

STATE OF NORTH CAROLINA

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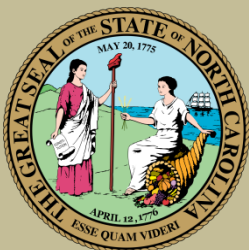
BETH A. WOOD, CPA



THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO

GREENSBORO, 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
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of The University of North Carolina at Greensboro 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

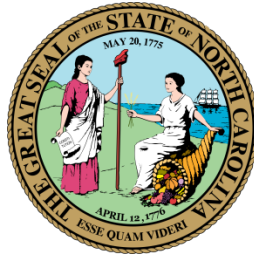


Beth A. Wood, CPA
State Auditor

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



INDEPENDENT AUDITOR'S REPORT

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Office of the State Auditor



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The University of North Carolina at Greensboro
Greensboro, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Greensboro (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Greensboro Investment Fund, Inc., which represent 13.09 percent and 1.78 percent, respectively, of the assets and revenues of the University; The UNCG Excellence Foundation, Inc., which represent 12.07 percent and 1.97 percent, respectively, of the assets and revenues of the University; nor the Capital Facilities Foundation, Inc., which represent 1.07 percent and 0.01 percent, respectively, of the assets and revenues of the University. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of The University of North Carolina at Greensboro Investment Fund, Inc., The UNCG Excellence Foundation, Inc., and the Capital Facilities 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 opinion.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Greensboro, as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

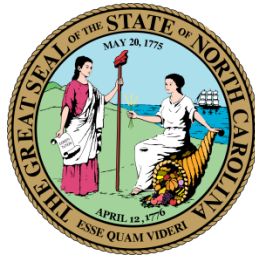
In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2019 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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

November 25, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The University of North Carolina at Greensboro (the "University") provides the following management discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2019. This discussion, the following financial statements, required supplementary information, and the related notes to the financial statements have been prepared by management and comprise the University's complete financial report. The financial statements, required supplementary information, notes to the financial statements, and this discussion are the responsibility of management.

The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. However, this discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the related financial statements, required supplementary information, and notes to the financial statements.

Using the Financial Report

The University's financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements, which establish standards for external financial reporting for public colleges and universities. GASB standards require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net position categories.

Restatements of Net Position

Net position as of July 1, 2018 was restated to recognize the University's workers' compensation liability. It was determined by the University and the North Carolina Office of the State Controller that GASB Codification C50, *Claims and Judgements*, establishes accounting and financial reporting standards for risk of loss from job-related illness or injuries to employees and that the amount of loss can be reasonably estimated as of the financial report date.

On May 31, 2019, The University of North Carolina at Greensboro Human Environmental Sciences Foundation (HES), Incorporated, a blended component unit of the University, and the affiliated entities of The Alumni Association of the University of North Carolina at Greensboro, Inc. and the Weatherspoon Art Museum Association, merged with The UNCG Excellence Foundation, Inc. This action was undertaken to realign the activities of these affiliated entities to the University's new strategic plan and mission, to increase efficiency in support of the University and its students and alumni, and to reduce annual costs.

In accordance with GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, the merger is considered effective at the beginning of the reporting period in which the combination occurs, or July 1, 2018 in this case, and a restatement of net position is required. HES was previously blended with the University as of June 30, 2018, while the other entities were not. Thus, the amount of the restatement only includes those entities not previously blended with the University. Refer to Note 20 of the notes to the financial statements for details.

Statement of Net Position

The Statement of Net Position is a “point of time” financial statement that presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University. The purpose of this financial statement is to present to the readers of the University’s financial report a fiscal snapshot as of the end of the fiscal year (i.e., June 30th). The Statement of Net Position presents both the current and noncurrent portions of assets and liabilities as well as deferred outflows and deferred inflows. The differences between current and noncurrent assets and liabilities are discussed further in the notes to the financial statements.

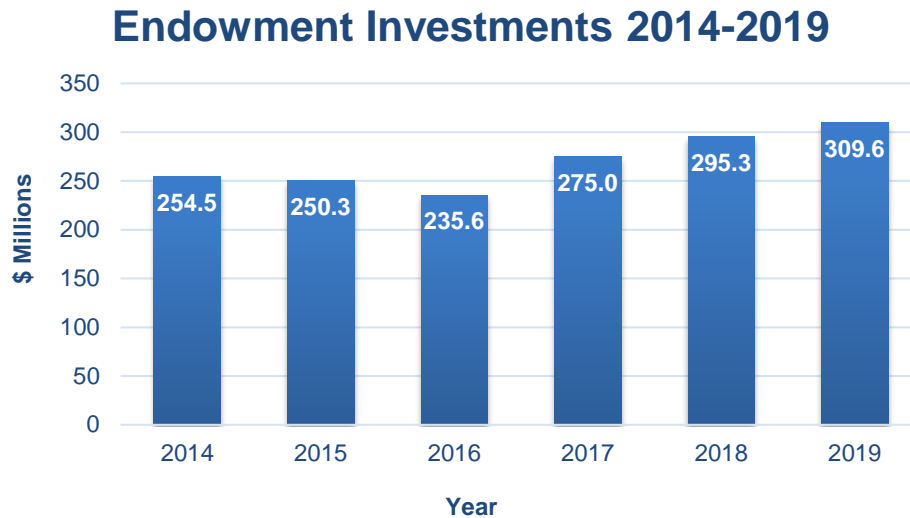
From the data presented, readers of this statement are able to determine the assets available to continue the operations of the institution. They are able to determine how much the institution owes vendors, bond holders, and other creditors. The Statement of Net Position also provides a picture of the net position (assets and deferred outflows minus liabilities and deferred inflows) and their availability for expenditure by the institution. Net position is divided into four major categories: net investment in capital assets, nonexpendable restricted net position, expendable restricted net position, and unrestricted net position. These four categories of net position are discussed further in the notes to the financial statements.

A condensed Statement of Net Position is reflected in the following table.

Condensed Statement of Net Position		
	6/30/2019	6/30/2018 (as Restated)
Assets		
Current Assets	\$ 172,207,622	\$ 161,053,563
Noncurrent Capital Assets, Net of Accumulated Depreciation	797,871,678	780,102,128
Other Noncurrent Assets	318,455,789	308,365,529
Total Assets	<u>1,288,535,089</u>	<u>1,249,521,220</u>
Deferred Outflows of Resources		
Deferred Loss on Refunding	6,234,632	6,722,213
Deferred Outflows Related to Pensions	31,594,520	22,037,602
Deferred Outflows Related to OPEB	33,585,728	11,129,161
Total Deferred Outflows of Resources	<u>71,414,880</u>	<u>39,888,976</u>
Liabilities		
Current Liabilities	40,435,741	39,222,616
Long-Term Liabilities, Net	669,313,553	693,942,395
Other Noncurrent Liabilities	8,314,527	11,491,545
Total Liabilities	<u>718,063,821</u>	<u>744,656,556</u>
Deferred Inflows of Resources		
Deferred Inflows for Irrevocable Split-Interest Agreements	154,366	149,822
Deferred Inflows Related to Pensions	744,368	1,984,490
Deferred Inflows Related to OPEB	169,392,058	144,213,215
Total Deferred Inflows of Resources	<u>170,290,792</u>	<u>146,347,527</u>
Net Position		
Net Investment in Capital Assets	454,738,792	422,382,859
Restricted - Nonexpendable	162,121,583	156,807,824
Restricted - Expendable	163,592,500	157,470,675
Unrestricted	(308,857,519)	(338,255,245)
Total Net Position	<u>\$ 471,595,356</u>	<u>\$ 398,406,113</u>

Assets

The total assets of the University increased by \$39.0 million as of June 30, 2019. Included within this change, current assets increased by \$11.2 million and noncurrent assets increased by \$27.8 million. This overall increase was comprised of an increase of \$17.8 million in capital assets, net of accumulated depreciation; an increase of \$14.3 million in endowment investments; an increase of \$5.3 million in accounts receivable, net; and a \$1.6 million increase in all other assets. The increase in capital assets, net of accumulated depreciation, is mainly due to the capitalization of construction costs associated with the Nursing and Instructional Building. The increase in endowment investments (see chart below) is directly attributable to increases in the value of investments of UNCG Endowment Partners, LP, which holds the endowment pool assets, as well as the current year's addition of endowment gifts of approximately \$3.9 million. The majority of the increase in accounts receivable, net, is attributable to a significant increase in federal grant activity. This increase in activity is reflected in increased operating revenue (discussed later) and in increased accounts receivables due to research costs incurred by the University but not reimbursed by the grant sponsor at June 30, 2019.



