

Rental expense for all operating leases during the year was \$15,526,915.

NOTE 11 - NET POSITION

The deficit in unrestricted net position of \$1,379,966,310 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	\$ 127,152,516	\$ 0	\$ 127,152,516
Deferred Outflows Related to OPEB		150,573,713	150,573,713
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	221,659,379		221,659,379
Net OPEB Liability		1,093,258,395	1,093,258,395
Deferred Inflows Related to Pensions	2,224,500		2,224,500
Deferred Inflows Related to OPEB		672,629,005	672,629,005
Net Effect on Unrestricted Net Position	<u>\$ (96,731,363)</u>	<u>\$ (1,615,313,687)</u>	<u>\$ (1,712,045,050)</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.

NOTE 12 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	\$ 451,777,645	\$ 107,672,856	\$ 252,952	\$ 343,851,837
Sales and Services, Net	\$ 293,980,841	\$ 23,641,355	\$ 297,960	\$ 270,041,526
Other Revenues, Net	\$ 19,441,254	\$ 0	\$ 147,087	\$ 19,294,167

NOTE 13 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 394,458,649	\$ 26,360,250	\$ 49,191,439	\$ 0	\$ 3,850	\$ 0	\$ 470,014,188
Research	183,089,794	25,016,044	88,587,085		829,274		297,522,197
Public Service	90,689,355	13,059,642	31,514,969		495,528		135,759,494
Academic Support	49,223,684	17,514,903	25,217,001		29,980		91,985,568
Student Services	21,053,579	1,570,160	8,882,506		479,694		31,985,939
Institutional Support	79,739,960	5,271,465	22,149,550		9,225		107,170,200
Operations and Maintenance of Plant	38,996,590	7,740,235	10,785,337		24,903,220		82,425,382
Student Financial Aid	1,438,777	24,029	1,191,517	45,860,068			48,514,391
Auxiliary Enterprises	87,240,214	35,863,900	60,249,761		7,519,216		190,873,091
Depreciation/ Amortization						100,283,057	100,283,057
Total Operating Expenses	\$ 945,930,602	\$ 132,420,628	\$ 297,769,165	\$ 45,860,068	\$ 34,269,987	\$ 100,283,057	\$ 1,556,533,507

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, 2019 was 12.29% of covered payroll. Employee contributions to the pension plan were \$20,804,569, and the University's contributions were \$42,614,693 for the year ended June 30, 2019.

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 2018 *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. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

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 2018 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2019, the University reported a liability of \$221,659,379 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total pension liability to June 30, 2018. 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, 2018, the University's proportion was 2.22637%, which was an increase of 0.00041 from its proportion measured as of June 30, 2017, which was 2.22596%.

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	12/31/2017
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.00%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return includes inflation assumption and is 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, 2017 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, 2018 (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, 2018 is 1.5%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.20% to 7.00% for the December 31, 2017 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, 2018 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

Net Pension Liability		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ 422,742,000	\$ 221,659,379	\$ 52,931,145

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2019, the University recognized pension expense of \$52,968,708. At June 30, 2019, 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	\$ 16,176,849	\$ 2,224,500
Changes of Assumptions	44,481,336	
Net Difference Between Projected and Actual Earnings on Plan Investments	21,124,177	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,755,461	
Contributions Subsequent to the Measurement Date	42,614,693	
Total	\$ 127,152,516	\$ 2,224,500

The amount of \$42,614,693 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, 2020. 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>
2020	\$ 48,409,682
2021	30,435,938
2022	3,855,604
2023	(387,901)
Total	<u>\$ 82,313,323</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, 2019, 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 \$830,134,768, of which \$322,196,320 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$19,331,779 and \$22,038,228, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. The University had forfeitures reflected in pension expense for the current fiscal year of \$1,364,683.

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 2018 *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. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the 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 2018 *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 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 North Carolina General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the North Carolina 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 North Carolina

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 North Carolina General Assembly in the Appropriations Bill. The University's contractually-required contribution rate for the year ended June 30, 2019 was 6.27% of covered payroll. The University's contributions to the RHBF were \$41,942,484 for the year ended June 30, 2019.

