

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

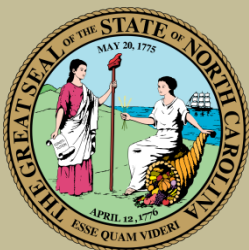
BETH A. WOOD, CPA



THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

CHARLOTTE, 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



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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 Charlotte

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

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Beth A. Wood, CPA
State Auditor

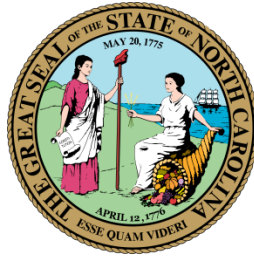


Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
UNIVERSITY EXHIBITS	
A-1 STATEMENT OF NET POSITION	18
A-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	20
A-3 STATEMENT OF CASH FLOWS.....	21
COMPONENT UNIT EXHIBITS	
B-1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION	23
B-2 CONSOLIDATED STATEMENT OF ACTIVITIES.....	24
NOTES TO THE FINANCIAL STATEMENTS	25
REQUIRED SUPPLEMENTARY INFORMATION	
C-1 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN)	71
C-2 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN)	72
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN).....	73
C-3 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY OR ASSET (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	74
C-4 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	75
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	76
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	77
ORDERING INFORMATION	79

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
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 Charlotte
Charlotte, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Charlotte (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., which represent 5.02 percent and 0.57 percent, respectively, of the assets and revenues of the University; nor the financial statements of The University of North Carolina at Charlotte Facilities Development Corporation, Inc., which represent 0.83 percent and 0.14 percent, respectively, of the assets and revenues of the University. In addition, we did not audit the consolidated financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., the University's discretely presented component unit. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The

financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the consolidated financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

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

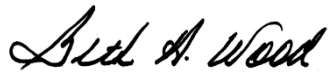
Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors 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 20, 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

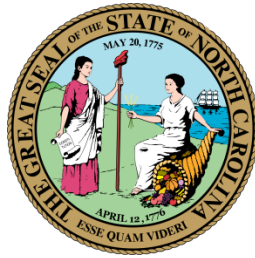
results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 20, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The University of North Carolina at Charlotte (UNC Charlotte or University) provides the following discussion and analysis as an overview of the University's financial position and activities for the year ended June 30, 2019, and to provide assistance in understanding the accompanying financial statements and notes. Comparative information for the year ended June 30, 2018 is included, emphasizing current year data and material changes between the two fiscal years, as well as information on currently known facts, decisions, and conditions affecting the financial affairs of the University.

Using the Financial Statements

The University's financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

UNC Charlotte 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*. Note that while the Foundation of the University of North Carolina at Charlotte, Inc. (Foundation) is reported as a discretely presented component unit of the University due to the nature and significance of its relationship to the University, this discussion and analysis excludes it except where specifically noted. For more details on the University's component units, see Note 1 of the Notes to the Financial Statements.

The University's financial report includes three UNC Charlotte financial statements to evaluate financial position as of June 30th and the results of operations for the fiscal year then ended:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows (identifies sources and uses of cash during the fiscal year)

It also includes two financial statements from the University's Foundation:

- Consolidated Statement of Financial Position
- Consolidated Statement of Activities

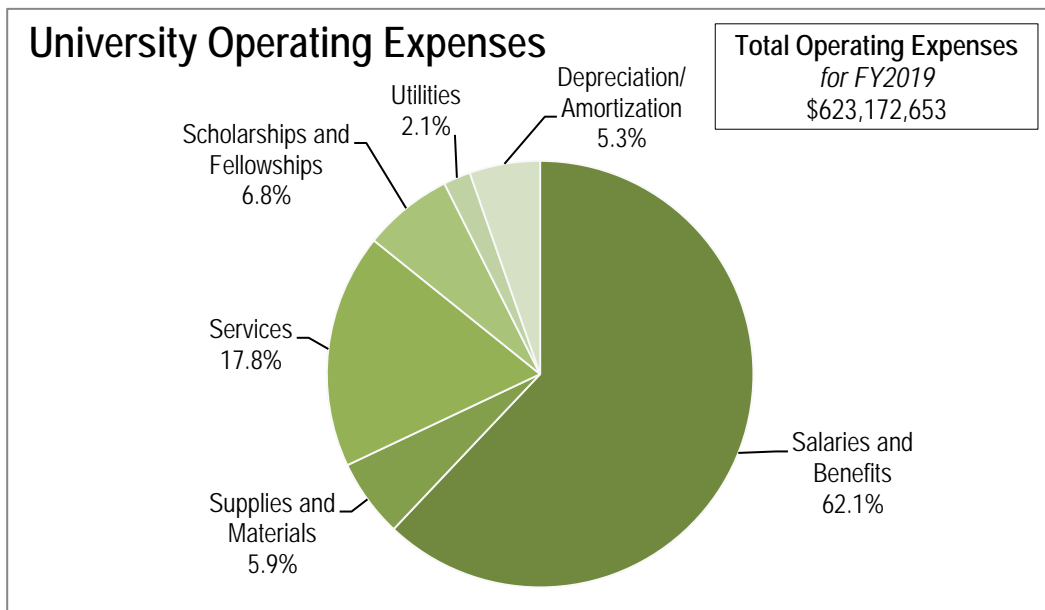
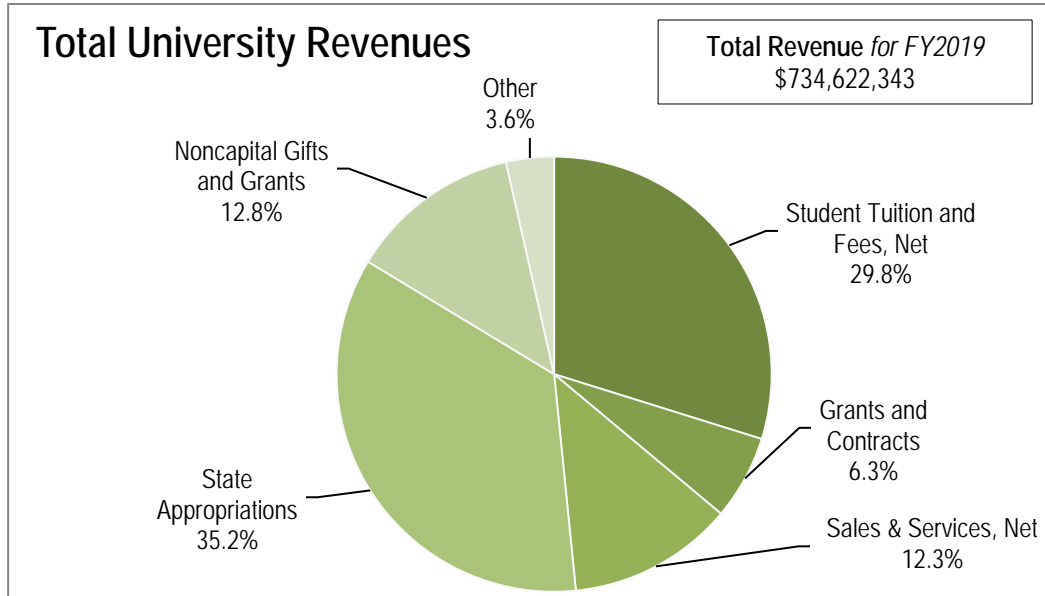
Management's discussion and analysis will concentrate on the University's Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

The accompanying Notes to the Financial Statements should be read in conjunction with the financial statements to ascertain a full understanding of the data presented in this report. These disclosures provide information to better understand details, risk, and underlying assumptions associated with amounts reported in the financial statements.

Financial Highlights

The University's total assets increased this fiscal year by 2.7%, or \$49.8 million, to \$1.9 billion at June 30, 2019. Net position increased by \$87.9 million during the year, to \$610.8 million,

reflecting continued growth and general financial strength. The change in net position is a key measure of the sum effect of the University's fiscal year activities on its financial health. More than a half-billion dollars were spent to operate the University this year (\$623.2 million), and revenues of \$734.6 million were recognized. Revenues and operating expenses as percentages of totals are shown below.



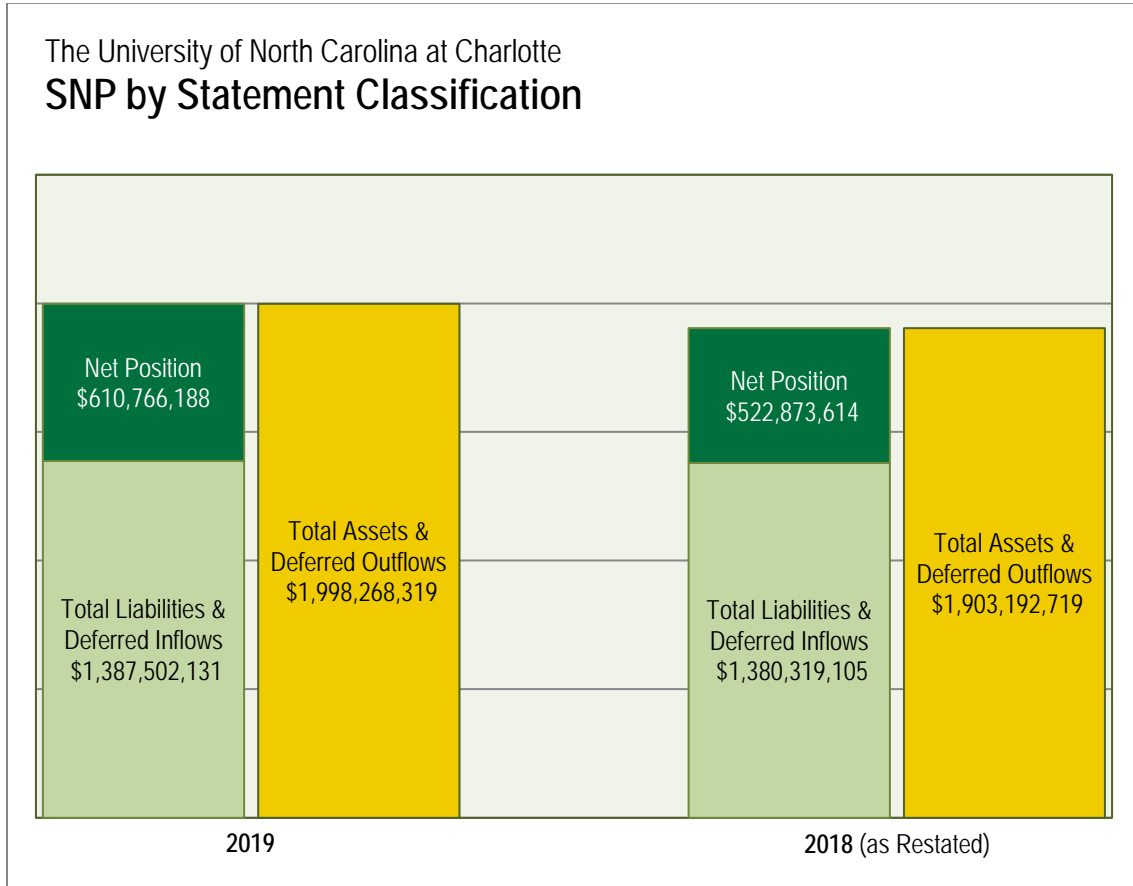
Comparative Condensed Financial Statement Information

Statement of Net Position

The Statement of Net Position (SNP) summarizes the financial position of the University by presenting its assets, deferred outflows of resources, liabilities, deferred inflows of resources,

and net position as of the end of the fiscal year. The SNP is a point-in-time financial statement and presents a fiscal snapshot of the University.

The following graph presents a comparison of net position and the categories that comprise net position at June 30, 2019, and June 30, 2018:



The SNP presents a summary of all assets available to continue the operations of the University. The statement also presents a summary of all liabilities, or amounts owed to vendors, investors, and lending institutions. Deferred outflows and inflows of resources represent the consumption or acquisition of net position, respectively, that are applicable to future periods but do not meet the definition of assets or liabilities. Finally, the SNP provides a picture of the net position, which represents the residual interest in the University's assets and deferred outflows of resources, net of its liabilities and deferred inflows of resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table summarizes and compares condensed balances as reported on the University's SNP as of June 30, 2019, and June 30, 2018.