Liabilities

The total liabilities of the University decreased by \$26.6 million as of June 30, 2019. Included within this change, current liabilities increased by \$1.2 million and noncurrent liabilities decreased by \$27.8 million. This overall decrease in total liabilities consists of a \$23.1 million decrease in the net other postemployment employment benefits (OPEB) liability related to GASB Statement No. 75, an \$11.7 million increase in net pension liability, a \$16.8 million decrease in notes and bonds payable, and a \$1.6 million increase in all other liability categories, both current and noncurrent. The University has recognized its proportionate share of the State of North Carolina's net OPEB liability for fiscal year 2019, which decreased when compared to the prior year. Additional information on the University's OPEB plans is provided in Note 14 of the notes to the financial statements and in the Required Supplementary Information. In addition, the University is required to recognize its proportionate share of the State of North Carolina's net pension liability for fiscal year 2019, in accordance with GASB Statement No. 68. The overall net pension liability for the State of North Carolina increased in fiscal year 2019, thus the University's Statement of Net Position reflects a similar increase in net pension liability. Additional information on the University's pension plans is provided in

Note 13 of the notes to the financial statements and in the Required Supplementary Information. The decrease in notes and bonds payable is related to a reduction in principal due to scheduled bond and note principal payments. The University did not issue any new debt in fiscal year 2019.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources increased by \$31.5 million primarily from increases in deferred outflows related to OPEB and pensions which represent the University's contributions to these plans during the fiscal year, the proportionate share of the accumulated difference between projected and actual earnings on OPEB and pension plan investments, changes in actuarial assumptions, and changes between employer contributions and the proportionate share of contributions for each plan. Deferred inflows of resources increased by \$23.9 million primarily from the increase in deferred inflows related to OPEB which represents the University's proportionate share of the accumulated difference between actual and expected experience, changes in actuarial assumptions, changes between employer contributions and the proportionate share of contributions, and the difference between projected and actual earnings for OPEB investments (refer to Note 14 of the notes to the financial statements for details).

Net Position

Net position increased \$73.2 million, due to the combination of the increase in total assets of \$39.0 million, the decrease in total liabilities of \$26.6 million, the increase in deferred outflows of resources of \$31.5 million, and the increase in deferred inflows of resources of \$23.9 million. The net position category of net investment in capital assets increased by \$32.4 million due to the capitalization of construction costs associated with the new Nursing and Instructional Building and the Ragsdale-Mendenhall residence hall renovation. An increase of \$5.3 million in the category of nonexpendable net position is primarily related to the continued receipt of endowed gifts. An increase of \$6.1 million in the category of restricted expendable net position is primarily the result of an increase in the value of endowment investments during the fiscal year. The unrestricted net position category increased by \$29.4 million, which decreased the deficit. This decrease in deficit is primarily attributable to the overall net change in deferred outflows and deferred inflows related to OPEB and pension plan investments and increased sales and services revenues.

The University's unrestricted net position continues to be significantly affected by reporting changes required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Both GASB statements require the University to recognize its proportionate share of the State's Pension Plan and Retiree Health Benefit Fund (RHBF) net position as a component of unrestricted net position discussed above. As reported in Note 10 - Net Position, the total impact from reporting the Pension Plan and RHBF obligations at June 30, 2019 was a \$426.7 million deficit. The difference between the net effect amount reported in Note 10 and the unrestricted net position reported on the financial statements (a \$308.9 million deficit) is a positive \$117.8 million. This positive difference represents unrestricted funds held by the University in its institutional trust, special, and investment funds, as well as any unrestricted funds held by the University's blended component units, and any operating state funds authorized for carryforward. This amount increased by \$7.1 million over the same figure from the prior year. This increase is primarily due to increases in sales and services revenues discussed later.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues earned by the institution, both operating and nonoperating, and the expenses incurred by the institution, operating and nonoperating, and any other revenues earned by the institution.

Generally speaking, operating revenues are earned for providing goods and services to the various constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the institution. Nonoperating revenues are revenues earned for which goods and services are not provided. State appropriations and federal financial aid awards are included as nonoperating revenues in accordance with GASB guidelines even though these revenues are instrumental to the University's mission and operations. Nonoperating expenses are expenses not directly related to the normal operations of the University (e.g., interest expense and other fees on capital asset related debt) and are netted against nonoperating revenues on the Statement of Revenues, Expenses, and Changes in Net Position. Other revenues include capital contributions and additions to the principal of permanent and term endowments.

A condensed Statement of Revenues, Expenses, and Changes in Net Position is reflected in the following table.

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended**

	<u>6/30/2019</u>	<u>6/30/2018</u>
Operating Revenues		
Student Tuition and Fees, Net	\$ 111,552,992	\$ 112,143,611
Grants and Contracts	29,983,381	20,805,276
Sales and Services, Net	58,967,887	56,108,821
Interest Earnings on Loans	112,336	114,323
Other Operating Revenues	<u>1,322,487</u>	<u>1,505,220</u>
Total Operating Revenues	<u>201,939,083</u>	<u>190,677,251</u>
Operating Expenses		
Salaries and Benefits	273,922,960	265,688,027
Supplies and Materials	26,031,359	22,865,123
Services	65,566,643	64,016,909
Scholarships and Fellowships	29,908,994	29,913,984
Utilities	8,713,306	8,794,845
Depreciation	<u>23,183,533</u>	<u>22,115,740</u>
Total Operating Expenses	<u>427,326,795</u>	<u>413,394,628</u>
Operating Loss	<u>(225,387,712)</u>	<u>(222,717,377)</u>
Nonoperating Revenues (Expenses)		
State Appropriations	179,541,641	170,294,190
Noncapital Grants and Gifts	76,254,601	73,593,649
Investment Income (Net of Investment Expense)	18,903,796	25,145,127
Interest and Fees on Debt	(11,757,376)	(11,786,151)
Other Nonoperating Expenses	<u>(352,552)</u>	<u>(1,254,177)</u>
Net Nonoperating Revenues	<u>262,590,110</u>	<u>255,992,638</u>
Income Before Other Revenues	<u>37,202,398</u>	<u>33,275,261</u>
Other Revenues		
Capital Appropriations	1,501,947	2,514,816
Capital Grants and Gifts	30,563,771	11,718,232
Additions to Endowments	<u>3,921,127</u>	<u>4,063,659</u>
Total Other Revenues	<u>35,986,845</u>	<u>18,296,707</u>
Increase in Net Position	73,189,243	51,571,968
Net Position - July 1	398,406,113	346,590,030
Restatements		<u>244,115</u>
Net Position - June 30	<u>\$ 471,595,356</u>	<u>\$ 398,406,113</u>

The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in net position at the end of the year. Total revenues for the fiscal year were \$512.7 million compared to \$478.0 million from the previous year, an increase of \$34.7 million (7.3%). Total expenses were \$439.5 million for the fiscal year compared to \$426.4 million from the previous year, an increase of \$13.1 million (3.1%). Highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

- Operating revenues increased by \$11.2 million (5.9%), whereas operating expenses increased by \$13.9 million (3.4%), for a combined net increase in operating loss of \$2.7 million. The largest increase within operating revenues was in grants and contracts (federal, state, and nongovernmental) which increased by \$9.2 million (44.1%). This increase is due to increases in federally funded research activity at the University and to increases in state grant funding related to the Moss Street Partnership School. Sales and services, net, also increased by \$2.9 million (5.1%) primarily due to increases in student housing rates.

The largest increases within operating expenses were an \$8.2 million (3.1%) increase in salaries and benefits, a \$3.2 million (13.8%) increase in supplies and materials, and a \$1.5 million (2.4%) increase in services. The increase in salaries and benefits is due to increases in personnel costs consistent with enrollment growth. The increases in supplies and materials and services are correlated with the increase in state appropriations providing additional funds for University departments to expend on academic service-type activities and noncapitalized equipment.

- State appropriations increased by \$9.2 million (5.4%) due to increases in enrollment resulting in increased enrollment change funding from the State. Investment income decreased by \$6.2 million, to an investment gain of \$18.9 million compared with an investment gain of \$25.1 million in the prior year. This decrease is the result of a significant decrease in realized gains on sales of investments compared to the prior fiscal year. Noncapital grants and gifts increased primarily due to an increase in student financial aid resulting from more students applying for and receiving aid.
- Other revenues for fiscal year 2019 consisted of capital appropriations, capital grants and gifts, and additions to endowments. The University received capital grants of \$30.3 million during fiscal year 2019 primarily for the funding of the construction of the new Nursing and Instructional Building. The University also received \$1.5 million in capital appropriations from the State (\$1.0 million less than the prior year) for various repair and renovation projects across the campus.

Capital Assets and Debt Administration

During fiscal year 2019, the fire alarm upgrade projects for the Phillips Hawkins residence hall and the Curry Building were completed and capitalized.