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 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 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 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 North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2019 was 0.14% of covered payroll. The University's contributions to DIPNC were \$936,515 for the year ended June 30, 2019.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2019, the University reported a liability of \$1,093,258,395 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total OPEB liability to June 30, 2018. 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, 2018, the University's proportion was 3.83759%, which was an increase of 0.29529 from its proportion measured as of June 30, 2017, which was 3.54230%.

Net OPEB Asset: At June 30, 2019, the University reported an asset of \$1,182,000 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2018. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total OPEB asset to June 30, 2018. 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, 2018, the University's proportion was 3.89123%, which was an increase of 0.03948 from its proportion measured as of June 30, 2017, which was 3.85175%.

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2017, 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, 2018 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2017	12/31/2017
Inflation	3.00%	3.00%
Salary Increases*	8.10% grading down to 3.50% depending on employee class	3.50% - 8.10%
Investment Rate of Return**	7.00%	3.75%
Healthcare Cost Trend Rate - Medical	6.50% grading down to 5.00% by 2024	6.50% grading down to 5.00% by 2024
Healthcare Cost Trend Rate - Prescription Drug	7.25% grading down to 5.00% by 2027	N/A
Healthcare Cost Trend Rate - Medicare Advantage	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, 2018.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2018 (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, 2018 is 1.5%.

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, 2017 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.87%. 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 3.87% was used as the discount rate used to measure the total OPEB liability. The 3.87% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2018.

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 (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
RHBF	\$	1,291,697,450	\$ 1,093,258,395	\$ 934,190,674
		1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$	(905,684)	\$ (1,182,000)	\$ (1,447,071)

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 - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 7.25%, Med. Advantage - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 8.25%, Med. Advantage - 6.00%, Administrative - 4.00%)
RHBF Net OPEB Liability	\$	901,910,824	\$ 1,093,258,395	\$ 1,344,463,391
		1% Decrease (5.50% grading down to 4.00% in 2024)	Current Healthcare Cost Trend Rates (6.50% grading down to 5.00% in 2024)	1% Increase (7.50% grading down to 6.00% in 2024)
DIPNC Net OPEB Asset	\$	(1,185,424.00)	\$ (1,182,000.00)	\$ (1,178,770.00)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2019, the University recognized OPEB a contra-expense of \$24,146,653 for RHBF and an expense of \$45,747 for DIPNC. At June 30, 2019, 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:

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 0	\$ 2,061,885	\$ 2,061,885
Changes of Assumptions		223,201	223,201
Net Difference Between Projected and Actual Earnings on Plan Investments	117,574	920,548	1,038,122
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	108,513,655		108,513,655
Contributions Subsequent to the Measurement Date	<u>41,942,484</u>	<u>936,515</u>	<u>42,878,999</u>
Total	<u>\$ 150,573,713</u>	<u>\$ 4,142,149</u>	<u>\$ 154,715,862</u>

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	\$ 74,761,830	\$ 0	\$ 74,761,830
Changes of Assumptions	473,624,775		473,624,775
Net Difference Between Projected and Actual Earnings on Plan Investments			
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>124,242,400</u>	<u>83,260</u>	<u>124,325,660</u>
Total	<u>\$ 672,629,005</u>	<u>\$ 83,260</u>	<u>\$ 672,712,265</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, 2020. 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>
2020	\$ (136,503,937)	\$ 760,333
2021	(136,503,937)	760,215
2022	(136,503,937)	564,335
2023	(136,387,035)	434,173
2024	(18,098,930)	301,716
Thereafter	_____	301,602
Total	<u>\$ (563,997,776)</u>	<u>\$ 3,122,374</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 .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. University departments, as an individual business decision, may also purchase through the Fund primary extended coverage for buildings and contents. Coverage may also be purchased through the Fund for theft, vandalism, sprinkler leakage, or all-risk perils. University departments also have the option to purchase all-risk coverage for computers and "miscellaneous equipment" on a scheduled basis. Flood insurance may also be purchased through the Fund for qualifying assets. Receipts-supported auxiliary units insure assets for additional perils coverage, as per the options noted above, in addition to the fire and lightning perils. General-funded departments and units insure for the perils of fire and lightning with the exception of certain coastal properties which are also insured for extended coverage perils and the peril of flood.

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 \$2,000,000 per claim and \$10,000,000 in the aggregate per fiscal year 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 \$1,000,000 per occurrence. The applicable deductible is \$25,000 per occurrence.