Condensed Statement of Net Position	2019	2018 (as Restated)	Change	
			Amount	Percent
Assets:				
Current Assets	\$ 347,777,231	\$ 330,704,568	\$ 17,072,663	5.2%
Noncurrent Assets:				
Endowment and Other Investments	98,031,880	95,889,964	2,141,916	2.2%
Capital Assets, Net	1,429,020,817	1,367,895,375	61,125,442	4.5%
Other Noncurrent Assets	25,376,463	55,958,478	(30,582,015)	-54.7%
Total Assets	1,900,206,391	1,850,448,385	49,758,006	2.7%
Deferred Outflows of Resources:				
Deferred Loss on Refunding	3,520,526	3,921,875	(401,349)	-10.2%
Deferred Outflows Related to Pensions & OPEB	94,541,402	48,822,459	45,718,943	93.6%
Total Deferred Outflows of Resources	98,061,928	52,744,334	45,317,594	85.9%
Liabilities:				
Current Liabilities	61,255,441	59,259,560	1,995,881	3.4%
Noncurrent Liabilities:				
Funds Held in Trust	14,178,476	12,889,492	1,288,984	10.0%
Long-Term Liabilities, Net	1,069,226,048	1,108,690,378	(39,464,330)	-3.6%
Other Noncurrent Liabilities	4,006,034	4,449,398	(443,364)	-10.0%
Total Liabilities	1,148,665,999	1,185,288,828	(36,622,829)	-3.1%
Deferred Inflows of Resources:				
Deferred Gain on Refunding	25,257	26,862	(1,605)	-6.0%
Deferred Inflows Related To Pensions & OPEB	238,810,875	195,003,415	43,807,460	22.5%
Total Deferred Inflows of Resources	238,836,132	195,030,277	43,805,855	22.5%
Net Position:				
Net Investment in Capital Assets	870,106,760	830,402,380	39,704,380	4.8%
Restricted:				
Nonexpendable	46,907,395	46,892,515	14,880	0.0%
Expendable	37,962,343	36,675,019	1,287,324	3.5%
Unrestricted	(344,210,310)	(391,096,300)	46,885,990	-12.0%
Total Net Position	\$ 610,766,188	\$ 522,873,614	\$ 87,892,574	16.8%

Net position increased to \$610.8 million as of June 30, 2019, reflecting continued growth of the University. Other highlights of the information presented on the SNP:

- During the fiscal year, under the direction of the Office of State Controller (OSC), the University reevaluated the reasonableness of the estimated reserve related to its long-term workers' compensation claims. The claims are managed by the Office of State Human Resources (OSHR), who contracts with a third-party administrator to report an estimated lifetime exposure for workers' compensation claims where there is a potential for the claim to last the life of the individual, even where settlement is possible. In accordance with the accounting and reporting guidance under GASB Codification C50 - *Claims and Judgments*, the University determined that the related workers' compensation liability was both probable and estimable, and that the reserve amount estimated for UNC Charlotte was reasonable. The SNP was restated as of June 30, 2018

to reflect the estimated liability at that time of \$1.6 million. See Note 20 of the Notes to the Financial Statements for more details on the restatement.

- Total assets increased by \$49.8 million, or 2.7%, to \$1.9 billion at June 30, 2019.
 - Current assets are those that are available to pay for current liabilities or current year expenditures. Current assets increased by \$17.1 million in fiscal year 2019, or 5.2%, primarily due to a \$15.6 million increase in current cash and cash equivalents (unrestricted and restricted). Current unrestricted cash increased by \$22.0 million, primarily due to an increase in institutional trust funds for future planned projects. Current restricted cash decreased by \$6.5 million, primarily related to bond proceeds spent during the year. Net receivables increased by \$1.1 million due to an increase in governmental grant-related receivables, including from the Department of Education and Mecklenburg County, that were recently billed and outstanding as of the end of the fiscal year.
 - Total noncurrent assets increased by \$32.7 million, or 2.2%, during the fiscal year, primarily due to an increase in net capital assets of \$61.1 million. Offsetting that increase, noncurrent restricted cash and cash equivalents decreased by \$28.4 million mainly due to bond proceeds being spent on construction projects during the year. The increases in net capital assets and construction spending are discussed in detail in the Capital Assets and Debt Administration section. Total endowment and other investments increased by \$2.1 million, or 2.2%, mainly due to investment earnings.
- Total deferred outflows of resources increased by \$45.3 million during the fiscal year. This change is primarily due to a \$11.3 million increase in deferred outflows related to pensions and a \$34.4 million increase in deferred outflows related to other postemployment benefits (OPEB). Both of these deferred outflow measures fluctuate each year due to changes in pension and OPEB liability/asset assumptions and calculation inputs, such as differences between projected and actual investment earnings, and changes in the University's proportion of the liabilities/assets. Changes of assumptions used to calculate the State's net pension liability accounted for \$5.5 million of the increase in deferred outflows related to pensions. Changes in the University's proportion of the Retiree Health Benefit Fund (RHBF) liability accounted for most of the increase in deferred outflows related to OPEB, mainly related to an increase in the University's proportionate share of the net RHBF liability.
- Total liabilities decreased by \$36.6 million, or 3.1%, to \$1.1 billion at June 30, 2019.
 - Current liabilities, those that are due and payable in the next fiscal year, increased by \$2.0 million. The current portion of long-term liabilities increased by \$2.4 million during the fiscal year, primarily due to increases in the current portion of long-term debt owed at fiscal year end, driven by maturity of the outstanding debt.
 - Noncurrent liabilities decreased by \$38.6 million, or 3.4%, during the fiscal year. The University's portion of the State's net pension liability increased by \$15.5 million to \$71.2 million at year end, and the University's portion of the State's net OPEB liability decreased by \$34.6 million to \$416.6 million at year end. See sections on deferred outflows/inflows of resources related to pensions and OPEB for more details about these fluctuations, as well as Notes 13 and 14 of the Notes to the Financial Statements. The noncurrent portion of long-term debt outstanding decreased by \$21.6 million due

to principal payments made on outstanding debt during the year. The noncurrent portion of the compensated absences liability also increased by \$2.5 million, mainly attributable to 40 hours of additional bonus leave being granted to eligible employees per the North Carolina General Assembly's 2018 Appropriations Act, effective as of the beginning of the fiscal year.

- Total deferred inflows of resources increased by \$43.8 million during the fiscal year, attributable to a \$44.9 million increase in deferred inflows related to OPEB. As with the deferred outflows of resources related to pensions and OPEB, the related deferred inflow measures fluctuate each year due to changes in pension and net OPEB liability/asset assumptions and calculation inputs, such as differences between projected and actual investment earnings and changes in the University's proportion of the liabilities/assets. Changes of assumptions used to calculate the State's net RHBF liability accounted for \$56.2 million of the increase in deferred inflows related to OPEB, offset by reductions in the other components of the deferred inflows.
- Net Position is divided into three major categories:
 - Net investment in capital assets: Represents the University's net equity in material property, plant, and equipment owned by the University, which increased by \$39.7 million this fiscal year. Reference the Capital Assets and Debt Administration section for further details.
 - Restricted Net Position
 - Nonexpendable: The corpus of nonexpendable restricted resources (e.g., endowments) that is available for investment purposes. The University's nonexpendable net position did not materially change in fiscal year 2019.
 - Expendable: Restricted resources that must be spent for purposes as determined by donors and external entities that have placed time or purpose restrictions on the use of the assets. The University's increase in expendable restricted net position of \$1.3 million was mainly related to an increase in cash distributed from the Foundation for spending related to endowed professorships.
 - Unrestricted Net Position: Represents net equity available for any lawful purpose of the University. The University's unrestricted net position increased by \$46.9 million this fiscal year, mainly related to a \$26.7 million increase in institutional trust funds resulting from operations.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, as amended*, along with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, which were effective beginning with fiscal years 2015 and 2018, respectively, have a material effect on the University's reported unrestricted net position. To aid in understanding the continuing impact of GASB Statement Nos. 68 and 75 on available resources, see Note 10 - Net Position, in the Notes to the Financial Statements, along with the summary below. The net pension obligation of \$28.0 million and the net OPEB obligation for the Retiree Health Benefit Fund (RHBF) of \$605.6 million create a combined \$633.6 million negative impact on the University's unrestricted net position. Without these reported obligations, the University's available

resources are \$289.4 million, an increase of \$26.7 million, or 10.2%, from the prior year. This amount represents available, unrestricted resources held by the University and its blended component units, along with any operating state funds authorized for carryforward.

Effect of GASB Statement Nos. 68 and 75 on Unrestricted Net Position	2019	2018 (as Restated)	Change
Available Resources	\$ 289,352,152	\$ 262,642,470	\$ 26,709,682
Pension Net Obligation (GASB Stmt. No. 68)	(28,006,850)	(24,962,892)	(3,043,958)
OPEB Net Obligation (GASB Stmt. No. 75)	(605,555,612)	(628,775,878)	23,220,266
Total Unrestricted Net Position	\$ (344,210,310)	\$ (391,096,300)	\$ 46,885,990

The net OPEB obligation reported above relates to the RHBF. One of the key drivers of the decrease of \$20.2 million in the net pension and OPEB obligations was the change of assumptions used to value the net RHBF liability, as discussed in the deferred inflows for resources section. The Disability Income Plan of North Carolina (DIPNC) was in an asset position as of June 30, 2019, and its positive net effect on the University's restricted net position was \$2.0 million. More information on both of these OPEB plans is included in Note 14, Other Postemployment Benefits, of the Notes to the Financial Statements.

The University's liquidity remains strong with a current ratio of 5.7. This current ratio, defined as current assets divided by current liabilities, indicates that the University, if needed, could satisfy payment of its current liabilities almost six times before current assets were exhausted. Total working capital (current assets less current liabilities) of \$286.5 million at June 30, 2019, increased by \$15.1 million, or 5.6%, from the prior year, due to the larger increase in current assets relative to the increase in current liabilities, both discussed above.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position, as presented in the SNP, are based on activity presented in the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). The purpose of the SRECNP is to present revenues and expenses earned and incurred, respectively, by the University during the fiscal year.

GASB accounting principles determine the categorization of revenues and expenses as either operating or nonoperating activities. Because GASB Statement No. 34 requires that revenues from state appropriations, Pell Grants, and gifts be considered nonoperating while the expenses funded from these revenues are categorized as operating, the University will nearly always demonstrate an operating loss on its SRECNP.

Other revenues, expenses, gains, and losses recognized by the University, as applicable, and not classified as operating or nonoperating, are presented separately on the statement below the Income Before Other Revenues line.

The following table summarizes and compares the University's results of operations for the fiscal years ended June 30, 2019, and June 30, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statement of Revenues, Expenses, and Changes in Net Position	2019	2018*	Change	
			Amount	Percent
Operating Revenues:				
Student Tuition and Fees, Net	\$ 219,027,787	\$ 215,175,699	\$ 3,852,088	1.8%
Grants and Contracts	46,015,111	40,213,200	5,801,911	14.4%
Sales and Services, Net	90,553,511	86,844,526	3,708,985	4.3%
Other Operating Revenues	4,198,947	4,535,554	(336,607)	-7.4%
Total Operating Revenues	359,795,356	346,768,979	13,026,377	3.8%
Operating Expenses:				
Salaries and Benefits	386,679,548	389,830,691	(3,151,143)	-0.8%
Supplies and Materials	36,943,926	40,392,073	(3,448,147)	-8.5%
Services	110,921,494	101,100,779	9,820,715	9.7%
Scholarships and Fellowships	42,443,305	39,888,455	2,554,850	6.4%
Utilities	12,830,815	12,881,630	(50,815)	-0.4%
Depreciation/Amortization	33,353,565	31,927,862	1,425,703	4.5%
Operating Expenses	623,172,653	616,021,490	7,151,163	1.2%
Operating Loss	(263,377,297)	(269,252,511)	5,875,214	-2.2%
Nonoperating Revenues (Expenses):				
State Appropriations	258,937,065	251,101,387	7,835,678	3.1%
Noncapital Gifts and Grants	93,977,730	78,673,640	15,304,090	19.5%
Investment Income, Net	9,583,122	10,486,165	(903,043)	-8.6%
Interest and Fees on Debt	(21,862,352)	(20,121,655)	(1,740,697)	8.7%
Federal Interest Subsidy on Debt	1,802,302	1,848,834	(46,532)	-2.5%
Other Nonoperating Expenses	(1,694,764)	(2,570,394)	875,630	-34.1%
Net Nonoperating Revenues	340,743,103	319,417,977	21,325,126	6.7%
Income Before Other Revenues	77,365,806	50,165,466	27,200,340	54.2%
Capital Appropriations, Gifts, and Grants	9,943,068	9,773,257	169,811	1.7%
Additions to Endowments	583,700	56,531	527,169	932.5%
Increase in Net Position	87,892,574	59,995,254	27,897,320	46.5%
Net Position, Beginning of Year	522,873,614	464,487,245		
Restatement for Workers' Compensation Liability		(1,608,885)		
Net Position, End of Year	\$ 610,766,188	\$ 522,873,614	\$ 87,892,574	16.8%