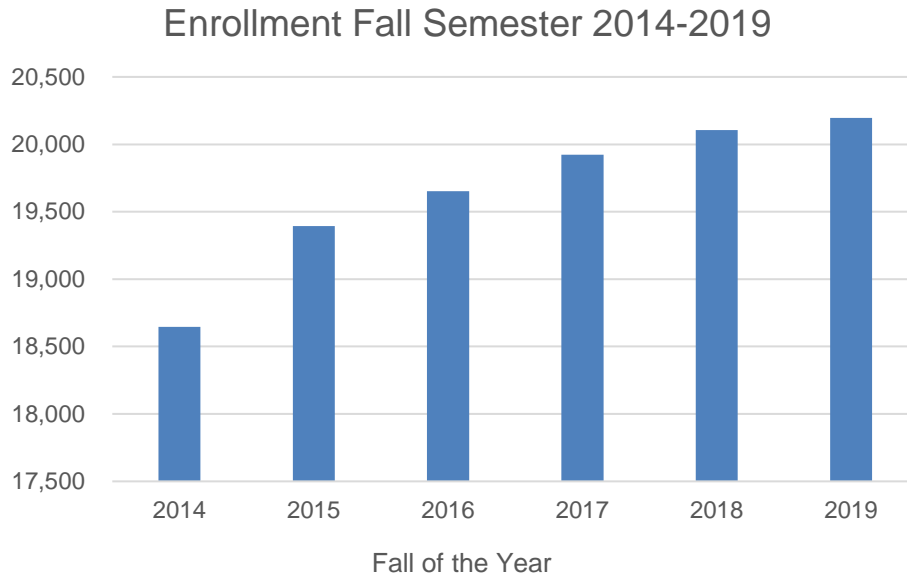
Major projects included in construction in progress consisted of the Nursing and Instructional Building, renovations to the Ragsdale-Mendenhall residence hall, the fire alarm upgrade project for the Weil-Winfield residence hall, and the Steam Distribution System Replacement project.

The University did not issue any new debt in fiscal year 2019.

For additional information concerning capital assets and debt administration see Notes 6 and 8, respectively, in the notes to the financial statements.

Economic and Strategic Outlook

The overall enrollment growth trend for the University has slowed with overall enrollment for the fall semester of 2019 increasing to 20,196, or an increase of 90 students over the fall semester of 2018 enrollment of 20,106. As shown in the chart below overall enrollment has increased 8.3%, or 1,549 students, since the fall semester of 2014.



Despite this overall modest growth in enrollment, graduate student enrollment increased by 1.3% (up 150 students to 3,615), while online distance students increased total online credit hours by 5.7%. Growth in tuition and fee revenue has remained flat when compared to the prior year. The cause of this lack of growth is due to both “fixed tuition” instituted by the State legislature in effect for the past three years and increases in financial aid, which result in a greater tuition discount being recorded against tuition and fee revenue.

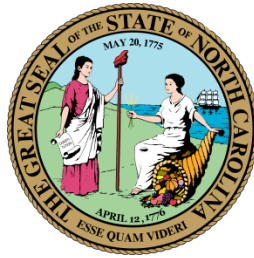
In contrast, federal grants and contracts have grown by \$5.4 million or 36.7% over the prior year. This is a direct result of the University’s investment in research infrastructure to drive faculty scholarship, to create a robust scholarly environment, and to create a greater community impact.

In March of 2016, North Carolina voters approved the Connect NC Bonds, which provided the University with \$105.0 million for the construction of a new Nursing and Instructional Building on the main campus. Construction began in early 2018 and will result in a four-story structure that will house the entire School of Nursing, which is currently located in four separate campus buildings. This facility will also provide teaching and flexible laboratory research space for the Biology, Chemistry, and Health and Human Services departments and is expected to open in January of 2021.

As previously discussed, the University’s unrestricted net position has been negatively impacted by the reporting requirements of GASB Statements 68 and 75, which should not be considered a weakening of the overall financial condition of the University. The growth in adjusted unrestricted net position (see Note 10) was a solid \$7.1 million to a positive \$117.8 million.

This growth allows the University to continue to invest resources in transformative activities designed to optimize student success and to enrich the academic enterprise of the University. Additionally, in response to student and labor market demand, the University will launch five new degree programs over the next two academic years in the areas of Analytics and Informatics, Information Studies, Business Administration, Social Work, and Integrated Professional Studies.

The University is at a critical juncture with the opportunity to propel itself forward as a national model of how to expertly blend opportunity, excellence, and impact that transforms the lives of students and contributes to the future prosperity of the State and region. Through efforts to contain costs, implement operating efficiencies whenever possible, and diversify revenue sources, the University will have the resources to not only meet these goals but continue to take "Giant Steps" in the future.



FINANCIAL STATEMENTS

The University of North Carolina at Greensboro
Statement of Net Position
June 30, 2019

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 118,128,664
Restricted Cash and Cash Equivalents	26,188,600
Short-Term Investments	759,682
Restricted Short-Term Investments	9,138,266
Receivables, Net (Note 5)	16,203,779
Inventories	460,258
Notes Receivable, Net (Note 5)	1,328,373
	<hr/>
Total Current Assets	172,207,622

Noncurrent Assets:

Restricted Cash and Cash Equivalents	2,928,650
Receivables	2,238,161
Endowment Investments	309,556,372
Other Investments	1,366,416
Notes Receivable, Net (Note 5)	2,068,022
Net Other Postemployment Benefits Asset	298,168
Capital Assets - Nondepreciable (Note 6)	129,529,202
Capital Assets - Depreciable, Net (Note 6)	668,342,476
	<hr/>
Total Noncurrent Assets	1,116,327,467

Total Assets	<hr/> 1,288,535,089
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	6,234,632
Deferred Outflows Related to Pensions	31,594,520
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	33,585,728
	<hr/>
Total Deferred Outflows of Resources	71,414,880

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	16,677,780
Due to Primary Government	4,532
Deposits Payable	781,110
Funds Held for Others	36,414
Unearned Revenue	3,875,330
Interest Payable	3,494,137
Long-Term Liabilities - Current Portion (Note 8)	15,566,438
	<hr/>
Total Current Liabilities	40,435,741

Noncurrent Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	1,901,328
Funds Held for Others	701,280
U. S. Government Grants Refundable	5,084,360
Funds Held in Trust for Pool Participants	627,559
Long-Term Liabilities, Net (Note 8)	669,313,553
	<hr/>
Total Noncurrent Liabilities	677,628,080

Total Liabilities	<hr/> 718,063,821
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The University of North Carolina at Greensboro
Statement of Net Position
June 30, 2019

Exhibit A-1
Page 2 of 2

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows for Irrevocable Split-Interest Agreements	154,366
Deferred Inflows Related to Pensions	744,368
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	169,392,058
	<hr/>
Total Deferred Inflows of Resources	170,290,792
	<hr/>

NET POSITION

Net Investment in Capital Assets	454,738,792
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	93,281,547
Endowed Professorships	19,127,536
Departmental Uses	39,515,009
Loans	984,367
Art	1,575,937
Other	7,637,187
Expendable:	
Scholarships and Fellowships	80,325,007
Research	10,288
Endowed Professorships	26,509,992
Departmental Uses	41,122,817
Loans	869,268
Capital Projects	8,488,727
Debt Service	8,458
Art	1,310,214
Other	4,947,729
Unrestricted	(308,857,519)
	<hr/>
Total Net Position	\$ 471,595,356
	<hr/> <hr/>

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

The University of North Carolina at Greensboro
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 11)	\$ 111,552,992
Federal Grants and Contracts	20,137,475
State and Local Grants and Contracts	7,077,328
Nongovernmental Grants and Contracts	2,768,578
Sales and Services, Net (Note 11)	58,967,887
Interest Earnings on Loans	112,336
Other Operating Revenues	1,322,487
	<hr/>
Total Operating Revenues	201,939,083

OPERATING EXPENSES

Salaries and Benefits	273,922,960
Supplies and Materials	26,031,359
Services	65,566,643
Scholarships and Fellowships	29,908,994
Utilities	8,713,306
Depreciation	23,183,533
	<hr/>
Total Operating Expenses	427,326,795
	<hr/>
Operating Loss	(225,387,712)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	179,541,641
Noncapital Grants - Student Financial Aid	63,698,262
Noncapital Grants	5,932,948
Noncapital Gifts	6,623,391
Investment Income (Net of Investment Expense of \$1,555,431)	18,903,796
Interest and Fees on Debt	(11,757,376)
Other Nonoperating Expenses	(352,552)
	<hr/>
Net Nonoperating Revenues	262,590,110
	<hr/>
Income Before Other Revenues	37,202,398
	<hr/>
Capital Appropriations	1,501,947
Capital Grants	30,310,472
Capital Gifts	253,299
Additions to Endowments	3,921,127
	<hr/>
Increase in Net Position	73,189,243

NET POSITION

Net Position - July 1, 2018, as Restated (Note 20)	<hr/> 398,406,113
Net Position - June 30, 2019	<hr/> <hr/> \$ 471,595,356