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 and the State's Agent of Record. The types of insurance policies purchased include: medical professional liability, veterinary professional liability, fine arts property, master crime, inland marine property for musical instruments, campers accident and sickness, athletic accident, boiler and machinery, watercraft, oceanographic equipment, cyber and data breach, student health, business travel, unmanned aerial systems liability, equine mortality, event cancellation, liquor liability, internship, volunteer liability, and nuclear energy liability.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts and other purchases were \$205,383,577 at June 30, 2019.

The University has amended the Use Agreement for the PNC Arena with the Centennial Authority (a related party) and therein agreed to make scheduled capital contributions totaling \$6,000,000 to the Authority's Building Enhancement Fund over a 15 year period. The total outstanding commitment on this agreement was \$1,750,000 as of June 30, 2019.

- B. Pending Litigation and Claims** - As previously reported, the NC School Boards Association, et. al. filed a civil action against various state officials in their official capacity seeking a judicial determination as to whether the state constitution requires certain monetary payments collected by state agencies to be paid to the local county school funds. On July 1, 2005, the NC Supreme Court held in favor of the school boards with regard to parking fines. The matter was remanded back to the trial court for disposition in accordance with the Superior Court's decision. On August 8, 2008, the Wake County Superior Court issued judgment that the estimated amounts collected from January 1, 1996, to June 30, 2005, by UNC Campuses belong and should have been paid to the public schools of the State by payment to the State's Civil Penalty and Forfeiture Fund. The manner in which the judgment will be settled is uncertain and is to be determined by the North Carolina General Assembly. At issue for NC State University is approximately \$6,749,207 in transportation fines collected since January 1, 1996, to June 30, 2005. Of this amount, the university has transferred \$2,273,817 to the Office of State Budget and Management leaving approximately \$4,475,390 still outstanding. Since July 2005, the University has been forwarding transportation fine collections, less collection costs, to the Office of State Budget and Management on a monthly basis.

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

NOTE 18 - RELATED PARTIES

Foundations - There are 8 separately incorporated nonprofit foundations associated with the University. These foundations are North Carolina Tobacco Foundation, Inc., North Carolina State University College of Sciences Foundation, Inc., NC State Engineering Foundation, Inc., North Carolina Veterinary Medical Foundation, Inc., NC State Natural Resources

Foundation, Inc., North Carolina Textile Foundation, Inc., NC State Student Aid Association, Inc., and the North Carolina State Alumni Association, Inc.

These organizations serve, in conjunction with the University's component units (See Note 1A), as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of these organizations, except for support from each organization to the University. This support approximated \$41,969,734 for the year ended June 30, 2019.

Reynolds Coliseum - The NC State Student Aid Association, Inc., agreed to fund \$20,000,000 of the \$35,000,000 project to renovate the University's Reynolds Coliseum.

Nonprofit Corporation - The Centennial Authority (Authority) was created by the 1995 General Assembly (Senate Bill 606) for the purpose of studying, designing, planning, constructing, owning, promoting, financing and operating a regional facility on land owned by the State. Prior to this act, the General Assembly authorized the construction by the University of a facility to be known as the "Entertainment and Sports Arena" (ESA). This facility serves as a regional sports entertainment center and is available for cultural performances, sporting events and other activities of the University or of other entities (the Centennial Center project). With the 1995 legislation, the Centennial Center project was transferred to the Authority.

The Authority entered into a Ground Lease with the State of North Carolina to lease land for the ESA for a period of 99 years at an annual rent of \$1. The University entered into a Use Agreement with the Authority. Both parties agreed that the University shall be the primary and preferred user of all areas of the ESA. The University is required to pay the greater of 10% of gross ticket revenues or \$53,912 for each men's and \$23,590 for each women's basketball game to compensate the Authority for facility rental and operating expenses for games held during fiscal year 2019. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the ESA and the anticipated attendance. In fiscal year 2012, the name of the ESA was changed to "PNC Arena."

In fiscal year 2008, the University entered a Capital Improvement Plan Agreement with the Authority to pay \$6,000,000 in quarterly installments over 15 years.