Fiscal year 2018-19 total revenues were \$734,622,343 and total expenses were \$646,729,769

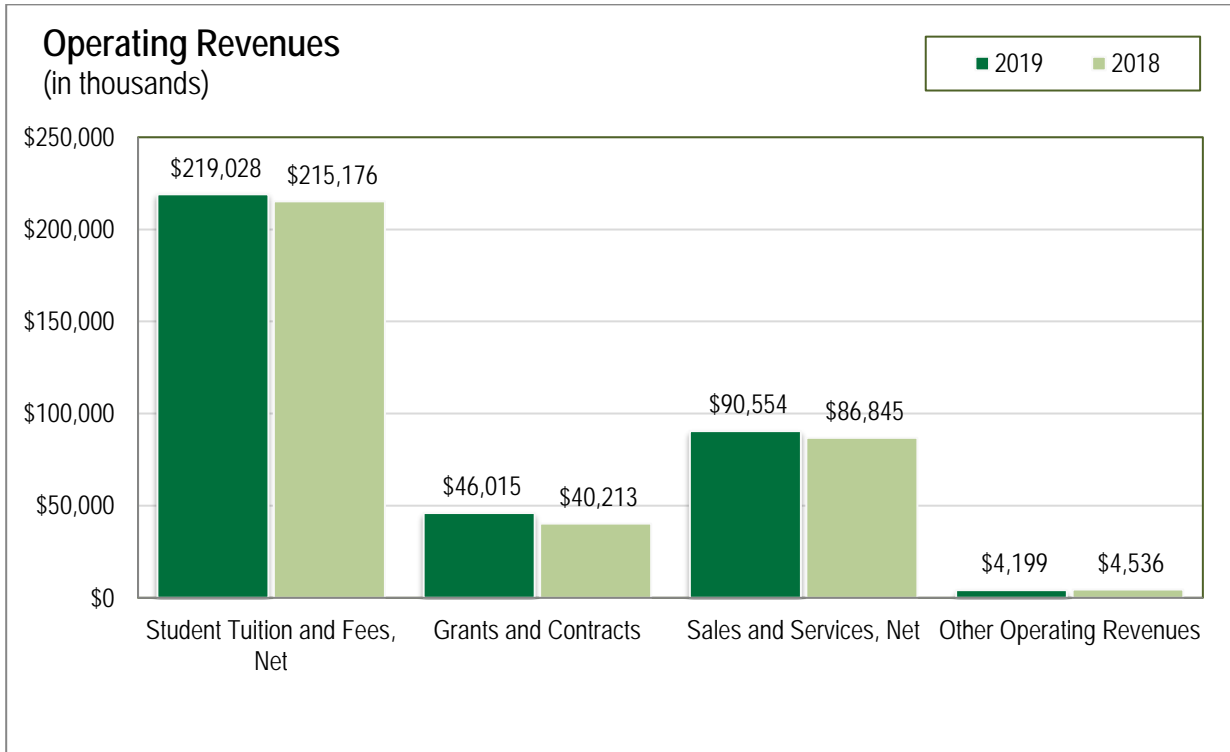
Fiscal year 2017-18 total revenues were \$698,708,793 and total expenses were \$638,713,539

* Note: The year ended June 30, 2018 column is not presented "as restated" above because the information provided for the workers' compensation liability restatement is not sufficient to restate the related workers' compensation expense. In addition, the change would be immaterial to the University's financial statements.

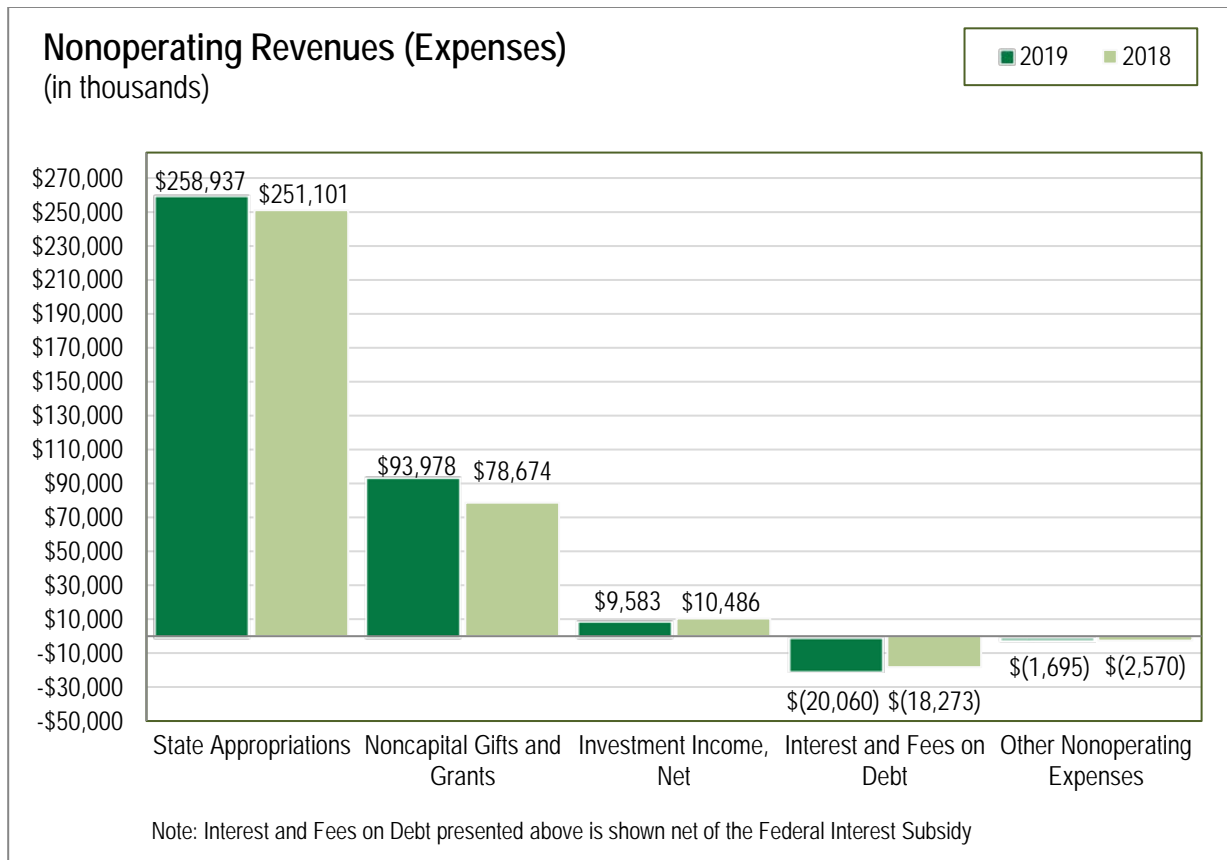
The overall increase in net position of \$87.9 million is composed of the following highlighted changes:

- Operating revenues are generated by providing goods and services to the various customers and constituencies of the University. Total operating revenues increased by \$13.0 million, or 3.8%, as compared to the prior fiscal year. Several key financial measures factor into this increase. Student tuition and fees (net) increased by \$3.9 million, or 1.8%, as a result of increases in student fee rates and enrollment. Grant and contract revenue

increased by \$5.8 million, or 14.4%, due to an increase in federally sponsored and nongovernmental grant revenue, notably in the fields of special education and child development, international programs, mechanical engineering, biological sciences, and energy production. Sales and services (net) revenue increased by \$3.7 million, or 4.3%, mainly driven by an increase in housing and dining revenues related to increases in rates and the number of students residing on campus and enrolled in meal plans during the year.



- Nonoperating revenues are those received for which goods and services are not provided. Certain significant recurring sources of the University's revenues, including state appropriations, are classified as nonoperating because they are provided to the University without the provider directly receiving commensurate goods and services for those revenues. The University's net nonoperating revenues were \$340.7 million in fiscal year 2019, a \$21.3 million increase compared to the prior year. Appropriations from the State increased by \$7.8 million, primarily due to new permanent appropriations for enrollment growth and salary increases, offset slightly by legislatively mandated budget cuts. Noncapital gifts increased by \$8.1 million, mainly related to \$6.8 million received during the fiscal year from the Foundation for the new Gage Undergraduate Admissions Center. Noncapital grants for student financial aid increased by \$7.1 million, attributable to an increase of \$4.0 million in students' Pell Grant revenue received, along with a \$2.4 million increase in state grants awarded.



- Operating expenses are those incurred to acquire or produce the goods and services provided to fulfill the mission of the University. Total operating expenses increased by \$7.2 million, or 1.2%, from the prior year, to \$623.2 million.
 - The increase in operating expenses is largely attributable to a \$9.8 million, or 9.7%, increase in services expenses due to increased spending in this category, notably related to software subscriptions, on-campus bus services, and student meal plan expenses. Depreciation and amortization expense increased by \$1.4 million due to the increase in depreciable capital assets. Contrarily, supplies and materials expenses decreased by \$3.5 million, or 8.5%, mainly related to a decrease in non-capital construction costs.
 - Scholarships and fellowships expenses increased by \$2.6 million, or 6.4%, mainly due to a \$4.0 million increase in Pell Grants awarded to students, along with a \$3.5 million increase in grant-funded scholarships, offset by an increase in the tuition discount, which eliminates the double-counting of student tuition and fee revenue and scholarship expense where the revenue has already been otherwise recognized.
 - Total salaries and benefits expenses decreased by \$3.2 million. Salaries increased by \$12.7 million, or 4.2%, mainly due to: a legislative increase to an annual minimum salary of \$31,200 for all employees; a 2% legislative increase for all eligible employees subject to the State Human Resources Act (SHRA); and promotions, salary adjustments, and newly filled positions. Benefits expenses decreased by \$15.8 million

due to decreases in pension and OPEB expenses recognized related to GASB Statement Nos. 68 and 75.

- For explanations of the material changes in capital appropriations, gifts, and grants, see the Capital Asset and Debt Administration section below.

Capital Assets and Debt Administration

The University remains committed to providing quality education, research, residential life, and other services to the community as student enrollment increases, technology advances, and community needs evolve. A critical factor in meeting these commitments is the University's ability to strategically expand and improve its capital assets.

Total capital assets, by major classification and net of accumulated depreciation and amortization, are presented below for the fiscal years ended June 30, 2019, and June 30, 2018. Information regarding changes in capital assets is also disclosed in Note 6 of the Notes to the Financial Statements.

Capital Assets, Net of Accumulated Depreciation/Amortization	2019	2018	Change	
			Amount	Percent
Land and Land Improvements	\$ 12,884,085	\$ 12,856,304	\$ 27,781	0.2%
Rare Book, Manuscript, Art and Artifact Collections	36,014,978	35,491,015	523,963	1.5%
Construction in Progress	89,978,531	98,156,594	(8,178,063)	-8.3%
Buildings	1,004,464,273	952,546,279	51,917,994	5.5%
Machinery and Equipment	60,733,787	59,717,712	1,016,075	1.7%
General Infrastructure	214,847,807	198,277,923	16,569,884	8.4%
Computer Software	10,097,356	10,849,548	(752,192)	-6.9%
Total Capital Assets, Net	\$ 1,429,020,817	\$ 1,367,895,375	\$ 61,125,442	4.5%

Total construction in progress (CIP) at the end of the year was \$90.0 million, an \$8.2 million net decrease from the prior year. CIP increased by \$86.2 million for costs incurred during the fiscal year on various construction projects, and decreased by \$94.4 million due to the completion of some of those projects during the year.

Increases in CIP included costs incurred during the fiscal year for projects still in progress at year end, notably including the University Recreation Center (\$33.1 million), the Science Building and accompanying regional utility plant (\$12.9 million), Residence Hall Phase XVI, which will replace the Sanford and Moore residence halls (\$4.6 million), and Sycamore Hall renovations (\$3.6 million). The remaining increases were mainly related to projects that were ultimately completed during the year. CIP decreased as major projects were completed during the fiscal year, including Scott Hall renovations (\$22.9 million), the Facilities Operations and Parking Services Building (\$21.6 million), Phase 2 of the Campus Infrastructure Development project in the Academic Complex, which encompasses the Denny, Macy, Barnard, Garinger, and Winningham buildings (\$14.6 million), the Union Deck expansion (\$12.5 million), and the Gage Undergraduate Admissions Center (\$8.2 million). Other capital construction projects completed were mainly for renovations and capital improvements.

