

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

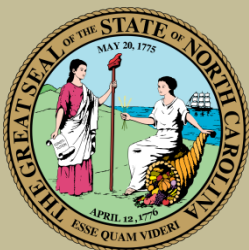
BETH A. WOOD, CPA



UNIVERSITY OF NORTH CAROLINA WILMINGTON

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

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



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of the University of North Carolina Wilmington for the year ended June 30, 2019, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

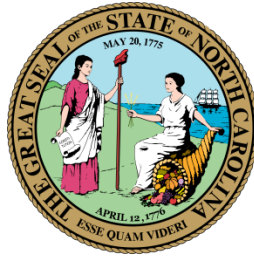


Beth A. Wood, CPA
State Auditor

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



INDEPENDENT AUDITOR'S REPORT

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Office of the State Auditor



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
University of North Carolina Wilmington
Wilmington, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the UNCW Corporation, the UNCW Corporation II, and the UNCW Research Foundation, which collectively represent less than 1 percent of the assets and revenues of the University. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the blended component units were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

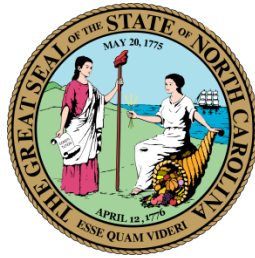
In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2019 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 7, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The University of North Carolina Wilmington (University or UNCW) provides the following Management's Discussion and Analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2019. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the previous year is presented to provide a better understanding of the financial information.

Using the Financial Statements

The University's financial report includes three basic comprehensive financial statements that depict the financial activity and fiscal condition of the University for the current year: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles. The accrual basis of accounting has been used to prepare the statements. This method of accounting requires that revenues and assets be recognized when the service is provided. Expenses and liabilities are recognized when others provide services, regardless of when cash is exchanged.

The Statement of Net Position includes all University assets, deferred outflows and inflows, and liabilities. The University's net position (the monetary difference between total assets and deferred outflows of resources, and total liabilities and deferred inflows of resources) is one indicator of the University's financial viability. Over time, changes in net position provide information on the improvement or erosion of the University's financial condition when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the fiscal year. Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 classifies state appropriations and gifts as nonoperating revenues. With state appropriations and gifts being classified as nonoperating revenues, most public institutions will report an operating deficit.

An important factor to consider when evaluating the financial viability of the University is the ability to meet financial obligations as they mature. The Statement of Cash Flows presents information that allows the reader to evaluate the University's ability to meet its financial obligations on a current basis.

Financial Highlights

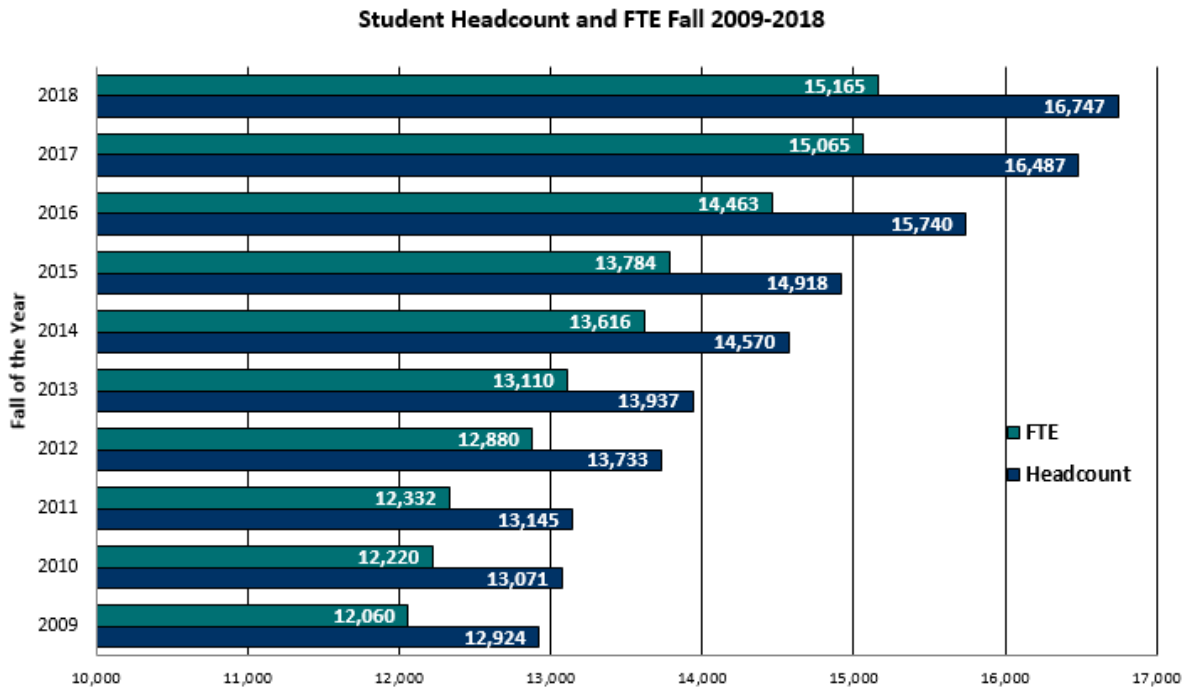
On September 14, 2018, Hurricane Florence made landfall near the University's campus. The storm caused significant damage to the University including downed trees, flooding, and damage to buildings. Dobo Hall, the University's primary science classroom and laboratory facility, was significantly damaged during the storm. Due to the extensive damage, UNCW has closed Dobo Hall until the facility can be renovated and reopened in fall 2020. The University Apartments were condemned and have been demolished. For more information on the impact of Hurricane Florence, see Note 6 and Note 18.