NOTE 19 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2019, is presented as follows:

*Condensed Statement of Net Position
June 30, 2019*

	North Carolina State University	NC State Investment Fund Inc.	NC State University Partnership Corporation	Eliminations	Total
ASSETS					
Current Assets	\$ 446,412,566	\$ 25,952,252	\$ 1,902,422	\$ 0	\$ 474,267,240
Capital Assets, Net	2,099,234,767		20,073,478		2,119,308,245
Other Noncurrent Assets	203,289,713	787,976,500 ¹		(44,030,996)	947,235,217
Primary Government Receivable from Component Unit	2,785,750			(2,785,750)	
Total Assets	<u>2,751,722,796</u>	<u>813,928,752</u>	<u>21,975,900</u>	<u>(46,816,746)</u>	<u>3,540,810,702</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>295,291,194</u>				<u>295,291,194</u>
LIABILITIES					
Current Liabilities	196,540,687	596,715	980,555		198,117,957
Long-Term Liabilities, Net	1,940,714,846				1,940,714,846
Other Noncurrent Liabilities	448,708,459		143,778	(44,030,996)	404,821,241
Component Unit Payable to Primary Government			2,785,750	(2,785,750)	
Total Liabilities	<u>2,585,963,992</u>	<u>596,715</u>	<u>3,910,083</u>	<u>(46,816,746)</u>	<u>2,543,654,044</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>674,936,765</u>				<u>674,936,765</u>
NET POSITION					
Net Investment in Capital Assets	1,495,543,140		16,936,280		1,512,479,420
Restricted - Nonexpendable	(658,150,514)	813,332,037 ²			155,181,523
Restricted - Expendable	329,671,974		144,480		329,816,454
Unrestricted	<u>(1,380,951,367)</u>		<u>985,057</u>		<u>(1,379,966,310)</u>
Total Net Position	<u>\$ (213,886,767)</u>	<u>\$ 813,332,037</u>	<u>\$ 18,065,817</u>	<u>\$ 0</u>	<u>\$ 617,511,087</u>

¹ Total investments in the NC State Investment Fund, Inc. audit report included \$448,625,322 held in the Investment Fund for the North Carolina State University Foundation, Inc. and The North Carolina Agricultural Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements. See Note 2. It will therefore be excluded from the Condensed Statement of Net Position and the Condensed Statement of Revenues, Expenses, and Changes in Net Position.

² Restricted Nonexpendable assets are held in the NC State Investment Fund, Inc. while the associated liabilities are held in North Carolina State University statements resulting in a negative net position before blending.

*Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2019*

	North Carolina State University	NC State Investment Fund Inc.	NC State University Partnership Corporation	Eliminations	Total
OPERATING REVENUES					
Operating Revenue	\$ 973,987,753	\$ 0	\$ 3,209,285	\$ (1,926,365)	\$ 975,270,673
OPERATING EXPENSES					
Operating Expenses	1,451,770,071	2,953,988	3,452,756	(1,926,365)	1,456,250,450
Depreciation/Amortization	99,774,683		508,374		100,283,057
Total Operating Expenses	1,551,544,754	2,953,988	3,961,130	(1,926,365)	1,556,533,507
Operating Loss	(577,557,001)	(2,953,988)	(751,845)		(581,262,834)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	522,482,253				522,482,253
Noncapital Grants	49,972,420				49,972,420
Noncapital Gifts	81,084,954				81,084,954
Investment Income	(6,256,897)	47,717,780			41,460,883
Other Nonoperating Expenses	(18,317,160)		(40,858)		(18,358,018)
Net Nonoperating Revenues (Expenses)	628,965,570	47,717,780	(40,858)		676,642,492
Capital Appropriations	4,737,293				4,737,293
Capital Grants	48,520,885				48,520,885
Capital Gifts	12,660,468				12,660,468
Additions to Endowments	11,597,714				11,597,714
Increase (Decrease) in Net Position	128,924,929	44,763,792	(792,703)		172,896,018
NET POSITION					
Net Position, July 1, 2018	(342,811,696)	768,568,245	18,858,520		444,615,069
Net Position, June 30, 2019	\$ (213,886,767)	\$ 813,332,037	\$ 18,065,817	\$ 0	\$ 617,511,087