The capitalized cost of buildings increased by \$51.9 million this fiscal year. The completion of Scott Hall renovations, the Facilities Operations and Parking Services Building, Phase 2 of the Campus Infrastructure Development project in the Academic Complex, and the Gage Undergraduate Admissions Center, along with other renovation projects, all contributed to this increase, offset by depreciation expense of \$20.6 million. The capitalized cost of general

infrastructure increased by \$16.6 million this fiscal year. The completion of the Union Deck expansion, along with other renovation and information technology networking projects, contributed to this increase, offset by depreciation expense of \$5.3 million.

The University also had \$36.9 million in outstanding commitments on construction contracts for capital expenditures at June 30, 2019. The bulk of these commitments related to the following construction projects: Science Building (\$17.3 million), University Recreation Center (\$8.3 million), and Residence Hall Phase XVI (\$2.8 million). These commitments reflect some of the major projects underway per the University's overall capital plan.

Capital appropriations decreased by \$1.8 million due to a decrease in the University's repairs and renovations allocation from the State. Capital grants increased by \$2.3 million, reflecting increased expenditures for the University's new science building funded by the State's Connect NC bond package, which was approved in 2016.

The University's debt portfolio is conservatively structured, with a fixed-rate debt profile and relatively rapid principal amortization. Long-term debt is primarily issued for specific capital needs. No debt was issued by the University during fiscal year 2019. The University's available funds, excluding tuition and state appropriations, are pledged to pay the bonds. The University maintained credit ratings this year from Standard & Poor's, of 'A+' with a stable outlook, and from Moody's Investors Service, of 'Aa3' with a stable outlook. Both agencies affirmed their ratings based on the very strong enterprise profile of the University, including enrollment growth trends, consistently positive financial operations, strong operating and capital support from AAA-rated State of North Carolina, and a capable management team. While the University's debt profile has increased over the past ten years, all funding decisions support the University's long-term strategic plan and are made to be as cost effective as possible in the current economic environment. For additional information on the University's debt administration, see Note 8 of the Notes to the Financial Statements.

The University continues to receive recognition for its efforts in sustainability and responsible energy use. Highlights from the past two fiscal years include continued recognition from the Arbor Day Foundation for commitment to effective urban forest management, Green Fleet Awards in 2018 and 2019, and a Green Restaurant Certification for two of the University's dining halls in 2019. These distinctions reflect the University's commitment to good stewardship of the environment and its willingness to serve as a role model for the community in sustainability. Additionally, the University's energy savings efforts enable money to be applied to academic and other programs on campus.

Economic Outlook

Management remains prudent, conservative, and strategic in managing institutional financial affairs to achieve the University's goals of providing educational services to the Charlotte region. The overall outlook for the four-year U.S. Higher Education sector, per Moody's Investors Service, remained negative as of December 2018 for the second straight year, reflecting continued low revenue growth across the industry. As of August 2019, Moody's retained this outlook. Continued financial success at UNC Charlotte will rely on enrollment demand and state support, as two of the most significant drivers of the University's revenue base, along with effective institutional planning and cost containment.

Continued focus on affordability and student outcomes at the state and national level, coupled with UNC Charlotte's emphasis on value for its students, will constrain tuition increases to those that are necessary to meet operational needs, a trend typical among public universities.

There were no increases in tuition rates and only modest increases in fees for the 2019-20 academic year. North Carolina also established a fixed tuition program at all University of North Carolina (UNC) system institutions in 2016 that freezes tuition rates for new resident undergraduate students over a period of continuous enrollment and limits the overall increase in undergraduate student fees to 3% per academic year. UNC Charlotte is mindful of controlling expenses and has a lower than average spending rate per full-time-equivalent student among the 16 UNC universities.

Overall, UNC Charlotte continues to realize strong enrollment with tuition and fee rates that remain low compared to its public peers. The University also benefits from its membership in the UNC system through economies of scale, and draws from a diverse tuition base. UNC Charlotte enrolled more than 29,600 students for the Fall 2019 semester, a 19.9% cumulative increase over the past ten years. UNC Charlotte is the largest university in the continuously growing Charlotte region and remains the only urban research university in the UNC system. UNC Charlotte also enrolls more transfer students than any other university in North Carolina and offers more than 160 degree programs to a culturally diverse student population.

Enrollment growth at UNC Charlotte is expected to continue. While national and regional long-term enrollment forecasts vary, North Carolina's population is expected to grow by more than 2 million people from 2010 to 2030, and Charlotte is projected to be one of the fastest growing regions in the U.S. in that same timeframe. A key UNC system goal is to increase the proportion of adults in North Carolina with a bachelor's degree or higher. Mitigating enrollment growth factors include policies and social issues at the international, national, state, and local levels that may discourage attendance by qualified prospective student populations. However, the University continues to plan for a long-term target of 35,000 students, as UNC Charlotte will be expected to support the single largest number of additional students in the UNC system.

The University also continues efforts to foster partnerships and relationships with a wide variety of constituents, positioning itself as the region's preferred provider of talent, knowledge, and innovation. Exponential, the University's largest fundraising campaign in its history, has raised \$189.1 million as of September 2019, with a goal of \$200.0 million by the end of fiscal year 2020, to provide funding for increased scholarships (opportunity), improved student experience (resources), recruitment of skilled faculty (talent), and support of key programs (impact). In addition, at the end of May 2019, construction began on the new UNC Charlotte Marriott Hotel and Conference Center, positioned on the University's campus along the city's light rail. The Foundation is managing the project, and funding for construction costs of \$83.8 million has been secured from diverse sources, including private donations, contributions from the City of Charlotte, the hotel brand, and the hotel operator, and debt that will be an obligation of the Foundation (debt service will be paid using net operating cash flow from the facility). Once construction is complete, which is expected by the spring of 2021, the asset will be transferred to the Endowment Fund of the University, and the facility will be operated by Sage Hospitality under the Marriott brand. The facility is expected to enhance the University's ability to attract academic conferences, raise the visibility and reputation of the University, and provide an important amenity for the campus and the city.

Approximately 75% of UNC Charlotte students receive some form of financial aid, and approximately 45% of undergraduates who receive aid are Pell Grant recipients. This, in addition to the fact that the majority of the University's research funding is from federal grants, causes the federal budget to remain a key consideration of the financial outlook. Access, affordability, and accountability remain concerns for the higher education industry. Any legislation related to funding for federal student aid programs and federal research

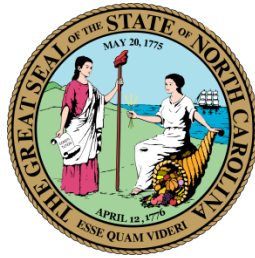
organizations will affect our students and faculty; management is prepared to adapt to changes as they arise.

Finally, the University continues its efforts to make an impact through its research initiatives and received \$51.0 million in sponsored awards during fiscal year 2019. The University is consistently in the top five universities nationally for number of startups per million dollars of research funding. The University will continue to strategically target research-rich fields, including advanced manufacturing, biotechnology, data science and business analytics, defense, education, energy production and infrastructure, health, and cybersecurity, which align with UNC Charlotte's professional schools and applied science programs. The University plans to reach a sustainable level of extramurally funded research programs of \$55.0 million annually by 2021.

Management is fully committed to making sound fiscal decisions to withstand future economic uncertainties, and remains dedicated to UNC's mission to discover, create, transmit, and apply knowledge to address the needs of individuals and society.

Contacting the University's Financial Management

This financial report is designed to provide our citizens, investors, and creditors with a general overview of the University's finances and show accountability for all funds received. Additional financial information may be obtained by accessing the Financial Services webpage (finance.uncc.edu) or contacting the Controller (704-687-5759) or Associate Vice Chancellor for Finance (704-687-5813).



FINANCIAL STATEMENTS

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

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 287,452,083
Restricted Cash and Cash Equivalents	32,647,442
Receivables, Net (Note 5)	14,179,309
Inventories	230,216
Notes Receivable, Net (Note 5)	388,308
Prepaid Items	12,879,873
	<hr/>
Total Current Assets	347,777,231

Noncurrent Assets:

Restricted Cash and Cash Equivalents	21,778,047
Endowment Investments	84,539,658
Restricted Investments	13,448,959
Other Investments	43,263
Notes Receivable, Net (Note 5)	3,136,591
Net Other Postemployment Benefits Asset	461,825
Capital Assets - Nondepreciable (Note 6)	138,877,594
Capital Assets - Depreciable, Net (Note 6)	1,290,143,223
	<hr/>
Total Noncurrent Assets	1,552,429,160

Total Assets	<hr/> 1,900,206,391
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	3,520,526
Deferred Outflows Related to Pensions	43,874,480
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	50,666,922
	<hr/>
Total Deferred Outflows of Resources	98,061,928

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	19,390,269
Deposits Payable	1,727,543
Funds Held for Others	100
Unearned Revenue	9,071,169
U.S. Government Grants Refundable	688,526
Interest Payable	6,459,748
Long-Term Liabilities - Current Portion (Note 8)	23,918,086
	<hr/>
Total Current Liabilities	61,255,441

Noncurrent Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	642,703
Funds Held for Others	155,945
Unearned Revenue	534,357
U.S. Government Grants Refundable	2,673,029
Funds Held in Trust for Pool Participants	14,178,476
Long-Term Liabilities, Net (Note 8)	1,069,226,048
	<hr/>

Total Noncurrent Liabilities	1,087,410,558
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Total Liabilities	<hr/> 1,148,665,999
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The University of North Carolina at Charlotte
Statement of Net Position
June 30, 2019

Exhibit A-1
Page 2 of 2

DEFERRED INFLOWS OF RESOURCES

Deferred Gain on Refunding	25,257
Deferred Inflows Related to Pensions	714,210
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	238,096,665
	<hr/>
Total Deferred Inflows of Resources	238,836,132
	<hr/>

NET POSITION

Net Investment in Capital Assets	870,106,760
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	6,789,842
Endowed Professorships	34,595,959
Departmental Uses	4,014,338
Loans	1,291,259
Other	215,997
Expendable:	
Scholarships and Fellowships	6,338,355
Research	2,497,762
Endowed Professorships	19,377,375
Departmental Uses	5,836,053
Debt Service	26,540
Other	3,886,258
Unrestricted	(344,210,310)
	<hr/>
Total Net Position	\$ 610,766,188
	<hr/> <hr/>

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

The University of North Carolina at Charlotte
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)	\$ 219,027,787
Federal Grants and Contracts	35,555,411
State and Local Grants and Contracts	2,369,768
Nongovernmental Grants and Contracts	8,089,932
Sales and Services, Net (Note 11)	90,553,511
Interest Earnings on Loans	110,668
Other Operating Revenues	4,088,279
	<hr/>
Total Operating Revenues	359,795,356

OPERATING EXPENSES

Salaries and Benefits	386,679,548
Supplies and Materials	36,943,926
Services	110,921,494
Scholarships and Fellowships	42,443,305
Utilities	12,830,815
Depreciation/Amortization	33,353,565
	<hr/>
Total Operating Expenses	623,172,653
	<hr/>
Operating Loss	(263,377,297)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	258,937,065
Noncapital Grants - Student Financial Aid	73,290,501
Noncapital Grants	762,274
Noncapital Gifts	19,924,955
Investment Income (Net of Investment Expense of \$426,165)	9,583,122
Interest and Fees on Debt	(21,862,352)
Federal Interest Subsidy on Debt	1,802,302
Other Nonoperating Expenses	(1,694,764)
	<hr/>
Net Nonoperating Revenues	340,743,103
	<hr/>
Income Before Other Revenues	77,365,806
	<hr/>
Capital Appropriations	1,800,520
Capital Grants	7,263,416
Capital Gifts	879,132
Additions to Endowments	583,700
	<hr/>
Increase in Net Position	87,892,574

NET POSITION

Net Position - July 1, 2018, as Restated (Note 20)	<hr/> 522,873,614
Net Position - June 30, 2019	\$ <hr/> <hr/> 610,766,188