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

The University of North Carolina at Greensboro
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	\$ 198,769,926
Payments to Employees and Fringe Benefits	(288,891,739)
Payments to Vendors and Suppliers	(100,276,632)
Payments for Scholarships and Fellowships	(29,908,994)
Loans Issued	(680,620)
Collection of Loans	1,641,009
Interest Earned on Loans	133,588
Other Receipts	1,618,285
	<hr/>
Net Cash Used by Operating Activities	<u>(217,595,177)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	179,541,641
Noncapital Grants - Student Financial Aid	63,698,262
Noncapital Grants	4,110,988
Noncapital Gifts	4,280,511
Additions to Endowments	3,921,127
William D. Ford Direct Lending Receipts	99,490,039
William D. Ford Direct Lending Disbursements	(99,490,039)
Related Activity Agency Disbursements	(502,642)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	<u>255,049,887</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Appropriations	1,501,947
Capital Grants	30,310,472
Proceeds from Sale of Capital Assets	42,084
Acquisition and Construction of Capital Assets	(40,269,109)
Principal Paid on Capital Debt	(13,956,747)
Interest and Fees Paid on Capital Debt	(14,211,999)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	<u>(36,583,352)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	60,737,276
Investment Income	3,980,853
Purchase of Investments and Related Fees	(60,497,318)
	<hr/>
Net Cash Provided by Investing Activities	<u>4,220,811</u>
Net Increase in Cash and Cash Equivalents	5,092,169
Cash and Cash Equivalents - July 1, 2018, as Restated	<hr/> 142,153,745
Cash and Cash Equivalents - June 30, 2019	<u><u>\$ 147,245,914</u></u>

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

Exhibit A-3
Page 2 of 2

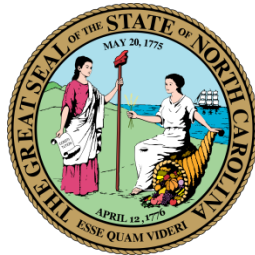
**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (225,387,712)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	23,183,533
Allowances and Write-Offs	208,069
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(2,430,601)
Inventories	121,892
Notes Receivable, Net	812,912
Net Other Postemployment Benefits Asset	286,812
Deferred Outflows Related to Pensions	(9,556,918)
Deferred Outflows Related to Other Postemployment Benefits	(22,456,567)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	755,165
Due to Primary Government	719
Unearned Revenue	416,207
Net Pension Liability	11,687,698
Net Other Postemployment Benefits Liability	(23,105,638)
Workers' Compensation Liability	1,022,704
Compensated Absences	2,916,483
Deposits Payable	(13,200)
Deferred Inflows for Irrevocable Split-Interest Agreements	4,544
Deferred Inflows Related to Pensions	(1,240,122)
Deferred Inflows Related to Other Postemployment Benefits	25,178,843
Net Cash Used by Operating Activities	<u>\$ (217,595,177)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 7,769,129
Assets Acquired through a Gift	253,299
Change in Fair Value of Investments	12,837,887
Loss on Disposal of Capital Assets	(352,552)
Amortization of Bond Premiums	(2,885,314)
Increase in Receivables Related to Nonoperating Income	2,342,880

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

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

Blended Component Units - Although legally separate, the following component units of the University are reported as if they were part of the University: The University of North Carolina at Greensboro Weatherspoon Arts Foundation; The UNCG Excellence Foundation, Inc.; The University of North Carolina at Greensboro Investment Fund, Inc.; and the Capital Facilities Foundation, Inc.

The University of North Carolina at Greensboro Weatherspoon Arts Foundation is governed by a 28-member board consisting of five ex officio directors and 23 appointed directors. The Foundation's purpose is to acquire by gift, purchase, lease, loan, or other means of conveyance works of art and to maintain and enhance the arts collection teaching, research, and public services purposes exclusively for the use and benefit of The University of North Carolina at Greensboro. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The UNCG Excellence Foundation, Inc. is governed by a 45-member board consisting of four ex officio directors and 41 appointed directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the directors of the Foundation are appointed by the members of The University of North

Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro as long as The University of North Carolina at Greensboro qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954 (or corresponding provisions of any future United States Internal Revenue law), its financial statements have been blended with those of the University.

On May 31, 2019, The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, a blended component unit of the University, and the affiliated entities of The Alumni Association of the University of North Carolina at Greensboro, Inc. and the Weatherspoon Art Museum Association merged with The UNCG Excellence Foundation, Inc. Information regarding the merger, including the reason for the combination, is available in The UNCG Excellence Foundation, Inc.'s audited financial statements.

The University of North Carolina at Greensboro Investment Fund, Inc. is governed by a 10-member board consisting of two ex officio directors and eight appointed 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 directors of the Investment Fund are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Investment Fund's primary purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The University of North Carolina at Greensboro Investment Fund, Inc. (the Fund) was formed to consolidate the endowment pool investments of The Endowment Fund of The University of North Carolina at Greensboro, the blended component units of the University, and certain affiliated entities. The Fund is the fiscal agent for the pool, and all units of the pool are owned by internal and external participants. The internal participants of the pool are The Endowment Fund of The University of North Carolina at Greensboro and The UNCG Excellence Foundation, Inc. The external participant of the pool is The Associated Campus Ministries of The University of North Carolina at Greensboro. Because the balances of the participants are blended with the University for financial reporting and are included in the condensed combining information shown in Note 18, the entire activity for The University of North Carolina at Greensboro Investment Fund, Inc. is not separately shown.

The Capital Facilities Foundation, Inc. is governed by a nine-member board consisting of four ex officio directors and five appointed directors. The Foundation's purpose is to enhance the University's educational mission through assisting with the acquisition, development, financing, construction, management, and operation of capital assets for the University. Because the directors of the Foundation are appointed by the

members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

An electronic version of the separate financial statements for the Foundations and the Investment Fund is available by accessing the UNCG Business Affairs home page (<https://baf.uncg.edu/>) and clicking on "Foundation Finance", then "Audit Reports", or by calling (336) 334-5200.

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

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, 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. Investments in partnerships are stated at net asset value based on the fair value of the partnership's assets. Fair value of the partnership investments is based upon the General Partner's best judgement in

estimating the fair value of these investments. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied, and accrued interest receivable from investments and student loans. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice cost method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	25-50 years
Machinery and Equipment	2-20 years
General Infrastructure	25-50 years

The Weatherspoon Art Collection is capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, 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 payable, bonds from direct placements, and notes from direct borrowings. Other long-term liabilities include: compensated absences, annuities and life income payable, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

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

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 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 13 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 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 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

- 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 loss on refunding, deferred outflows related to pensions, and deferred outflows related to other postemployment benefits.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The University has the following items that qualify for reporting in this category: deferred inflows for irrevocable split-interest agreements, 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 10 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 the Fuel Depot, Postal Operations, Printing Services, Telecommunications, and Telephone Services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

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

At June 30, 2019, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$135,639,523, 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 \$51,962. The carrying amount of the University's deposits not with the State Treasurer was \$11,554,429, and the bank balance was \$11,509,729. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2019, \$10,462,889 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

- 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 UNCG Excellence Foundation, Inc. and The University of North Carolina at Greensboro Investment Fund, Inc. 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's formal policy limits some fixed income holdings to those that have a high quality rating (AA/Aa or better) and those with a sufficient duration (four years or more) to provide effective protection in a deflationary environment.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's formal policy limits some fixed income holdings to those that have a high quality rating (AA/Aa or better) and those with a sufficient duration (four years or more) to provide effective protection in a deflationary environment.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The University does not have a formal policy for concentration of credit risk.

External Investment Pool - The University of North Carolina at Greensboro Investment Fund, Inc., an External Investment Pool sponsored by the University, was established on July 1, 1992. The Pool is utilized to manage the investments for charitable, nonprofit organizations, associations, trusts, endowments, and funds that are organized and

operated primarily to support the University. Endowment funds of the University, as well as those of The UNCG Excellence Foundation, Inc., represent the Pool's internal participants. The Associated Campus Ministries of The University of North Carolina at Greensboro is not included in the University's reporting entity and represents the Pool's external participant. Fund ownership of the Pool is measured using the unit market value method. Under this method, each participating fund's investment balance is determined based on the number of units of ownership purchased when joining the Pool. Thereafter, the pooled assets are valued monthly, and a new market value is determined. The external portion of the Pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The External Investment Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. As of September 1, 2013, the Board along with Cambridge Associates Resources, LLC, created a limited partnership, UNCG Endowment Partners, LP. As part of the agreement, Cambridge is the General Partner and The University of North Carolina at Greensboro Investment Fund, Inc. is the Limited Partner. The University of North Carolina at Greensboro Investment Fund, Inc. contributed its investment portfolio in exchange for its interest in UNCG Endowment Partners, LP. The Board's primary role is to adopt investment objectives and policies and monitor the policy implementation and investment performance.

Cambridge Associates Resources, LLC serves as the outsourced chief investment officer for the Pool and provides the University with monthly statements defining income and fair value information, which is then allocated among the fund's participants. There are no involuntary participants in the Pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Pool's investments. The annual financial report for the External Investment Pool may be obtained from the Business Affairs Office, 254 Mossman, Greensboro, NC 27402, or by calling (336) 334-5200.