*Condensed Statement of Cash Flows
June 30, 2019*

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Total
Net Cash Used by Operating Activities	\$ (530,962,986)	\$ 0	\$ (900,483)	\$ (531,863,469)
Net Cash Provided by Noncapital Financing Activities	666,685,115			666,685,115
Net Cash Used by Capital and Related Financing Activities	(123,937,948)		(329,217)	(124,267,165)
Net Cash Provided by Investing Activities	21,388,174	9,001,999		30,390,173
Net Increase (Decrease) in Cash and Cash Equivalents	33,172,355	9,001,999	(1,229,700)	40,944,654
Cash and Cash Equivalents, July 1, 2018	460,729,552	16,950,253	2,626,270	480,306,075
Cash and Cash Equivalents, June 30, 2019	\$ 493,901,907	\$ 25,952,252	\$ 1,396,570	\$ 521,250,729

NOTE 20 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

University - For the fiscal year ended June 30, 2019, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 83, *Certain Asset Retirement Obligations*

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, and requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. A government's AROs are required to be adjusted at least annually for the effects of general inflation, deflation, or changes in relevant factors that significantly change the estimated ARO. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, the estimated remaining useful life of the associated tangible capital assets, and any AROs incurred but not yet recognized due to an inability to calculate a reasonable estimate.

GASB Statement No. 88 improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It defines debt for purposes of disclosure in notes to financial statements and requires disclosure of additional essential information, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events with finance-related consequences or significant subjective acceleration clauses. Additionally, this Statement requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

Component Units - For the fiscal year ended June 30, 2019, the North Carolina State University Foundation, Inc. and the North Carolina Agricultural Foundation, Inc. implemented Financial Accounting Standards Board Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update amends the requirements related to net asset classifications for not-for-profit entities. With this update, net assets on the face of the statement of financial position and changes in net assets on the face of the statement of activities are presented using two classes: *net assets with donor restrictions* and *net assets without donor restrictions*, in addition to the previously required total net assets and changes in total net assets.

Additionally, for the fiscal year ended June 30, 2019, the University had a change in the reporting entity. The NC State Student Aid Association, Inc. no

longer meets the criteria for inclusion as a component unit and was removed from the University's component unit financial statements.

NOTE 21 - DISCRETELY PRESENTED COMPONENT UNITS

The University's discretely presented component units use the accounting and reporting standards promulgated by FASB. Selected disclosures from the discretely presented component units' audited financial statements follow:

NORTH CAROLINA STATE UNIVERSITY FOUNDATION, INC.

Long-Term Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments at June 30, 2019 consisted of:

	<u>Cost</u>	<u>Fair Value</u>
STIF	\$ 73,869	\$ 73,869
NC State Investment Fund, Inc.		
Long Term Investment Pool (LTIP)	218,812,514	339,013,846
SRI Fund	47,578,824	54,105,065
Life Income Funds	<u>5,759,366</u>	<u>5,993,099</u>
Total	<u>\$ 272,224,573</u>	<u>\$ 399,185,879</u>

Life Income Funds

The consolidated financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is the trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2019 have asset balances of \$5,993,099.

The liabilities for distributions to grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries, and totaled \$5,294,083 at June 30, 2019. Payments from these funds were \$686,240 during the year ended June 30, 2019. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 10% from all new CGAs established in order to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 10% of the total value of the Foundation's CGA pool. As of June 30, 2019, the CGA reserve balance was \$82,443.

Pledges Receivable

Pledges receivable consisted of the following at June 30:

Receivable in Less than One Year	\$ 7,532,800
Receivable in One to Five Years	10,065,483
Receivable in Greater than Five Years	<u>230,000</u>
Total Gross Pledges Receivable	17,828,283
Less Allowance for Uncollectible Pledges	(892,000)
Less Unamortized Discount (Discount Rate of 1.78% to 2.00%)	<u>(663,052)</u>
Net Pledges Receivable	<u><u>\$ 16,273,231</u></u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation’s outstanding pledge balance, excluding large pledges for which signed memorandums of understanding exist and therefore the Foundation is reasonably assured of collecting. These three large pledges represented approximately \$18.0 million of total undiscounted pledges receivable at June 30, 2019. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

THE NORTH CAROLINA AGRICULTURAL FOUNDATION, INC.