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

The University of North Carolina at Charlotte
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	\$ 354,529,438
Payments to Employees and Fringe Benefits	(404,562,823)
Payments to Vendors and Suppliers	(161,940,825)
Payments for Scholarships and Fellowships	(42,443,305)
Loans Issued	(119,198)
Collection of Loans	656,303
Interest Earned on Loans	126,291
Student Deposits Received	1,038,250
Student Deposits Returned	(966,400)
Other Receipts	3,939,578
	<hr/>
Net Cash Used by Operating Activities	(249,742,691)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	258,937,065
Noncapital Grants - Student Financial Aid	73,372,451
Noncapital Grants	762,274
Noncapital Gifts	19,740,786
Additions to Endowments	583,700
William D. Ford Direct Lending Receipts	132,882,546
William D. Ford Direct Lending Disbursements	(132,882,546)
Related Activity Agency Receipts	31,591,406
Related Activity Agency Disbursements	(32,200,472)
External Participation in Investment Fund Receipts	1,639,253
External Participation in Investment Fund Disbursements	(1,181,631)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	353,244,832

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Appropriations	1,800,520
Capital Grants	7,263,416
Proceeds from Insurance on Capital Assets	100,494
Acquisition and Construction of Capital Assets	(94,023,590)
Principal Paid on Capital Debt	(18,677,746)
Interest and Fees Paid on Capital Debt	(23,411,342)
Federal Interest Subsidy on Debt Received	1,813,244
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(125,135,004)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	5,195,299
Investment Income	5,699,342
Purchase of Investments and Related Fees	(2,123,959)
	<hr/>
Net Cash Provided by Investing Activities	8,770,682
	<hr/>
Net Decrease in Cash and Cash Equivalents	(12,862,181)
	<hr/>
Cash and Cash Equivalents - July 1, 2018	354,739,753
	<hr/>
Cash and Cash Equivalents - June 30, 2019	\$ 341,877,572

The University of North Carolina at Charlotte
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	\$ (263,377,297)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	33,353,565
Allowances, Write-Offs, and Amortizations	1,661,298
Other Nonoperating Income	(1,117,708)
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(2,608,444)
Inventories	80,440
Notes Receivable, Net	1,917,378
Prepaid Items	(745,586)
Net Other Postemployment Benefits Asset	457,371
Deferred Outflows Related to Pensions	(11,312,088)
Deferred Outflows Related to Other Postemployment Benefits	(34,406,855)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(1,028,142)
Unearned Revenue	(70,310)
Net Pension Liability	15,464,170
Net Other Postemployment Benefits Liability	(34,555,811)
Workers' Compensation Liability	(485,836)
Compensated Absences	3,147,367
Deposits Payable	76,337
Deferred Inflows Related to Pensions	(1,108,124)
Deferred Inflows Related to Other Postemployment Benefits	44,915,584
Net Cash Used by Operating Activities	<u>\$ (249,742,691)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 872,094
Assets Acquired through a Gift	879,132
Change in Fair Value of Investments	3,769,010
Loss on Disposal of Capital Assets	(1,362,234)
Amortization of Bond Premiums/Discounts	(2,001,367)

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

**The Foundation of the University of North
Carolina at Charlotte, Inc.
Consolidated Statement of Financial Position
June 30, 2019**

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	21,003,712
Accounts Receivable		597
Prepaid Expenses		1,164,705
Pledges Receivable, Net		9,644,928
Beneficial Interests in Lead Trusts		602,458
Beneficial Interests in Assets Held by Others		581,772
Investments		132,368,102
Cash Surrender Value of Life Insurance		749,071
Construction in Progress		4,019,144
Property Held for Investment		2,389,225
		<hr/>
Total Assets	\$	<u><u>172,523,714</u></u>

LIABILITIES

Accounts Payable and Accrued Expenses	\$	1,514,276
Liability Under Split-Interest Agreements		3,196,690
Funds Held for Others		248,213
		<hr/>
Total Liabilities		<u>4,959,179</u>

NET ASSETS

Without Donor Restrictions		28,534,342
With Donor Restrictions		139,030,193
		<hr/>
Total Net Assets		<u>167,564,535</u>
		<hr/>
Total Liabilities and Net Assets	\$	<u><u>172,523,714</u></u>

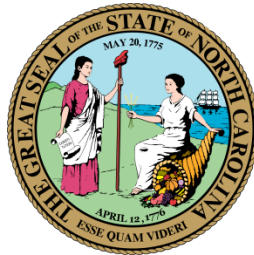
The accompanying notes to the financial statements are an integral part of this statement.

The Foundation of the University of North Carolina at Charlotte, Inc.
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2019

Exhibit B-2

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS, AND OTHER SUPPORT			
Public Contributions	\$ 767,964	\$ 12,455,986	\$ 13,223,950
Support from Affiliate	3,263,052	419,420	3,682,472
Investment Income	2,233,332	5,774,349	8,007,681
Other Loss	(174,970)	(75,443)	(250,413)
	6,089,378	18,574,312	24,663,690
Net Assets Released from Restrictions	9,864,713	(9,864,713)	
Total Revenue, Gains, and Other Support	15,954,091	8,709,599	24,663,690
EXPENSES			
Program Services:			
Contributions to UNC Charlotte	17,229,056		17,229,056
Research and Other Programs	712,873		712,873
Total Program Services	17,941,929		17,941,929
Support Services:			
General and Administrative	2,372,846		2,372,846
Fundraising Support	1,120,013		1,120,013
Total Support Services	3,492,859		3,492,859
Total Expenses	21,434,788		21,434,788
Change in Net Assets Before Write-Offs and Transfers	(5,480,697)	8,709,599	3,228,902
Write-Off of Pledges Receivable		(1,078,259)	(1,078,259)
Transfers Between Net Asset Classes	20,789	(20,789)	
Change in Net Assets	(5,459,908)	7,610,551	2,150,643
NET ASSETS			
Beginning of Year	33,994,250	131,419,642	165,413,892
Ending of Year	\$ 28,534,342	\$ 139,030,193	\$ 167,564,535

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

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

Blended Component Units - Although legally separate, The University of North Carolina at Charlotte Facilities Development Corporation, Inc. (FDC) and The University of North Carolina at Charlotte Investment Fund, Inc. (UNCCIF), component units of the University, are reported as if they were part of the University.

The FDC is governed by an eight-member board consisting of one ex officio director and seven elected directors. The sole purpose is to assist the University in financing, constructing, and equipping a student housing project on campus. The University operates and manages the project under the terms of agreement between the University and the FDC. Because the elected directors of the FDC are appointed by the members of The University of North Carolina at Charlotte Board of Trustees and because the FDC's primary purpose is to benefit the University, its financial statements have been blended with those of the University.

The UNCCIF is governed by a board consisting of three ex officio directors and four elected directors. The UNCCIF's purpose is to support the University by operating an investment fund for nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Its participant investors include the University, the Foundation, and the Athletic Foundation (see Note 17). The UNCCIF is a governmental external investment pool. Because two of the seven directors of the UNCCIF are administrators of

the University and the elected directors are appointed by the member investors' Boards of Trustees, and because the UNCCIF's primary purpose is to benefit the University, the UNCCIF has been blended with the University's financial statements, with the exception of the portion belonging to the Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented (as described below).

Separate financial statements for the FDC and the UNCCIF may be obtained from the University Treasury Services Office, at treasuryservices@uncc.edu or by calling (704) 687-5432.

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

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

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 34 officers and directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2019, the Foundation distributed \$17,229,056 to the University for both restricted and unrestricted purposes. The University provided professional services to the Foundation of \$3,682,472 for the year ended June 30, 2019. Complete financial statements for the Foundation can be obtained from the University Treasury Services Office at treasuryservices@uncc.edu, or by calling (704) 687-5432.

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

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

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

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

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

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

Real estate not held by a governmental external investment pool and other asset holdings are reported at fair value as determined by appraisal as of June 30, 2019. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, if purchased, or at fair value or appraised value at date of gift, if donated.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts. 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. **Inventories** - Inventories, consisting of expendable supplies, postage, fuel held for consumption, and other 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 except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-75 years
Machinery and Equipment	5-20 years
General Infrastructure	10-75 years
Computer Software	10-20 years

The University's rare book, manuscript, art, and artifact collections are capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

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

- J. 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, special indebtedness, and notes from direct borrowings. Other long-term liabilities include: compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

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

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 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 gain on refunding, 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 central stores, copy centers, motor pool, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2019, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$340,516,571, 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 \$32,650. The carrying amount of the University's deposits not with the State Treasurer was \$1,328,351, and the bank balance was \$1,627,754. 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, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	<u>\$ 1,051,456</u>
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Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the deposit. At June 30, 2019, \$76,298 of the total bank balance was denominated in Euros, and was therefore exposed to foreign currency risk. The University does not have a formal policy for foreign currency risk.

B. Investments

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

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

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

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

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

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

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

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

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

External Investment Pool - The External Investment Pool sponsored by the University was established in November 2004. The Pool is utilized to manage the investments for endowments that are organized and operated primarily to support the University. University endowment funds and the Foundation, which is a discretely presented component unit in the University's reporting entity, represent the Pool's internal participants. The Athletic Foundation of the University of North Carolina at Charlotte, Inc., an affiliated organization not included in the University's reporting entity, represents the Pool's external participant. Fund ownership of the Pool is measured using the pro rata share method. Under this method, each participating fund's investment balance is determined based on its pro rata share of the fair market value of the investment pool at the beginning of each quarterly period. 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 UNCCIF 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. The Board has chosen not to make individual security selection decisions. The Board's

primary role is to oversee the allocation of the Pool's portfolio among the asset classes, investment vehicles, and investment managers.

The UNCCIF is the custodian for the Pool and provides the University with monthly statements defining income and valuation, 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 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

Investment Type	Amount
Other Securities	
UNC Investment Fund	\$ 44,682,382
Global Endowment Fund II, LP	45,573,156
Total External Investment Pool	\$ 90,255,538

The UNCCIF invests with two external investment firms, a limited partnership interest, Global Endowment Fund II, LP, and the UNC Investment Fund, LLC (UNC Investment Fund), an external investment pool. Global Endowment Management, LP is registered with the SEC, but neither firm has a credit rating, nor are they subject to any regulatory oversight. Investment risks associated with Global Endowment Fund II, LP are included in the audited financial statements of the Global Endowment Fund II, LP, which may be obtained from Global Endowment Management, LP, 550 South Tryon Street, Suite 3500, Charlotte, NC 28202. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC, which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Separate financial statements for the UNCCIF may be obtained from the University Treasury Services Office at treasuryservices@uncc.edu, or by calling (704) 687-5432.

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
Debt Securities		
Money Market Mutual Funds	\$ 29,079	\$ 29,079
Other Securities		
Investments in Real Estate	7,704,000	
Cash Surrender Value of Life Insurance	43,263	
Total Non-Pooled Investments	\$ 7,776,342	

At June 30, 2019, the money market mutual funds with an amortized cost of \$29,079 were rated AAAM and Aaa-mf by Standard and Poor's and Moody's, respectively.

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

Investment Type	Amount
Debt Securities	
Money Market Mutual Funds	\$ 29,079
Other Securities	
UNC Investment Fund	44,682,382
Global Endowment Fund II, LP	45,573,156
Investments in Real Estate	7,704,000
Cash Surrender Value of Life Insurance	43,263
Total Investments	\$ 98,031,880

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

Investment Type	Carrying Value
Short-Term Investments	\$ 900,883
Bonds	1,948,573
Fixed Income Mutual Funds	2,222,030
Equity Securities and Other Investments	42,122
UNCCIF External Investment Pool	127,254,494
Total Investments	\$ 132,368,102

NOTE 3 - FAIR VALUE MEASUREMENTS

University - 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.

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 Measurements Using			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Investments in Real Estate	\$ 7,704,000	\$ 0	\$ 7,704,000	\$ 0
Investments Measured at the Net Asset Value (NAV)				
Global Endowment Fund II, LP	45,573,156			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	340,516,571			
UNC Investment Fund	44,682,382			
Total Investments as a Position in an External Investment Pool	385,198,953			
Total Investments Measured at Fair Value	\$ 438,476,109			

Short-Term Investment Fund - Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The University's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

UNC Investment Fund - The fair value of the University's balance in the UNC Investment Fund is \$44,682,382. An additional \$57,051,428 is held by the discretely presented Foundation for a total of \$101,733,810 invested by the UNCCIF. Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund's operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The University's position in the pool is measured and reported at fair value and the UNC Investment Fund is not required to be categorized within the fair value hierarchy.

Investments in Real Estate - The fair value of the University's investments in real estate is \$7,704,000. These investments are classified as Level 2 of the fair value hierarchy and are valued using market multiples that consider current appraisals.