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

External Investment Pool

	Amount
Investment Type	
Partnerships:	
UNCG Endowment Partners, LP	\$ 307,581,149

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)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Money Market Funds	\$ 9,690	\$ 9,690	\$ 0	\$ 0
Mutual Bond Funds	3,558,077		590,258	2,967,819
Total Debt Securities	3,567,767	<u>\$ 9,690</u>	<u>\$ 590,258</u>	<u>\$ 2,967,819</u>
Other Securities				
Mutual Funds	6,729,834			
Corporate Securities:				
Common Stocks	2,202,486			
Investments in Real Estate	739,500			
Total Non-Pooled Investments	<u>\$ 13,239,587</u>			

At June 30, 2019, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BB/Ba and below
Money Market Funds	\$ 9,690	\$ 9,690	\$ 0	\$ 0	\$ 0
Mutual Bond Funds	3,558,077	2,519,930	8,965	285,552	743,630
Totals	<u>\$ 3,567,767</u>	<u>\$ 2,529,620</u>	<u>\$ 8,965</u>	<u>\$ 285,552</u>	<u>\$ 743,630</u>

Rating Agency: Standard & Poor's and Moody's Rating Services

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

Investment Type	Amount
Debt Securities	
Money Market Funds	\$ 9,690
Mutual Bond Funds	3,558,077
Other Securities	
Mutual Funds	6,729,834
Corporate Securities:	
Common Stocks	2,202,486
Investments in Real Estate	739,500
Partnerships:	
UNCG Endowment Partners, LP	307,581,149
Total Investments	<u>\$ 320,820,736</u>

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 in active markets that a government can access at the measurement date. |
| Level 2 | Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, either directly or indirectly. |
| Level 3 | Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment. |

NOTES TO THE FINANCIAL STATEMENTS

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				
Money Market Funds	\$ 9,690	\$ 9,690	\$ 0	\$ 0
Mutual Bond Funds	3,558,077	3,558,077		
Total Debt Securities	3,567,767	3,567,767		
Other Securities				
Mutual Funds	6,729,834	6,729,834		
Corporate Securities:				
Common Stocks	2,202,486	2,202,486		
Investments in Real Estate	739,500			739,500
Total Investments by Fair Value Level	13,239,587	\$ 12,500,087	\$ 0	\$ 739,500
Investments Measured at the Net Asset Value (NAV)				
Partnerships:				
UNCG Endowment Partners, LP	307,581,149			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	135,639,523			
Total Investments Measured at Fair Value	<u>\$ 456,460,259</u>			

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.

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

Investments in Real Estate - The UNCG Excellence Foundation, Inc. currently holds four parcels of land that were gifted to the Foundation. Three parcels are life estates which were appraised at the time of gift and recorded at a value of \$739,000. These properties will be sold at the time the donor no longer lives on the property. The fourth parcel was gifted as part of an estate and is valued at the tax value of \$500.

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 Frequency (If Currently Eligible)	Redemption Notice Period
Partnerships:				
UNCG Endowment Partners, LP	\$ 307,581,149	N/A	N/A	N/A

UNCG Endowment Partners, LP - The UNCG Endowment Partners, LP (the “Partnership”) will generally seek to achieve long-term equity-like returns through broadly diversifying by asset class, investment manager, geography, economic sector, and security. The Partnership seeks to achieve its objective by allocating its assets among unaffiliated limited partnerships, unaffiliated limited liability companies, unaffiliated private equity and/or venture capital funds, including offshore funds, other investment entities and/or separate accounts managed pursuant to investment management agreements (collectively, the “Underlying Funds”), as well as publicly-traded stocks, exchange-traded funds, mutual funds, bonds, and derivative contracts.

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University’s endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University’s pooled endowment funds for 2019 and 2018 are equal to 4.00 and 4.25 percent, respectively, of the average market value of the Investment Pool at December 31 for the past three years. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. 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, expendable net position endowment balances to make up the difference. At June 30, 2019, net appreciation of \$20,995,426 was available to be spent, of which \$19,966,473 was classified in net position

as restricted expendable for scholarships and fellowships, endowed professorships, departmental uses, loans, art, and other, as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2019, the amount of investment losses reported against the nonexpendable endowment balances was \$2,566.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2019, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,955,204	\$ 503,207	\$ 2,451,997
Student Sponsors	3,062,990		3,062,990
Intergovernmental	5,707,082		5,707,082
Pledges	2,547,552	5,720	2,541,832
Investment Earnings	211,366		211,366
Interest on Loans	108,931		108,931
Other	2,119,581		2,119,581
Total Current Receivables	\$ 16,712,706	\$ 508,927	\$ 16,203,779
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 1,210,616	\$ 127,722	\$ 1,082,894
Institutional Student Loan Programs	341,634	96,155	245,479
Total Notes Receivable - Current	\$ 1,552,250	\$ 223,877	\$ 1,328,373
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 2,359,378	\$ 291,356	\$ 2,068,022

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 (as Restated)	Increases	Decreases	Balance June 30, 2019
Capital Assets, Nondepreciable:				
Land	\$ 50,637,030	\$ 0	\$ 0	\$ 50,637,030
Art, Literature, and Artifacts	23,757,336	161,299	132,157	23,786,478
Construction in Progress	20,994,329	37,828,832	3,717,467	55,105,694
Total Capital Assets, Nondepreciable	95,388,695	37,990,131	3,849,624	129,529,202
Capital Assets, Depreciable:				
Buildings	791,543,280	3,717,467		795,260,747
Machinery and Equipment	62,825,012	3,357,588	1,051,186	65,131,414
General Infrastructure	82,895,092			82,895,092
Total Capital Assets, Depreciable	937,263,384	7,075,055	1,051,186	943,287,253
Less Accumulated Depreciation for:				
Buildings	175,981,472	16,816,099		192,797,571
Machinery and Equipment	31,714,771	3,390,282	788,707	34,316,346
General Infrastructure	44,853,708	2,977,152		47,830,860
Total Accumulated Depreciation	252,549,951	23,183,533	788,707	274,944,777
Total Capital Assets, Depreciable, Net	684,713,433	(16,108,478)	262,479	668,342,476
Capital Assets, Net	\$ 780,102,128	\$ 21,881,653	\$ 4,112,103	\$ 797,871,678

During the year ended June 30, 2019, the University incurred \$11,725,509 in interest costs related to the acquisition and construction of capital assets. All of these costs were charged in interest expense.

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	\$ 1,635,384
Accounts Payable - Capital Assets	6,426,368
Accrued Payroll	7,224,016
Other	1,392,012
Total Current Accounts Payable and Accrued Liabilities	\$ 16,677,780
Noncurrent Accounts Payable and Accrued Liabilities	
Contract Retainage	\$ 1,901,328

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2018 (as Restated)	Additions	Reductions	Balance June 30, 2019	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 306,160,000	\$ 0	\$ 12,970,000	\$ 293,190,000	\$ 13,170,000
Bonds from Direct Placements	6,886,000		86,000	6,800,000	91,000
Plus: Unamortized Premium	31,518,921		2,885,314	28,633,607	
Total Revenue Bonds Payable and Bonds from Direct Placements, Net	344,564,921		15,941,314	328,623,607	13,261,000
Notes from Direct Borrowings	9,893,946		900,747	8,993,199	226,286
Total Long-Term Debt	354,458,867		16,842,061	337,616,806	13,487,286
Other Long-Term Liabilities					
Annuities and Life Income Payable	6,117,748		114,135	6,003,613	
Employee Benefits					
Compensated Absences	13,050,239	15,701,295	12,784,812	15,966,722	1,065,536
Net Pension Liability	38,743,875	11,687,698		50,431,573	
Net Other Postemployment Benefits Liability	293,363,921		23,105,638	270,258,283	
Workers' Compensation	3,580,290	2,146,408	1,123,704	4,602,994	1,013,616
Total Other Long-Term Liabilities	354,856,073	29,535,401	37,128,289	347,263,185	2,079,152
Total Long-Term Liabilities, Net	\$ 709,314,940	\$ 29,535,401	\$ 53,970,350	\$ 684,879,991	\$ 15,566,438

Additional information regarding the net pension liability is included in Note 13.

Additional information regarding the net other postemployment benefits liability is included in Note 14.