Long-Term Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments at June 30, 2019 consisted of:

	<u>Cost</u>	<u>Fair Value</u>
STIF	\$ 50,908	\$ 50,908
NC State Investment Fund, Inc.		
Long Term Investment Pool (LTIP)	54,514,326	93,445,092
Life Income Funds	<u>9,853,106</u>	<u>10,054,394</u>
Total	<u><u>\$ 64,418,340</u></u>	<u><u>\$ 103,550,394</u></u>

Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is the trustee. The grantors and/or beneficiaries retain future income interests in these assets until their

death. These life income funds are recorded at fair value at the date of gift and marked to market thereafter. Life income funds at June 30, 2019 have asset balances of \$10,054,394.

The liabilities for distributions to the grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancies of the beneficiaries, and totaled \$5,634,468 at June 30, 2019. Payments from these funds were \$470,610 during the year ended June 30, 2019. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 10% from all new CGAs established to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 10% of the total value of the Foundation's CGA pool. As of June 30, 2019, the CGA reserve balance was \$66,120.

Pledges Receivable

Pledges receivable consisted of the following at June 30:

Receivable in Less than One Year	\$ 2,986,461
Receivable in One to Five Years	3,566,280
Receivable in Greater than Five Years	<u>1,800</u>
Total Gross Pledges Receivable	6,554,541
Less Allowance for Uncollectible Pledges	(328,000)
Less Unamortized Discount (Discount Rate of 1.83% to 2.00%)	<u>(224,150)</u>
Net Pledges Receivable	<u>\$ 6,002,391</u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

Three donors represent approximately \$2.25 million of total undiscounted pledges receivable at June 30, 2019.



REQUIRED SUPPLEMENTARY INFORMATION

North Carolina State University
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Six Fiscal Years*

Exhibit C-1

Teachers' and State Employees' Retirement System	2019	2018	2017
Proportionate Share Percentage of Collective Net Pension Liability	2.22637%	2.22596%	2.20202%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 221,659,379	\$ 176,617,483	\$ 202,388,385
Covered Payroll	\$ 331,594,965	\$ 324,634,557	\$ 312,155,082
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	66.85%	54.41%	64.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.61%	89.51%	87.32%
	2016	2015	2014
Proportionate Share Percentage of Collective Net Pension Liability	2.13940%	2.14599%	2.11750%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 78,841,126	\$ 25,160,037	\$ 128,553,827
Covered Payroll	\$ 308,539,969	\$ 305,353,765	\$ 306,165,883
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	25.55%	8.24%	41.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

**North Carolina State University
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years**

Exhibit C-2

Teachers' and State Employees' Retirement System	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 42,614,693	\$ 35,745,937	\$ 32,398,529	\$ 28,562,190	\$ 28,231,407
Contributions in Relation to the Contractually Determined Contribution	42,614,693	35,745,937	32,398,529	28,562,190	28,231,407
Contribution Deficiency (Excess)	<u>\$ 0</u>				
Covered Payroll	\$ 346,742,820	\$ 331,594,965	\$ 324,634,557	\$ 312,155,082	\$ 308,539,969
Contributions as a Percentage of Covered Payroll	12.29%	10.78%	9.98%	9.15%	9.15%
	2014	2013	2012	2011	2010
Contractually Required Contribution	\$ 26,535,242	\$ 25,503,618	\$ 22,231,989	\$ 15,004,360	\$ 10,741,148
Contributions in Relation to the Contractually Determined Contribution	26,535,242	25,503,618	22,231,989	15,004,360	10,741,148
Contribution Deficiency (Excess)	<u>\$ 0</u>				
Covered Payroll	\$ 305,353,765	\$ 306,165,883	\$ 298,817,058	\$ 304,348,067	\$ 300,872,483
Contributions as a Percentage of Covered Payroll	8.69%	8.33%	7.44%	4.93%	3.57%

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

Changes of Benefit Terms:

	<u>Cost of Living Increase</u>									
	<u>2017</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>
Teachers' and State Employees' Retirement System	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%

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 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 the Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. For the December 31, 2017 valuation, the discount rate was lowered to 7.00%.

The Board of Trustees also adopted a new asset valuation method for the Teachers' and State Employees' Retirement System. For determining plan funding requirements, the plan now uses 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 2018 *Comprehensive Annual Financial Report*.