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
Global Endowment Fund II, LP	\$ 45,573,156	N/A	Semi-Annually	Written notice given by March 1 & Sept. 1 preceding June 30 & Dec. 31, the respective redemption dates.

Global Endowment Fund II, LP - The net asset value (NAV) of the University's balance in the private equity limited partnership, Global Endowment Fund II, LP, is \$45,573,156. An additional \$58,188,786 is held by the discretely presented Foundation for a total of \$103,761,942 invested by the UNCCIF. The private investment partnership offers an endowment-style investment program to institutional investors, family offices, qualified individuals, and other sophisticated investors. The Partnership invests with a long-term horizon, seeking varied and non-traditional investment opportunities in an effort to provide a diversified, single-portfolio investment strategy for its investors. The Management Company's Valuation Committee is responsible for valuing the Fund's assets. The Committee will ensure that positions are valued in accordance with the requirements of the governing documents of the managed funds and applicable accounting standards. The funds are valued based on the investments' NAV or its equivalent in accordance with FASB Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*. This ASU amends

FASB ASC 820, *Fair Value Measurement*, to offer investors a practical expedient for measuring the fair value of investments that do not have a readily determinable fair value and that calculate a NAV to be valued based on the NAV per share or its equivalent of the underlying investment when it is probable that the investment will not be sold in the short-term.

Component Unit - The Foundation's investments are reported using FASB ASC 820, *Fair Value Measurement*, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

- Level 1 Financial instruments with unadjusted, quoted prices listed on active market exchanges.
- Level 2 Financial instruments determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 Financial instruments that are not actively traded on an active exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

In determining fair value, the Foundation uses valuation approaches within the FASB ASC 820 fair value measurement framework. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy.

Short-term investments: Short-term investments are traded in active markets and are classified within Level 1 of the hierarchy.

Bonds, mutual funds, equity securities, and other investments (including assets held under split-interest agreements): Bonds, mutual funds, equity securities, and other investments are traded in active markets and are classified within Level 1 of the hierarchy.

The following table summarizes financial assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2019:

	Assets At Fair Value As Of June 30, 2019	
	Level 1	Total
Short-Term Investments	\$ 900,883	\$ 900,883
Bonds	1,948,573	1,948,573
Fixed Income Mutual Funds	2,222,030	2,222,030
Equity Securities and Other	42,122	42,122
	<u>\$ 5,113,608</u>	<u>5,113,608</u>
Pooled investments ^(a)		<u>127,254,494</u>
		<u>\$ 132,368,102</u>

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

The following table presents the valuation of the Foundation's investments, which are reported at Net Asset Value (NAV) or its equivalent, and unfunded commitments at June 30, 2019:

Investment	Net Asset Value 2019	Redemption Frequency	Redemption Notice	Unfunded Commitments
UNCCIF External Investment Pool	<u>\$ 127,254,494</u>	Semi Annually	120 Days	None

The UNCCIF seeks to provide equity-like returns while mitigating risk through diversification and long-term asset allocation and to preserve the real purchasing power of the fund, while providing a predictable and growing stream of spending distributions to Fund participants.

The UNCCIF investment in the limited partnership is subject to the terms and conditions of the limited partnership agreement. The agreement allows semi-annual redemptions on June 30 and December 31, with notice given by March 1 and September 1, respectively, preceding the redemption date. All redemptions are subject to the general partner's approval and can be limited or suspended. The sale of the limited partnership interest to a third party is not permitted.

The UNCCIF investment in another external investment pool is subject to an operating agreement. Ownership in the external investment pool is based on the per unit market value method, whereby the total market value of the underlying assets are divided by the number of units to determine the market value per unit. The number of units times the rate per unit determines the ownership. Redemptions of up to \$10 million may be made monthly with at least 30 days' notice, and redemption requests greater than \$10 million may be made quarterly with at least 90 days' notice.

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are real property held for investment of \$7,704,000 and pooled funds (cash and investments) invested with the UNCCIF of \$95,357,488 (includes \$14,178,476 of Athletic Foundation restricted funds). Non-real property investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and, therefore, the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy, which limits spending to 80% of the prior year's spending adjusted for inflation, plus 20% of 4.5% of the average of the prior three years' market values as of December 31 each year. 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, accumulated income and net appreciation of \$35,562,875 was available to be spent, of which \$23,659,610 was classified in net position as restricted expendable for scholarships, fellowships, and endowed professorships, as it was restricted for these specific purposes. The remaining \$11,903,265 was classified as unrestricted net position.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 - RECEIVABLES

Receivables at June 30, 2019, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 7,806,901	\$ 1,842,344	\$ 5,964,557
Accounts	940,965		940,965
Intergovernmental	6,643,813		6,643,813
Investment Earnings	57		57
Interest on Loans	58,421		58,421
Federal Interest Subsidy on Debt	455,496		455,496
Other	116,000		116,000
Total Current Receivables	\$ 16,021,653	\$ 1,842,344	\$ 14,179,309
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 413,033	\$ 63,627	\$ 349,406
Institutional Student Loan Programs	64,031	25,129	38,902
Total Notes Receivable - Current	\$ 477,064	\$ 88,756	\$ 388,308
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 3,229,459	\$ 497,494	\$ 2,731,965
Institutional Student Loan Programs	735,491	330,865	404,626
Total Notes Receivable - Noncurrent	\$ 3,964,950	\$ 828,359	\$ 3,136,591

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Capital Assets, Nondepreciable:				
Land and Land Improvements	\$ 12,856,304	\$ 27,781	\$ 0	\$ 12,884,085
Art, Literature, and Artifacts	35,491,015	523,963		36,014,978
Construction in Progress	98,156,594	86,262,344	94,440,407	89,978,531
Total Capital Assets, Nondepreciable	146,503,913	86,814,088	94,440,407	138,877,594
Capital Assets, Depreciable:				
Buildings	1,154,647,625	72,741,067	506,384	1,226,882,308
Machinery and Equipment	121,478,035	8,756,086	5,810,498	124,423,623
General Infrastructure	246,250,032	21,970,407	100,000	268,120,439
Computer Software	13,643,949			13,643,949
Total Capital Assets, Depreciable	1,536,019,641	103,467,560	6,416,882	1,633,070,319
Less Accumulated Depreciation/Amortization for:				
Buildings	202,101,346	20,582,607	265,918	222,418,035
Machinery and Equipment	61,760,323	6,688,243	4,758,730	63,689,836
General Infrastructure	47,972,109	5,330,523	30,000	53,272,632
Computer Software	2,794,401	752,192		3,546,593
Total Accumulated Depreciation/Amortization	314,628,179	33,353,565	5,054,648	342,927,096
Total Capital Assets, Depreciable, Net	1,221,391,462	70,113,995	1,362,234	1,290,143,223
Capital Assets, Net	\$ 1,367,895,375	\$ 156,928,083	\$ 95,802,641	\$ 1,429,020,817

During the year ended June 30, 2019, the University incurred \$23,465,417 in interest costs related to the acquisition and construction of capital assets. Of this total, \$21,862,352 was charged in interest expense, and \$1,603,065 was capitalized.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 2,194,037
Accounts Payable - Capital Assets	12,493,721
Accrued Payroll	1,068,405
Contract Retainage	3,556,757
Other	77,349
	<u>19,390,269</u>
Total Current Accounts Payable and Accrued Liabilities	<u>\$ 19,390,269</u>
Noncurrent Accounts Payable and Accrued Liabilities	
Contract Retainage	<u>\$ 642,703</u>

NOTE 8 - LONG-TERM LIABILITIES

University

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 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	\$ 545,825,000	\$ 0	\$ 17,225,000	\$ 528,600,000	\$ 18,110,000
Special Indebtedness	12,120,000		540,000	11,580,000	550,000
Plus: Unamortized Premium	38,587,943		2,022,039	36,565,904	
Less: Unamortized Discount	(403,343)		(20,672)	(382,671)	
	<u>596,129,600</u>		<u>19,766,367</u>	<u>576,363,233</u>	<u>18,660,000</u>
Total Revenue Bonds Payable and Special Indebtedness, Net					
Notes from Direct Borrowings	8,320,319		912,746	7,407,573	938,176
	<u>604,449,919</u>		<u>20,679,113</u>	<u>583,770,806</u>	<u>19,598,176</u>
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	17,380,915	18,964,995	15,817,628	20,528,282	3,545,234
Net Pension Liability	55,702,950	15,464,170		71,167,120	
Net Other Postemployment Benefits Liability	451,110,687		34,555,811	416,554,876	
Workers' Compensation	1,608,885	906,954	1,392,789	1,123,050	774,676
	<u>525,803,437</u>	<u>35,336,119</u>	<u>51,766,228</u>	<u>509,373,328</u>	<u>4,319,910</u>
Total Other Long-Term Liabilities					
Total Long-Term Liabilities, Net	<u>\$ 1,130,253,356</u>	<u>\$ 35,336,119</u>	<u>\$ 72,445,341</u>	<u>\$ 1,093,144,134</u>	<u>\$ 23,918,086</u>

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 Special Indebtedness - The University was indebted for revenue bonds payable and special indebtedness (limited obligation bonds) 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 Payable							
Parking Deck H BABs	2009-B	4.68%-6.25%	2039	* \$	16,280,000	\$ 1,005,000	\$ 15,275,000
Housing Phase 9 BABs	2009-B	4.68%-6.25%	2039	*	33,490,000	2,075,000	31,415,000
Football Stadium BABs	2010	4.83%-6.52%	2040	*	40,895,000	7,825,000	33,070,000
Portal Building	2012-A	4.00%	2022		2,615,000	2,410,000	205,000
South Village Dining	2012-A	4.00%	2022		3,470,000	3,200,000	270,000
Regional Utility Plant	2012-A	4.00%	2022		4,140,000	4,005,000	135,000
Refi-Sprinkler Loan	2012-A	4.00%	2022		3,645,000	2,385,000	1,260,000
Parking Deck J - South Village Deck	2012-A	4.00%	2022		14,685,000	14,095,000	590,000
Residence Hall Phase 10	2012-A	4.00%-5.00%	2023		30,290,000	27,910,000	2,380,000
Residence Hall Phase 11	2012-A	4.00%-5.00%	2023		28,890,000	26,615,000	2,275,000
2012 Sprinkler Project	2012-A	4.00%-5.00%	2023		3,260,000	3,010,000	250,000
Portal Building-Taxable	2012-B	2.50%-4.45%	2041		25,575,000	8,580,000	16,995,000
South Village Dining-Taxable	2012-B	2.50%-4.45%	2041		8,655,000	2,905,000	5,750,000
Regional Utility Plant-Taxable	2012-B	2.50%-4.25%	2032		2,710,000	710,000	2,000,000
Residence Hall Phase 12	2013-A	3.00%-5.00%	2043		39,560,000	4,150,000	35,410,000
Refinancing of 2003-A Pooled Bonds	2013-A	4.50%-5.25%	2028		8,640,000	6,295,000	2,345,000
Campus Infrastructure	2013-B	1.84%-4.12%	2043		35,240,000	4,990,000	30,250,000
Refinancing 2004-A Parking Bonds	2013-B	4.00%	2021		2,545,000	1,880,000	665,000
Residence Hall Phase 13	2014	3.00%-5.00%	2044		34,220,000	2,520,000	31,700,000
Oak Hall Renovations	2014	3.00%-5.00%	2044		8,765,000	645,000	8,120,000
Holshouser Hall Renovations	2014	3.00%-5.00%	2044		15,760,000	1,165,000	14,595,000
Residence Hall Phase 14	2015	3.00%-5.00%	2045		39,045,000	1,485,000	37,560,000
Campus Infrastructure Phase 2	2015	3.00%-5.00%	2045		32,075,000	2,265,000	29,810,000
Refi-2006 Parking Bonds	2015	3.00%-5.00%	2036		7,970,000	570,000	7,400,000
Refi-2007-B Student Union Bonds	2015	3.00%-5.00%	2037		37,060,000	225,000	36,835,000
2017 Refi Multiple Projects (Tax-Exempt)	2017-A	4.00%-5.00%	2041		77,865,000	655,000	77,210,000
2017 Refi Multiple Projects (Taxable)	2017-B	2.19%-3.63%	2041		26,140,000	3,320,000	22,820,000
Health & Wellness Center	2017	4.00%-5.00%	2048		43,990,000	665,000	43,325,000
Scott Hall Renovation	2017	4.00%-5.00%	2048		15,585,000	0	15,585,000
Elm, Maple, Pine Renovation	2017	4.00%-5.00%	2048		16,805,000	255,000	16,550,000
Total General Revenue Bonds					659,865,000	137,815,000	522,050,000
The University of North Carolina System Pool Revenue Bonds							
Refinance Balance of SAC 1995 Bonds	2005 A	5.00%-5.25%	2021		11,855,000	8,320,000	3,535,000
2nd Partial Refund of Housing Phase 7	2009-B	4.00%-4.13%	2021		6,185,000	4,425,000	1,760,000
Partial Refund of Housing Phase 8	2010-B1	4.00%	2020		13,770,000	12,705,000	1,065,000
Refund of Parking Series 2002 Bonds	2010-B1	4.00%	2020		6,300,000	6,110,000	190,000
Total The University of North Carolina System Pool Revenue Bonds					38,110,000	31,560,000	6,550,000
Special Indebtedness							
Refi-Greek Village COPs via LOBs	2015	2.52%-4.37%	2035		13,730,000	2,150,000	11,580,000
Total Revenue Bonds Payable and Special Indebtedness (principal only)					\$ 711,705,000	\$ 171,525,000	540,180,000
Plus: Unamortized Premium							36,565,904
Less: Unamortized Discount							(382,671)
Total Revenue Bonds Payable and Special Indebtedness, Net							\$ 576,363,233

* The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 33% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

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

Revenue Bonds Payable - The indenture agreements for the University's outstanding revenue bonds of \$528,600,000 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, (2) fails to pay the purchase price of any bonds when due and payable, or (3) 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 (UNC) 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 either declare the unpaid principal amount plus any accrued and unpaid interest be due and payable immediately, or enforce all rights of the owners, and require the UNC Board of Governors to carry out agreements with or for the benefit of the owners and to perform its duties under the general indenture. The trustee may also take whatever action at law or in equity may appear necessary or desirable to enforce its rights against the UNC Board of Governors.