B. Revenue Bonds Payable and Bonds from Direct Placements - The University was indebted for revenue bonds payable and bonds from direct placements 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
Revenue Bonds Payable						
General Revenue Bonds						
Refund Series 2002A - Dining and Housing	2011	3.50% -5.00%	04/01/2036	\$ 77,505,000	\$ 69,740,000	\$ 7,765,000
Refund Series 2002A and 2004C - Housing, Athletics, Police Building, and Dining	2012A	2.00% -5.00%	04/01/2037	52,360,000	33,065,000	19,295,000
Student Recreation Center and Housing	2014	4.00% -5.00%	04/01/2039	125,685,000	14,625,000	111,060,000
Refund Series 2009A - Housing and Parking	2016	2.50% -5.00%	04/01/2034	21,575,000		21,575,000
Refund Series 2011 and 2012A - Dining, Housing, Police Building, and Athletics Housing	2017 2018	4.00% -5.00% 3.00% -5.00%	04/01/2036 04/01/2043	77,175,000 45,260,000	1,365,000	77,175,000 43,895,000
Total General Revenue Bonds				399,560,000	118,795,000	280,765,000
The University of North Carolina System Pool Revenue Bonds						
Refund Series 1997B, 1997C, 1997D, and 2000G - Housing, Parking, and Athletics	(A)	5.25%	04/01/2026	22,235,000	20,620,000	1,615,000
Elliott University Center and Various Construction Projects	(B)	4.00% -5.25%	04/01/2026	23,780,000	12,970,000	10,810,000
Total The University of North Carolina System Pool Revenue Bonds				46,015,000	33,590,000	12,425,000
Bonds from Direct Placements						
Refund Series 2005A and 2012B - Housing, Parking, and Athletics	2015	1.75%	04/01/2026	10,109,000	3,309,000	6,800,000
Total Revenue Bonds Payable and Bonds from Direct Placements (principal only)				\$ 455,684,000	\$ 155,694,000	299,990,000
Plus: Unamortized Premium						28,633,607
Total Revenue Bonds Payable and Bonds from Direct Placements, Net						\$ 328,623,607

(A) The University of North Carolina System Pool Revenue Bonds, Series 2005A

(B) The University of North Carolina System Pool Revenue Bonds, Series 2010B-2

- 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 Payable - The indenture agreements for the University's outstanding revenue bonds of \$293,190,000 contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when the University: (1) fails to pay the principal, interest, or premium on any bonds when due and payable, or (2) fails to observe and perform any other covenant, condition, agreement, or provision contained in the bonds or in the general indenture within thirty days after written notice has been given to the University of North Carolina Board of Governors by the Trustee of the bonds.

Upon the occurrence of any event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds to be due and payable immediately. The Trustee may exercise all remedies available by law or in the equity provided under the agreement, including a sum sufficient to pay all matured installments of the principal of and interest on all bonds which will have become due otherwise than by reason of such declaration and such amount as is sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee.

Bonds from Direct Placements - The indenture agreements for the University's outstanding bonds from direct placements of \$6,800,000 contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when the University: (1) fails to pay the principal, interest, or premium on any bonds when due and payable, or (2) fails to observe and perform any other covenant, condition, agreement, or provision contained in the bonds or in the general indenture within thirty days after written notice has been given to the University of North Carolina Board of Governors by the Trustee of the bonds.

Upon the occurrence of any event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds to be due and payable immediately. The Trustee may exercise all remedies available by law or in the equity provided under the agreement, including a sum sufficient to pay all matured installments of the principal of and interest on all bonds which will have become due otherwise than by reason of such declaration and such amount as is sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee.

Notes from Direct Borrowings - The University's outstanding notes from direct borrowings of \$8,993,199 contain provisions that in an event of default, the Bank may by written notice to the University, declare an amount equal to all remaining Base Rentals then due and payable to be immediately due and payable. The Bank may have reasonable access to and inspect, examine and make copies of the books and records and accounts of the University during regular business hours of the University if reasonably necessary. The Bank may also take whatever action at law

or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the University made provided under the Use Agreement.

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 Payable		Bonds from Direct Placements		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 13,170,000	\$ 13,631,263	\$ 91,000	\$ 119,000	\$ 226,286	\$ 223,031
2021	12,080,000	13,021,475	1,795,000	117,408	231,898	217,419
2022	12,475,000	12,448,375	1,819,000	85,995	237,649	211,668
2023	13,015,000	11,832,350	1,856,000	54,162	243,543	205,775
2024	13,685,000	11,177,775	406,000	21,683	249,583	199,735
2025-2029	72,520,000	45,442,238	833,000	21,892	7,804,240	561,449
2030-2034	79,385,000	27,736,400				
2035-2039	65,995,000	10,808,562				
2040-2044	10,865,000	1,391,500				
Total Requirements	\$ 293,190,000	\$ 147,489,938	\$ 6,800,000	\$ 420,140	\$ 8,993,199	\$ 1,619,077

E. Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the University's financial statements. At June 30, 2019, the outstanding balance of prior year defeased bonds was \$60,945,000 for the defeased General Revenue Bonds, Series 2011 and \$20,815,000 for the defeased General Revenue Bonds, Series 2012A.

For certain prior year defeasances, the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited. At June 30, 2019, the outstanding balance of prior year defeased bonds for which substitution is not prohibited was \$81,760,000.

F. 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
Improvement Advance	PNC	2.48%	04/01/2027	\$ 9,460,000	\$ 466,801	\$ 8,993,199

G. Annuities Payable - The annuity and life income payable balance consists of 136 charitable annuity agreements and 13 charitable remainder unitrusts with a market value of \$10.1 million. The \$6.004 million annuity and life income payable liability is the expected present value payable to

donors based upon their age, the agreed-on payment rate, and the applicable federal rate.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for real property and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2019:

<u>Fiscal Year</u>	<u>Amount</u>
2020	\$ 1,034,032
2021	980,270
2022	910,306
2023	855,976
2024	798,853
2025-2026	<u>1,551,000</u>
Total Minimum Lease Payments	<u>\$ 6,130,437</u>

Rental expense for all operating leases during the year was \$1,104,756.

NOTE 10 - NET POSITION

The deficit in unrestricted net position of \$308,857,519 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	\$ 31,594,520	\$ 0	\$ 31,594,520
Deferred Outflows Related to OPEB		32,510,611	32,510,611
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	50,431,573		50,431,573
Net OPEB Liability		270,258,283	270,258,283
Deferred Inflows Related to Pensions	744,368		744,368
Deferred Inflows Related to OPEB		<u>169,386,276</u>	<u>169,386,276</u>
Net Effect on Unrestricted Net Position	<u>\$ (19,581,421)</u>	<u>\$ (407,133,948)</u>	<u>\$ (426,715,369)</u>

NOTES TO THE FINANCIAL STATEMENTS

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

NOTE 11 - REVENUES

A summary of 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	\$ 154,462,304	\$ 42,538,486	\$ 370,826	\$ 111,552,992
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 35,633,200	\$ 9,286,936	\$ 84,971	\$ 26,261,293
Dining	21,238,424	5,046,794	46,183	16,145,447
Student Union Services	175,365			175,365
Health, Physical Education, and Recreation Services	1,409,875			1,409,875
Parking	4,176,143		54,660	4,121,483
Athletic	1,130,733			1,130,733
Other	2,858,539	394,110	3,593	2,460,836
Sales and Services of Education and Related Activities	7,262,855			7,262,855
Total Sales and Services, Net	\$ 73,885,134	\$ 14,727,840	\$ 189,407	\$ 58,967,887

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 142,929,882	\$ 4,468,854	\$ 10,378,339	\$ 14,440	\$ 70,877	\$ 0	\$ 157,862,392
Research	10,368,447	863,432	4,163,301	1,493,720			16,888,900
Public Service	6,469,815	133,808	1,759,825	11,477	3,862		8,378,787
Academic Support	28,162,771	8,430,089	9,278,419	820,129	1,381		46,692,789
Student Services	17,524,173	1,974,016	3,587,983	109,787			23,195,959
Institutional Support	26,051,873	1,327,585	7,254,608	5,200	17,894		34,657,160
Operations and Maintenance of Plant	22,097,389	4,881,433	4,472,475		5,524,831		36,976,128
Student Financial Aid				27,403,744			27,403,744
Auxiliary Enterprises	20,318,610	3,952,142	24,671,693	50,497	3,094,461		52,087,403
Depreciation						23,183,533	23,183,533
Total Operating Expenses	\$ 273,922,960	\$ 26,031,359	\$ 65,566,643	\$ 29,908,994	\$ 8,713,306	\$ 23,183,533	\$ 427,326,795

NOTE 13 - PENSION PLANS

A. Defined Benefit Plan

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

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

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 \$5,355,190, and the University's contributions were \$10,969,213 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 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 \$50,431,573 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 0.50654%, which was an increase of 0.01824 from its proportion measured as of June 30, 2017, which was 0.48830%.

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 net of pension plan investment expense.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer), and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 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:

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%.

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%)
\$ 96,181,557	\$ 50,431,573	\$ 12,042,806

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 \$11,851,382. 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	\$ 3,680,530	\$ 506,115
Changes of Assumptions	10,120,320	
Net Difference Between Projected and Actual Earnings on Plan Investments	4,806,138	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,018,319	238,253
Contributions Subsequent to the Measurement Date	10,969,213	
Total	\$ 31,594,520	\$ 744,368

The amount of \$10,969,213 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:

Year Ended June 30:	Amount
2020	\$ 11,219,374
2021	7,447,881
2022	1,301,937
2023	(88,253)
Total	\$ 19,880,939

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 \$220,002,879, of which \$99,942,621 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$5,996,557 and \$6,836,075, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of \$278,968 recognized during the reporting period.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 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 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 15. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the 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 \$11,862,576 for the year ended June 30, 2019.