N/A - Not Applicable

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

Exhibit C-3

Retiree Health Benefit Fund	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Liability	3.83759%	3.54230%	3.97671%
Proportionate Share of Collective Net OPEB Liability	\$ 1,093,258,395	\$ 1,161,399,772	\$ 1,730,004,018
Covered Payroll	\$ 640,552,115	\$ 622,217,834	\$ 593,161,610
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	170.67%	186.65%	291.66%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina			
Proportionate Share Percentage of Collective Net OPEB Asset	3.89123%	3.85175%	3.71882%
Proportionate Share of Collective Net OPEB Asset	\$ 1,182,000	\$ 2,354,190	\$ 2,309,387
Covered Payroll	\$ 640,522,115	\$ 622,217,834	\$ 593,161,610
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.18%	0.38%	0.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	108.47%	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*, as amended.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

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

Exhibit C-4

Retiree Health Benefit Fund	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 41,942,484	\$ 38,751,588	\$ 36,150,856	\$ 33,217,050	\$ 31,585,734
Contributions in Relation to the Contractually Determined Contribution	41,942,484	38,751,588	36,150,856	33,217,050	31,585,734
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 668,939,140	\$ 640,552,115	\$ 622,217,834	\$ 593,161,610	\$ 575,332,134
Contributions as a Percentage of Covered Payroll	6.27%	6.05%	5.81%	5.60%	5.49%
	2014	2013	2012	2011	2010
Contractually Required Contribution	\$ 29,986,156	\$ 28,822,840	\$ 26,143,971	\$ 25,706,534	\$ 23,250,220
Contributions in Relation to the Contractually Determined Contribution	29,986,156	28,822,840	26,143,971	25,706,534	23,250,220
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 555,299,176	\$ 543,827,170	\$ 522,879,422	\$ 524,560,133	\$ 516,671,564
Contributions as a Percentage of Covered Payroll	5.40%	5.30%	5.00%	4.90%	4.50%
	2019	2018	2017	2016	2015
Disability Income Plan of North Carolina					
Contractually Required Contribution	\$ 936,515	\$ 896,731	\$ 2,364,428	\$ 2,431,963	\$ 2,358,862
Contributions in Relation to the Contractually Determined Contribution	936,515	896,731	2,364,428	2,431,963	2,358,862
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 668,939,140	\$ 640,522,115	\$ 622,217,834	\$ 593,161,610	\$ 575,332,134
Contributions as a Percentage of Covered Payroll	0.14%	0.14%	0.38%	0.41%	0.41%
	2014	2013	2012	2011	2010
Contractually Required Contribution	\$ 2,443,316	\$ 2,392,840	\$ 2,718,973	\$ 2,728,040	\$ 2,686,692
Contributions in Relation to the Contractually Determined Contribution	2,443,316	2,392,840	2,718,973	2,728,040	2,686,692
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 555,299,176	\$ 543,827,170	\$ 522,879,422	\$ 524,560,133	\$ 516,671,564
Contributions as a Percentage of Covered Payroll	0.44%	0.44%	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 State University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

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

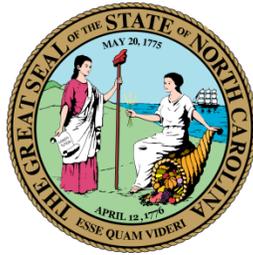
Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of University 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 (DIPNC). 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 RHBF and the DIPNC. 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 2018, for the December 31, 2017 actuarial valuation, the discount rate for the RHBF was updated to 3.87% and the medical and prescription drug claims cost were changed based on most recent experience. Enrollment assumptions were updated to model expected migrations among RHBF plan options and trend assumptions for the RHBF include contribution changes for the 2019 period as those amounts have been finalized.

Additionally, the December 31, 2017 DIPNC actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2018 *Comprehensive Annual Financial Report*.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
North Carolina State University
Raleigh, 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 State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 23, 2019. Our report includes a reference to other auditors who audited the financial statements of the NC State Investment Fund, Inc. and the discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the North Carolina State University Foundation, Inc., discretely presented component unit, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with this entity.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 23, 2019

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



This audit required 1,285 hours at an approximate cost of \$133,640.00.