Special Indebtedness - The University has pledged the Greek Village student housing complex, which contains 350 beds, 14 buildings, and related parking facilities, as collateral for its outstanding special indebtedness from limited obligation bonds of \$11,580,000. The indenture of trust, the lease, the use agreement, and the deed of trust for the University's limited obligation bonds contain provisions related to events of default and remedies. Significant to the indenture's provisions, an event of default occurs when: (1) the University fails to pay the principal, interest, or premium on any bond when due and payable, (2) the University or the UNC Charlotte Facilities Development Corporation, Inc. (FDC), a blended component unit of the University, fails to observe and perform any covenant, condition, agreement, or provision within thirty days of receiving written notice by the trustee, or (3) a default, as defined in the lease, the use agreement, or the deed of trust, occurs and continues.

In addition to the above, an event of default per the deed of trust occurs if: (1) any of the representations or warranties contained in or affecting the deed of trust are untrue or incorrect in any material respect and not remedied within thirty days after notice from the trustee, or (2) the FDC exhibits that it is insolvent, is bankrupt, or otherwise cannot make payments as required per the deed of trust.

Per the use agreement, if net project revenues from Greek Village and the University's other housing and dining revenues are not sufficient to cover base rental payments, an event of default will occur under the indenture. Additionally, a rate covenant exists under the terms of the use agreement, wherein the University must periodically revise fees, rents, and charges so

that Greek Village revenues and housing and dining revenues are sufficient in each fiscal year to equal an amount necessary to maintain a debt service coverage ratio of at least 1.0. Failure by the University to maintain the ratio for two consecutive years will be considered an event of default.

In the event of a default, the trustee of the bonds may, with the consent of or at the direction of the insurer, or shall, if required by a majority in aggregate principal amount of the owners of the bonds, declare the obligations of the University to be immediately due and payable, whereupon they will, without further action become due and payable. The trustee may also exercise all remedies available and permissible by law or in equity, to the extent provided under the applicable agreements, that may appear necessary or desirable to enforce all rights against the University or the secured property.

In addition to the above, per the deed of trust, in the event of a default, the trustee may also: (1) manage and operate the mortgaged property and carry on business and receive all earnings from the mortgaged property after deducting expenses, (2) foreclose the deed of trust, or (3) take such steps to protect and enforce its rights whether by action, suit, or proceedings in equity or at law for the specific performance of any covenant, condition, or agreement in the indenture or the deed of trust.

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014. This agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of nonappropriation from the State occurs, (3) insurance coverage on the asset is not maintained, or (4) the University fails to perform any warranty, covenant, condition, or agreement within thirty days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within thirty days.

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

The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the Energy Services Agreement dated May 23, 2013. This agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to perform or meet

any of its duties or obligations and cure such failure within thirty business days after written notice is delivered by the energy savings company (ESCO) or financing assignee, (2) the University fails to pay when due any amount to be paid under the agreement, or (3) any statement, representation, or warranty is made by the University in writing and in connection with this agreement that is knowingly false, misleading, or erroneous in any material respect as of the time when made.

Upon the occurrence of any event of default, the ESCO may, without waiver of other remedies that exist at law or in equity: 1) exercise all remedies available at law or in equity, or other appropriate proceedings, including bringing an action or actions from time to time for recovery of amounts due and unpaid by the University, and/or for damages which shall include all costs and expenses reasonably incurred, including reasonable attorney fees, and/or 2) terminate the 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		Special Indebtedness		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 18,110,000	\$ 24,052,155	\$ 550,000	\$ 455,812	\$ 938,176	\$ 275,625
2021	18,805,000	23,309,185	565,000	441,930	964,174	243,895
2022	17,150,000	22,545,950	580,000	426,099	998,817	211,328
2023	17,725,000	21,778,713	600,000	408,398	916,403	177,662
2024	18,545,000	21,013,804	615,000	388,628	601,916	148,389
2025-2029	93,345,000	92,356,787	3,455,000	1,575,506	2,988,087	333,150
2030-2034	110,710,000	69,164,955	4,250,000	783,128		
2035-2039	127,205,000	41,645,782	965,000	42,199		
2040-2044	85,235,000	15,272,338				
2045-2049	21,770,000	2,016,875				
Total Requirements	\$ 528,600,000	\$ 333,156,544	\$ 11,580,000	\$ 4,521,700	\$ 7,407,573	\$ 1,390,049

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

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2019, the outstanding balance of prior year defeased bonds was \$89,335,000.

For certain prior year defeasances, the substitution of essentially risk-free monetary assets with other monetary assets that are 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 \$89,335,000.

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
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp	1.84%	2/14/2023	\$ 2,685,726	\$ 1,155,417	\$ 1,530,309
UNC Charlotte Energy Savings Project	PNC Equipment Finance, LLC	4.41%	1/23/2029	8,443,099	2,565,835	5,877,264
Total Notes from Direct Borrowings				\$ 11,128,825	\$ 3,721,252	\$ 7,407,573

Component Unit

The Foundation has entered into a line of credit agreement allowing it to borrow up to \$5,000,000. The line of credit carries a variable rate of interest equal to the one-month London Interbank Offered Rate (LIBOR) plus 1.10% (3.49% as of June 30, 2019). There were no borrowings outstanding on the line of credit as of June 30, 2019. The loan agreement contains a liquidity covenant and also requires that the Foundation maintain a minimum average deposit account balance of \$400,000 with the lender. The line of credit expires on September 5, 2021.

In May 2019, the Foundation entered into a loan agreement for a \$55,000,000 draw-down facility to provide interim financing for the construction of a 226-room hotel and conference center project on the University campus. The loan facility carries a variable rate of interest equal to the one-month LIBOR plus 1.25% (3.64% as of June 30, 2019). The maturity date of the loan facility is December 1, 2021. There were no borrowings outstanding on the loan as of June 30, 2019.

There was no interest expense during 2019.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for classroom and warehouse space, parking spaces, heavy equipment, copiers, and fiber optic cable. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2019:

Fiscal Year	Amount
2020	\$ 473,322
2021	434,210
2022	372,477
2023	360,307
2024	366,819
2025-2029	185,097
Total Minimum Lease Payments	\$ 2,192,232

Rental expense for all operating leases during the year was \$754,746.

NOTE 10 - NET POSITION

The deficit in unrestricted net position of \$344,210,310 has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources. A summary of the balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
Deferred Outflows Related to Pensions	\$ 43,874,480	\$ 0	\$ 43,874,480
Deferred Outflows Related to OPEB		49,040,160	49,040,160
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	71,167,120		71,167,120
Net OPEB Liability		416,554,876	416,554,876
Deferred Inflows Related to Pensions	714,210		714,210
Deferred Inflows Related to OPEB		238,040,896	238,040,896
Net Effect on Unrestricted Net Position	\$ (28,006,850)	\$ (605,555,612)	\$ (633,562,462)

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	\$ 278,330,511	\$ 57,865,553	\$ 1,437,171	\$ 219,027,787
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 51,863,962	\$ 11,113,638	\$ 132,175	\$ 40,618,149
Dining	26,808,254	5,163,621	85,781	21,558,852
Student Union Services	3,965,959			3,965,959
Health Services	2,298,475		2,715	2,295,760
Parking	10,944,709			10,944,709
Athletics	6,714,081			6,714,081
Facilities	821,265			821,265
Other	2,461,283			2,461,283
Sales and Services of Education and Related Activities	1,173,453			1,173,453
Total Sales and Services, Net	\$ 107,051,441	\$ 16,277,259	\$ 220,671	\$ 90,553,511

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 205,575,491	\$ 6,732,733	\$ 18,687,661	\$ 0	\$ 2,023	\$ 0	\$ 230,997,908
Research	15,681,023	2,053,227	6,023,772				23,758,022
Public Service	1,958,031	82,227	513,853				2,554,111
Academic Support	33,670,939	6,875,244	13,274,643		114,159		53,934,985
Student Services	17,610,117	1,998,397	5,138,801				24,747,315
Institutional Support	36,072,224	2,658,176	8,064,510		25,923		46,820,833
Operations and Maintenance of Plant	30,130,919	5,721,483	10,729,242		8,658,413		55,240,057
Student Financial Aid				42,443,305			42,443,305
Auxiliary Enterprises	45,980,804	10,822,439	48,489,012		4,030,297		109,322,552
Depreciation/Amortization						33,353,565	33,353,565
Total Operating Expenses	\$ 386,679,548	\$ 36,943,926	\$ 110,921,494	\$ 42,443,305	\$ 12,830,815	\$ 33,353,565	\$ 623,172,653

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 \$7,210,522, and the University's contributions were \$14,769,553 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 \$71,167,120 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 0.71481%, which was an increase of 0.01277 from its proportion measured as of June 30, 2017, which was 0.70204%.

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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2018 is 1.5%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.20% to 7.00% for the December 31, 2017 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents the net pension liability of the plan at June 30, 2018 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

Net Pension Liability		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ 135,727,758	\$ 71,167,120	\$ 16,994,350

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 \$17,797,353. 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	\$ 5,193,824	\$ 714,210
Changes of Assumptions	14,281,411	
Net Difference Between Projected and Actual Earnings on Plan Investments	6,782,239	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,847,453	
Contributions Subsequent to the Measurement Date	14,769,553	
Total	\$ 43,874,480	\$ 714,210

The amount of \$14,769,553 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	\$ 16,283,441
2021	10,630,162
2022	1,601,655
2023	(124,541)
Total	\$ 28,390,717

- 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 \$315,200,877, of which \$147,163,021 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$8,829,781 and \$10,065,951, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. Of the total salaries and benefits expense recognized during the fiscal year, \$544,443 was covered with forfeitures.

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 \$16,762,117 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 \$374,274 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 \$416,554,876 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 1.46220%, which was an increase of 0.08630 from its proportion measured as of June 30, 2017, which was 1.37590%.

Net OPEB Asset: At June 30, 2019, the University reported an asset of \$461,825 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 1.52036%, which was an increase of 0.01644 from its proportion measured as of June 30, 2017, which was 1.50392%.