2. Disability Income

Plan Administration: As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income

Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the 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 \$264,874 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 \$270,258,283 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 0.94867%, which was an increase of 0.05390 from its proportion measured as of June 30, 2017, which was 0.89477%.

Net OPEB Asset: At June 30, 2019, the University reported an asset of \$298,168 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 0.98159%, which was an increase of 0.02449 from its proportion measured as of June 30, 2017, which was 0.95710%.

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	\$	319,313,585	\$ 270,258,283	\$ 230,936,256
		1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$	(228,465)	\$ (298,168)	\$ (365,034)

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	\$ 222,956,528	\$ 270,258,283	\$ 332,357,570
	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	\$ (299,032)	\$ (298,168)	\$ (297,353)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2019, the University recognized OPEB contra-expense of \$7,987,732 for RHBF and expense of \$18,496 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:			
	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 0	\$ 520,125	\$ 520,125
Changes of Assumptions		56,304	56,304
Net Difference Between Projected and Actual Earnings on Plan Investments	29,065	232,215	261,280
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	20,618,970	1,599	20,620,569
Contributions Subsequent to the Measurement Date	11,862,576	264,874	12,127,450
Total	\$ 32,510,611	\$ 1,075,117	\$ 33,585,728

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 18,481,453	\$ 0	\$ 18,481,453
Changes of Assumptions	117,082,127		117,082,127
Net Difference Between Projected and Actual Earnings on Plan Investments			
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	33,822,696	5,782	33,828,478
Total	\$ 169,386,276	\$ 5,782	\$ 169,392,058

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:

Year Ended June 30:	RHBF	DIPNC
2020	\$ (35,762,947)	\$ 198,755
2021	(35,762,947)	198,725
2022	(35,762,947)	143,085
2023	(35,734,048)	110,250
2024	(5,715,352)	76,837
Thereafter		76,809
Total	\$ (148,738,241)	\$ 804,461

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

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

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The General Property Coverage Policy is the Fund's basic policy and is used to provide insurance against losses caused by Fire and Lightning, Extended Coverage, Broad Form Coverage, and Special Form Coverage. However, the University is covered only for those named perils for which the University has paid a premium and for which the named peril is indicated in the

Declarations. Extended coverage for buildings and contents has been purchased for the following buildings: All Housing and Residence Life buildings, the Chemical Storage Facility, the Baseball Complex, the Softball Complex, the Sullivan Science Building, and the Graphics and Printing Services Building. Broad Form Coverage has been purchased for the building and contents for the L.J. Kaplan Center for Wellness. All Risk Coverage has been purchased for the Baseball Locker Room and Training Facility, the Elliot University Center, 840 Neal Street, 821 South Josephine Boyd Street, and the Chancellor's Residence. Vandalism and Malicious Mischief insurance (VMM) has been purchased for the Elliott University Center. The University must fund the additional cost of the above stated insurance.

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 \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$100,000 deductible.

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These purchased coverages are: "all-risk" for computers and miscellaneous equipment covering all perils including fire (replacement cost on listed computers and miscellaneous equipment, \$5,000 deductible per event); study abroad accident and health (\$250,000 per injury or sickness medical expenses, \$10,000 accidental death and dismemberment, \$50,000 repatriation of remains, \$200,000 evacuation benefit limit, \$1,500 bedside visit); international students accident and sickness (\$150,000 maximum limit for medical expenses, \$10,000 accidental death and dismemberment, \$15,000 for repatriation of remains and \$50,000 lifetime benefit for medical evacuation); robbery and safe burglary (\$1.0 million per event, \$25,000 deductible); musical instruments (stated value cash replacement value with \$500 deductible); fine art (property coverage – museum collection and temporary loan, limits of liability: \$250.0 million limit at insured premises, \$25.0 million at any other location, \$25.0 million limit in transit on any one conveyance, exhibition, and location, \$70.0 million for TRIA (Terrorism Risk Insurance Act), and \$250.0 million aggregate limit in any one loss or disaster; deductibles: \$2,500); University intern liability (\$2.0 million per incident / \$4.0 million per year); business travel (\$100,000 maximum medical expense, \$10,000 maximum accidental death and dismemberment maximum benefit, \$100,000 medical evacuation maximum benefit); boiler and machinery (\$50.0 million equipment breakdown limit, \$5,000 deductible); leased computer equipment (stated value with \$10,000 deductible for medical equipment and \$500 deductible for all other); athletic accident (maximum medical coverage limit \$75,000, with \$0 deductible, maximum death specific loss \$50,000); physicians professional medical liability (\$1.0 million per person, \$3.0 million total); postal bond (coverage limit \$30,000); cyber liability/breach response (\$5.0 million limit); non-physicians professional medical liability (individual policies) (\$1.0 million per person, \$3.0 million total); student health; camp accident (\$250,000 accidental death and dismemberment maximum annual limit); club sports travel (\$10,000 accidental death and dismemberment); volunteer liability (\$1.0 million per incident / \$3.0 million per year); Railroad Underpass general liability coverage \$2.0 million per year and aggregate limit; Railroad Underpass excess liability \$1.0 million limit; Campus Recreation Adventure Program accident and health insurance (\$15,000 accidental death, up to \$15,000 dismemberment, \$10,000 accidental medical expenses); boat \$1.0 million liability and property damage; fiber optics bond \$50,000; Unmanned Aircraft Aviation insurance (\$1.0 million liability limit).

NOTE 16 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$64,779,409 and on other purchases were \$5,987,103 at June 30, 2019.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end are as follows:

Purpose	Amount
Pledges to the UNCG Excellence Foundation Endowment Fund	\$ 1,149,755
Pledges to the UNCG Endowment Fund	5,684,476

NOTE 17 - RELATED PARTIES

The University and North Carolina Agricultural and Technical State University have formed a jointly governed nonprofit organization, Gateway University Research Park, Inc., which is also a component unit of the State of North Carolina. The purpose of this organization is to provide a collaborative research environment that fosters academic enrichment, research growth, technology transfer, commercialization, and discovery while encouraging and promoting regional economic development.

During the fiscal year, the University made payments totaling \$1,484,338 to Gateway University Research Park, Inc. These payments consisted of: \$838,000 for the construction, maintenance, acquisition, movement, installation, and upgrades of offices, classrooms, and laboratories for the Joint School of Nanoscience and Nanoengineering; \$606,944 for the operation and maintenance of University facilities at the Gateway University Research Park; \$25,000 for the annual management fee for the Gateway University Research Park; and \$14,394 for other facility use fees, services, and maintenance expenses.

NOTE 18 - 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*

	UNCG*	UNCG Excellence Foundation*	Weatherspoon Arts Foundation	Capital Facilities Foundation	Total
ASSETS					
Current Assets	\$ 160,816,072	\$ 7,958,244	\$ 0	\$ 3,433,306	\$ 172,207,622
Capital Assets, Net	763,743,561	34,000	23,687,978	10,406,139	797,871,678
Other Noncurrent Assets	170,973,700	147,482,089			318,455,789
Total Assets	<u>1,095,533,333</u>	<u>155,474,333</u>	<u>23,687,978</u>	<u>13,839,445</u>	<u>1,288,535,089</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>71,414,880</u>				<u>71,414,880</u>
LIABILITIES					
Current Liabilities	39,724,640	428,243		282,858	40,435,741
Long-Term Liabilities, Net	660,546,640			8,766,913	669,313,553
Other Noncurrent Liabilities	2,088,080	6,003,613		222,834	8,314,527
Total Liabilities	<u>702,359,360</u>	<u>6,431,856</u>		<u>9,272,605</u>	<u>718,063,821</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>169,853,784</u>	<u>437,008</u>			<u>170,290,792</u>
NET POSITION					
Net Investment in Capital Assets	429,603,874	34,000	23,687,978	1,412,940	454,738,792
Restricted - Nonexpendable	76,006,973	86,114,610			162,121,583
Restricted - Expendable	112,107,413	51,485,087			163,592,500
Unrestricted	<u>(322,983,191)</u>	<u>10,971,772</u>		<u>3,153,900</u>	<u>(308,857,519)</u>
Total Net Position	<u>\$ 294,735,069</u>	<u>\$ 148,605,469</u>	<u>\$ 23,687,978</u>	<u>\$ 4,566,840</u>	<u>\$ 471,595,356</u>

*Activity for The University of North Carolina at Greensboro Investment Fund, Inc. is included in The Endowment Fund of The University of North Carolina at Greensboro (UNCG) and The UNCG Excellence Foundation, Inc. as discussed in Note 1A.

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

	UNCG*	UNCG Excellence Foundation*	Weatherspoon Arts Foundation	Capital Facilities Foundation	Eliminations	Total
OPERATING REVENUES						
Rental Income	\$ 0	\$ 0	\$ 0	\$ 449,318	\$ (449,318)	\$ 0
Operating Revenues	201,939,083					201,939,083
Total Operating Revenues	201,939,083			449,318	(449,318)	201,939,083
OPERATING EXPENSES						
Operating Expenses	403,421,761	417,495		768,248	(464,242)	404,143,262
Depreciation	22,893,169			290,364		23,183,533
Total Operating Expenses	426,314,930	417,495		1,058,612	(464,242)	427,326,795
Operating Loss	(224,375,847)	(417,495)		(609,294)	14,924	(225,387,712)
NONOPERATING REVENUES (EXPENSES)						
Investment Income, Net	11,077,099	7,826,697				18,903,796
Noncapital Gifts	6,053,003	570,388				6,623,391
Interest and Fees on Debt	(11,757,376)					(11,757,376)
Other Nonoperating Revenues	249,141,309			31,542		249,172,851
Other Nonoperating Expenses	(220,395)		(132,157)			(352,552)
Net Nonoperating Revenues (Expenses)	254,293,640	8,397,085	(132,157)	31,542		262,590,110
Transfers		(5,147,851)		359,528	4,788,323	
Capital Contributions	31,904,419		161,299			32,065,718
Additions to Endowments	2,198,965	1,722,162				3,921,127
Increase (Decrease) in Net Position	64,021,177	4,553,901	29,142	(218,224)	4,803,247	73,189,243
NET POSITION						
Net Position, July 1, 2018, as Restated	225,910,645	144,051,568	23,658,836	4,785,064		398,406,113
Net Position, June 30, 2019	\$ 289,931,822	\$ 148,605,469	\$ 23,687,978	\$ 4,566,840	\$ 4,803,247	\$ 471,595,356

*Activity for The University of North Carolina at Greensboro Investment Fund, Inc. is included in The Endowment Fund of The University of North Carolina at Greensboro (UNCG) and The UNCG Excellence Foundation, Inc. as discussed in Note 1A.

**Condensed Statement of Cash Flows
June 30, 2019**

	UNCG*	UNCG Excellence Foundation*	Capital Facilities Foundation	Eliminations	Total
Net Cash Used by Operating Activities	\$ (213,954,719)	\$ (3,313,110)	\$ (327,348)	\$ 0	\$ (217,595,177)
Net Cash Provided (Used) by Noncapital Financing Activities	259,991,642	206,096		(5,147,851)	255,049,887
Net Cash Used by Capital and Related Financing Activities	(35,602,373)		(980,979)		(36,583,352)
Net Cash Provided by Investing Activities	1,200,301	2,988,968	31,542		4,220,811
Net Increase (Decrease) in Cash and Cash Equivalents	11,634,851	(118,046)	(1,276,785)	(5,147,851)	5,092,169
Cash and Cash Equivalents, July 1, 2018, as Restated	134,679,867	2,906,649	4,567,229		142,153,745
Cash and Cash Equivalents, June 30, 2019	\$ 146,314,718	\$ 2,788,603	\$ 3,290,444	\$ (5,147,851)	\$ 147,245,914

*Activity for The University of North Carolina at Greensboro Investment Fund, Inc. is included in The Endowment Fund of The University of North Carolina at Greensboro (UNCG) and The UNCG Excellence Foundation, Inc. as discussed in Note 1A.

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

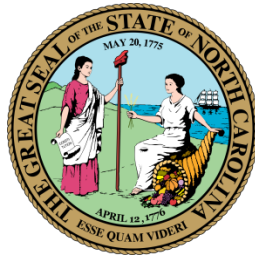
GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

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.

NOTE 20 - NET POSITION RESTATEMENTS

As of July 1, 2018, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2018 Net Position as Previously Reported	\$ 398,161,998
Restatements:	
Record the Merger of Affiliated Entities per GASB 69 Requirements	3,824,405
Record the University's Workers' Compensation Liability	<u>(3,580,290)</u>
July 1, 2018 Net Position as Restated	<u><u>\$ 398,406,113</u></u>



REQUIRED SUPPLEMENTARY INFORMATION

**The University of North Carolina at Greensboro
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 B-1

Teachers' and State Employees' Retirement System	2019	2018	2017
Proportionate Share Percentage of Collective Net Pension Liability	0.50654%	0.48830%	0.47757%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 50,431,573	\$ 38,743,875	\$ 43,893,616
Covered Payroll	\$ 82,332,739	\$ 77,751,073	\$ 74,256,427
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	61.25%	49.83%	59.11%
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	0.49801%	0.53027%	0.55270%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 18,352,655	\$ 6,216,997	\$ 33,554,522
Covered Payroll	\$ 73,915,822	\$ 75,983,103	\$ 78,802,024
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	24.83%	8.18%	42.58%
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.

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

Exhibit B-2

Teachers' and State Employees' Retirement System	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 10,969,213	\$ 8,875,469	\$ 7,759,557	\$ 6,794,463	\$ 6,763,298
Contributions in Relation to the Contractually Determined Contribution	<u>10,969,213</u>	<u>8,875,469</u>	<u>7,759,557</u>	<u>6,794,463</u>	<u>6,763,298</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 89,253,161	\$ 82,332,739	\$ 77,751,073	\$ 74,256,427	\$ 73,915,822
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	\$ 6,602,932	\$ 6,564,209	\$ 5,823,207	\$ 3,997,274	\$ 2,840,309
Contributions in Relation to the Contractually Determined Contribution	<u>6,602,932</u>	<u>6,564,209</u>	<u>5,823,207</u>	<u>3,997,274</u>	<u>2,840,309</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 75,983,103	\$ 78,802,024	\$ 78,268,906	\$ 81,080,607	\$ 79,560,471
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.

The University of North Carolina at Greensboro
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

**The University of North Carolina at Greensboro
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 B-3

Retiree Health Benefit Fund	<u>2019</u>	<u>2018</u>	<u>2017</u>
Proportionate Share Percentage of Collective Net OPEB Liability	0.94867%	0.89477%	1.01384%
Proportionate Share of Collective Net OPEB Liability	\$ 270,258,283	\$ 293,363,921	\$ 441,054,860
Covered Payroll	\$ 175,091,258	\$ 164,567,614	\$ 155,819,092
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	154.35%	178.26%	283.06%
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	0.98159%	0.95710%	0.90534%
Proportionate Share of Collective Net OPEB Asset	\$ 298,168	\$ 584,980	\$ 562,216
Covered Payroll	\$ 175,091,258	\$ 164,567,614	\$ 155,819,092
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.17%	0.36%	0.36%
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.

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

Exhibit B-4

Retiree Health Benefit Fund	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 11,862,576	\$ 10,593,021	\$ 9,561,378	\$ 8,725,869	\$ 8,421,927
Contributions in Relation to the Contractually Determined Contribution	11,862,576	10,593,021	9,561,378	8,725,869	8,421,927
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 189,195,782	\$ 175,091,258	\$ 164,567,614	\$ 155,819,092	\$ 153,404,858
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	\$ 8,473,310	\$ 8,396,759	\$ 7,891,367	\$ 7,866,532	\$ 6,971,415
Contributions in Relation to the Contractually Determined Contribution	8,473,310	8,396,759	7,891,367	7,866,532	6,971,415
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 156,913,142	\$ 158,429,407	\$ 157,827,334	\$ 160,541,468	\$ 154,920,328
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	\$ 264,874	\$ 245,128	\$ 625,357	\$ 638,858	\$ 628,960
Contributions in Relation to the Contractually Determined Contribution	264,874	245,128	625,357	638,858	628,960
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 189,195,782	\$ 175,091,258	\$ 164,567,614	\$ 155,819,092	\$ 153,404,858
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	\$ 690,418	\$ 697,089	\$ 820,702	\$ 834,816	\$ 805,586
Contributions in Relation to the Contractually Determined Contribution	690,418	697,089	820,702	834,816	805,586
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 156,913,142	\$ 158,429,407	\$ 157,827,334	\$ 160,541,468	\$ 154,920,328
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.

The University of North Carolina at Greensboro
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.

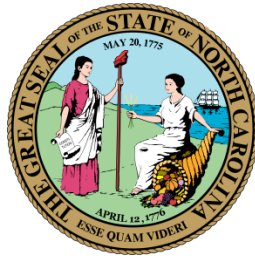
Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer 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 14 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of Assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan adopted a number of new actuarial assumptions and methods for the 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

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Office of the State Auditor



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

Board of Trustees
The University of North Carolina at Greensboro
Greensboro, 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 The University of North Carolina at Greensboro (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 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 November 25, 2019. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Greensboro Investment Fund, Inc., The UNCG Excellence Foundation, Inc., and the Capital Facilities Foundation, Inc., as described in our report on the University's financial statements. The financial statements of The University of North Carolina at Greensboro Investment Fund, Inc., The UNCG Excellence Foundation, Inc., and the Capital Facilities Foundation, Inc., were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 25, 2019

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For additional information contact:
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919-807-7513



This audit required 731 hours at an approximate cost of \$76,024.