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	\$	492,163,053	\$ 416,554,876	\$ 355,945,686
		1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$	(353,864)	\$ (461,825)	\$ (565,391)

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	\$ 343,646,405	\$ 416,554,876	\$ 512,267,952
	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	\$ (463,162)	\$ (461,825)	\$ (460,563)

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 \$6,461,655 for RHBF and expense of \$4,757 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	\$ 805,608	\$ 805,608
Changes of Assumptions		87,208	87,208
Net Difference Between Projected and Actual Earnings on Plan Investments	44,798	359,672	404,470
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	32,233,245		32,233,245
Contributions Subsequent to the Measurement Date	16,762,117	374,274	17,136,391
Total	\$ 49,040,160	\$ 1,626,762	\$ 50,666,922

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

	RHBFB	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 28,485,859	\$ 0	\$ 28,485,859
Changes of Assumptions	180,461,189		180,461,189
Net Difference Between Projected and Actual Earnings on Plan Investments			
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	29,093,848	55,769	29,149,617
Total	<u>\$ 238,040,896</u>	<u>\$ 55,769</u>	<u>\$ 238,096,665</u>

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBFB 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:	RHBFB	DIPNC
2020	\$ (49,272,189)	\$ 283,957
2021	(49,272,189)	283,910
2022	(49,272,189)	221,244
2023	(49,227,647)	170,388
2024	(8,718,639)	118,635
Thereafter		118,585
Total	<u>\$ (205,762,853)</u>	<u>\$ 1,196,719</u>

NOTE 15 - RISK MANAGEMENT

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

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

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

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

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

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

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. The University has purchased extended, broad, or all risk coverage for designated buildings and contents within buildings. Coverage can include the perils of windstorm, hail, explosion, smoke, aircraft or vehicles, riot or civil commotion, vandalism, sprinkler leakage, theft, and any loss not specifically excluded.

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 occurrence and \$10,000,000 in the aggregate per policy period 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 mitigated additional risks with the following insurance programs as of June 30, 2019:

A separate professional liability policy underwritten by Medical Mutual Insurance is provided to healthcare professionals. The limit of liability is \$1,000,000 per claim and \$3,000,000 aggregate annually.

The University is protected for losses from the risk of a cyber breach for first party cyber claims and Payment Card Industry (PCI) fines with a \$3,000,000 annual policy aggregate limit and a \$250,000 deductible per claim. Sublimits apply as described in the current policy. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance.

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 \$36,907,997 and on a contract for maintenance of technology assets was \$2,589,684 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.

Component Unit

The Foundation has committed to constructing a 226-room hotel and conference center (hotel project) located on the campus of the University. The hotel project is estimated to be completed in the spring of 2021 for a total cost of \$84,000,000. The Foundation is financing the construction of the hotel project through bank financing, excess unrestricted or board designated assets, contributions from the City of Charlotte, and other private contributions and planned giving agreements.

NOTE 17 - RELATED PARTY

The Athletic Foundation of the University of North Carolina at Charlotte, Inc. (Athletic Foundation) is a separately incorporated nonprofit foundation associated with the University.

The Athletic Foundation serves as the primary fundraising arm of the University's Athletic Department through which individuals, corporations, and other organizations support University programs by providing scholarships, salary supplements, and unrestricted funds. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the Athletic Foundation, except for assets invested in the External Investment Pool held in a fiduciary capacity and support from the organization to the University. This support approximated \$3,233,800 for the year ended June 30, 2019.

NOTES TO THE FINANCIAL STATEMENTS

The University contributed services valued at \$772,070 for Athletic Foundation financial and administrative support for the year ended June 30, 2019.

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

	University	FDC	UNCCIF*	Eliminations	Total
ASSETS					
Current Assets	\$ 347,346,329	\$ 429,018	\$ 17,240,573	\$ (17,238,689)	\$ 347,777,231
Capital Assets, Net	1,413,726,091	15,294,726			1,429,020,817
Other Noncurrent Assets	109,223,831		205,495,752	(191,311,240)	123,408,343
Total Assets	<u>1,870,296,251</u>	<u>15,723,744</u>	<u>222,736,325</u>	<u>(208,549,929)</u>	<u>1,900,206,391</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>98,061,928</u>				<u>98,061,928</u>
LIABILITIES					
Current Liabilities	60,544,184	703,337	124,344	(116,424)	61,255,441
Funds Held in Trust			222,611,981	(208,433,505)	14,178,476
Long-Term Liabilities, Net	1,058,196,048	11,030,000			1,069,226,048
Other Noncurrent Liabilities	4,006,034				4,006,034
Total Liabilities	<u>1,122,746,266</u>	<u>11,733,337</u>	<u>222,736,325</u>	<u>(208,549,929)</u>	<u>1,148,665,999</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>238,810,875</u>	<u>25,257</u>			<u>238,836,132</u>
NET POSITION					
Net Investment in Capital Assets	866,416,516	3,690,244			870,106,760
Restricted - Nonexpendable	46,907,395				46,907,395
Restricted - Expendable	37,962,343				37,962,343
Unrestricted	(344,485,216)	274,906			(344,210,310)
Total Net Position	<u>\$ 606,801,038</u>	<u>\$ 3,965,150</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 610,766,188</u>

*UNCCIF amounts include the portion that is attributable to the Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented in Exhibit B-1 of the financial statements. This discretely presented portion is also removed from the financial statement totals via eliminations.

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

	University	FDC	UNCCIF*	Eliminations	Total
OPERATING REVENUES					
Student Tuition and Fees, Net	\$ 219,027,787	\$ 0	\$ 0	\$ 0	\$ 219,027,787
Grants & Contracts	46,015,111				46,015,111
Sales and Services, Net	89,544,607	1,008,904			90,553,511
Other Operating Revenues	4,198,947				4,198,947
Total Operating Revenues	<u>358,786,452</u>	<u>1,008,904</u>			<u>359,795,356</u>
OPERATING EXPENSES					
Operating Expenses	589,710,823	108,265			589,819,088
Depreciation/Amortization	33,112,703	240,862			33,353,565
Total Operating Expenses	<u>622,823,526</u>	<u>349,127</u>			<u>623,172,653</u>
Operating Income (Loss)	<u>(264,037,074)</u>	<u>659,777</u>			<u>(263,377,297)</u>
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	258,937,065				258,937,065
Grants and Gifts	93,977,730				93,977,730
Investment Income (Net of Investment Expense)	9,574,718	8,404	14,904,210	(14,904,210)	9,583,122
Interest and Fees on Debt	(21,399,778)	(462,574)			(21,862,352)
Allocation to Owners			(14,904,210)	14,904,210	
Other	107,538				107,538
Net Nonoperating Revenues (Expenses)	<u>341,197,273</u>	<u>(454,170)</u>			<u>340,743,103</u>
Capital Contributions	9,943,068				9,943,068
Additions to Endowments	583,700				583,700
Increase in Net Position	87,686,967	205,607			87,892,574
NET POSITION					
Net Position, July 1, 2018 (as Restated)	519,114,071	3,759,543			522,873,614
Net Position, June 30, 2019	<u>\$ 606,801,038</u>	<u>\$ 3,965,150</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 610,766,188</u>

*UNCCIF amounts include the portion that is attributable to the Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented in Exhibit B-2 of the financial statements. This discretely presented portion is also removed from the financial statement totals via eliminations.

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

	University	FDC	Total
Net Cash Provided (Used) by Operating Activities	\$ (250,619,240)	\$ 876,549	\$ (249,742,691)
Net Cash Provided by Noncapital Financing Activities	353,244,832		353,244,832
Net Cash Used by Capital and Related Financing Activities	(124,126,641)	(1,008,363)	(125,135,004)
Net Cash Provided by Investing Activities	8,762,895	7,787	8,770,682
Net Decrease in Cash and Cash Equivalents	(12,738,154)	(124,027)	(12,862,181)
Cash and Cash Equivalents, July 1, 2018	354,273,727	466,026	354,739,753
Cash and Cash Equivalents, June 30, 2019	<u>\$ 341,535,573</u>	<u>\$ 341,999</u>	<u>\$ 341,877,572</u>

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

University - 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

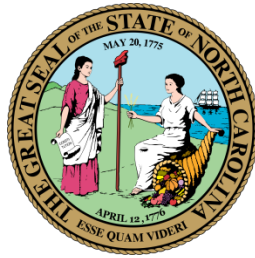
GASB Statement No. 88 improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It defines debt for purposes of disclosure in notes to financial statements and requires disclosure of additional essential 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.

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

NOTE 20 - NET POSITION RESTATEMENT

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

	Amount
July 1, 2018 Net Position as Previously Reported	\$ 524,482,499
Restatement:	
Record the University's Workers' Compensation Liability	(1,608,885)
July 1, 2018 Net Position as Restated	\$ 522,873,614



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

Teachers' and State Employees' Retirement System	<u>2019</u>	<u>2018</u>	<u>2017</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.71481%	0.70204%	0.66102%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 71,167,120	\$ 55,702,950	\$ 60,754,566
Covered Payroll	\$ 114,333,290	\$ 109,431,980	\$ 101,985,427
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	62.25%	50.90%	59.57%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.61%	89.51%	87.32%
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.67044%	0.67809%	0.66110%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 24,707,041	\$ 7,950,070	\$ 40,135,507
Covered Payroll	\$ 98,002,228	\$ 96,704,555	\$ 95,240,521
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	25.21%	8.22%	42.14%
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 Charlotte
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years**

Exhibit C-2

Teachers' and State Employees' Retirement System	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 14,769,553	\$ 12,325,129	\$ 10,921,312	\$ 9,331,667	\$ 8,967,204
Contributions in Relation to the Contractually Determined Contribution	<u>14,769,553</u>	<u>12,325,129</u>	<u>10,921,312</u>	<u>9,331,667</u>	<u>8,967,204</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 120,175,366	\$ 114,333,290	\$ 109,431,980	\$ 101,985,427	\$ 98,002,228
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	\$ 8,403,626	\$ 7,933,535	\$ 6,735,742	\$ 4,461,891	\$ 3,138,757
Contributions in Relation to the Contractually Determined Contribution	<u>8,403,626</u>	<u>7,933,535</u>	<u>6,735,742</u>	<u>4,461,891</u>	<u>3,138,757</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 96,704,555	\$ 95,240,521	\$ 90,534,160	\$ 90,504,892	\$ 87,920,362
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 Charlotte
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:

	Cost of Living Increase									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
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 Charlotte
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Three Fiscal Years***

Exhibit C-3

Retiree Health Benefit Fund	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Liability	1.46220%	1.37590%	1.47880%
Proportionate Share of Collective Net OPEB Liability	\$ 416,554,876	\$ 451,110,687	\$ 643,328,264
Covered Payroll	\$ 255,356,381	\$ 243,798,332	\$ 226,082,790
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	163.13%	185.03%	284.55%
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	1.52036%	1.50392%	1.35886%
Proportionate Share of Collective Net OPEB Asset	\$ 461,825	\$ 919,196	\$ 843,852
Covered Payroll	\$ 255,356,381	\$ 243,798,332	\$ 226,082,790
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.18%	0.38%	0.37%
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 Charlotte
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Exhibit C-4

Retiree Health Benefit Fund	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 16,762,117	\$ 15,449,061	\$ 14,168,417	\$ 12,660,636	\$ 11,738,557
Contributions in Relation to the Contractually Determined Contribution	16,762,117	15,449,061	14,168,417	12,660,636	11,738,557
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 267,338,387	\$ 255,356,381	\$ 243,798,332	\$ 226,082,790	\$ 213,817,074
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	\$ 10,996,246	\$ 10,338,012	\$ 9,213,710	\$ 8,854,753	\$ 8,088,140
Contributions in Relation to the Contractually Determined Contribution	10,996,246	10,338,012	9,213,710	8,854,753	8,088,140
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 203,634,194	\$ 195,056,825	\$ 184,274,209	\$ 180,709,249	\$ 179,736,446
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	\$ 374,274	\$ 357,499	\$ 926,434	\$ 926,939	\$ 876,650
Contributions in Relation to the Contractually Determined Contribution	374,274	357,499	926,434	926,939	876,650
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 267,338,387	\$ 255,356,381	\$ 243,798,332	\$ 226,082,790	\$ 213,817,074
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	\$ 895,990	\$ 858,250	\$ 958,226	\$ 939,688	\$ 934,630
Contributions in Relation to the Contractually Determined Contribution	895,990	858,250	958,226	939,688	934,630
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 203,634,194	\$ 195,056,825	\$ 184,274,209	\$ 180,709,249	\$ 179,736,446
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 Charlotte
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.

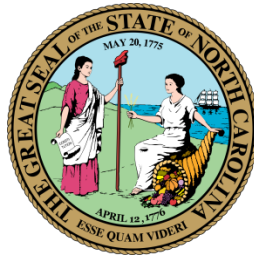
Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer 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

STATE OF NORTH CAROLINA
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 Charlotte
Charlotte, 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 Charlotte (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 20, 2019. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the consolidated financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., as described in our report on the University's financial statements. The financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the consolidated financial statements of The Foundation of the University of North Carolina at Charlotte, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 20, 2019

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For additional information contact:
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This audit required 625.5 hours at an approximate cost of \$65,052.