UNCW requested appropriations for enrollment growth of \$3.1 million for fiscal year ending June 30, 2019. Based on fall 2018 census data and a three-year average spring enrollment, the North Carolina General Assembly (General Assembly) approved permanent state

appropriations for UNCW's enrollment growth of \$7.9 million with a management flexibility budget cut of \$363 thousand for fiscal year 2019.

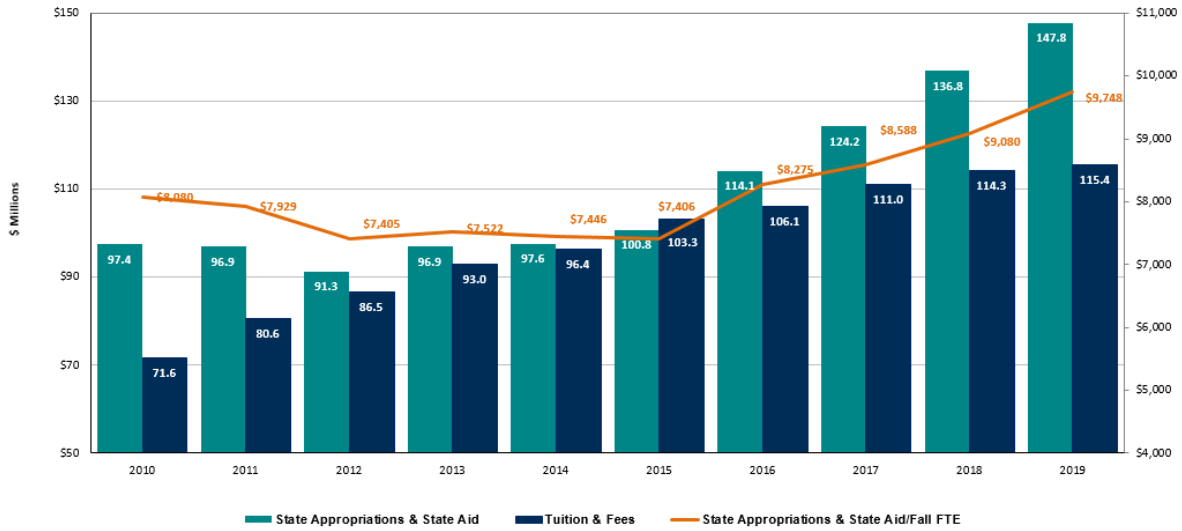
The General Assembly approved a 2% permanent increase and five days of bonus leave for eligible employees' subject to the State Human Resources Act (SHRA). Eligible employees exempt from the State Human Resources Act (EHRA) received a permanent increase based on performance. The University received permanent funding of \$1.0 million to support the legislative salary increases.

In fiscal year 2019, UNCW received a total of \$6.3 million in capital appropriations, which consisted of \$5.5 million for planning costs for the Randall Library renovation and expansion and \$840 thousand for various roof, structural, electrical, and plumbing repairs.



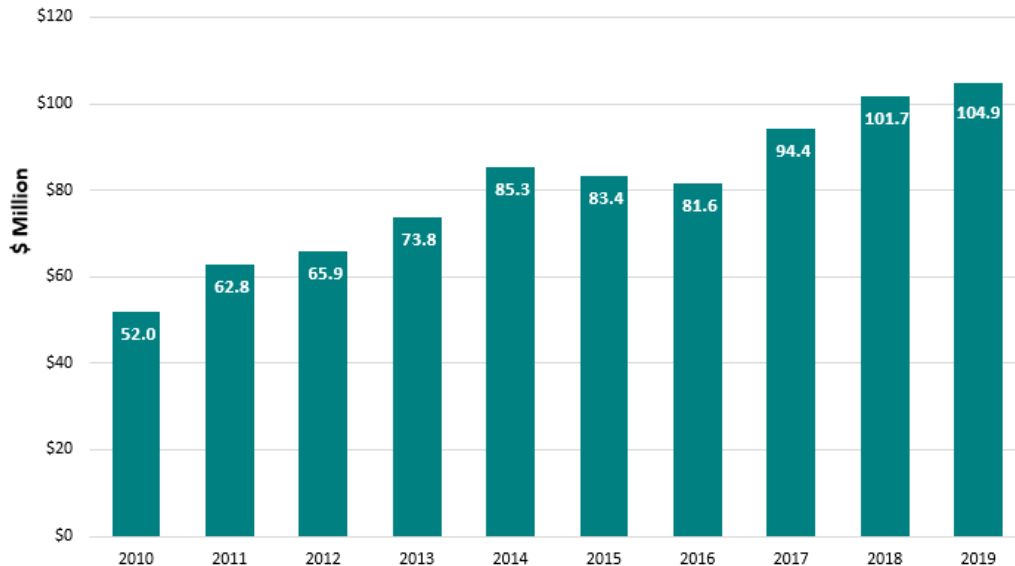
UNCW's fall 2018 full-time equivalent (FTE) of 15,165 was an increase of 0.7% over fall 2017. UNCW has experienced steady growth with a continuing focus on quality as demonstrated by the average incoming Scholastic Assessment Test score of 1251 for fall 2018.

State Appropriations & State Aid, Tuition & Fees and State Appropriations & State Aid per Fall FTE 2010-2019



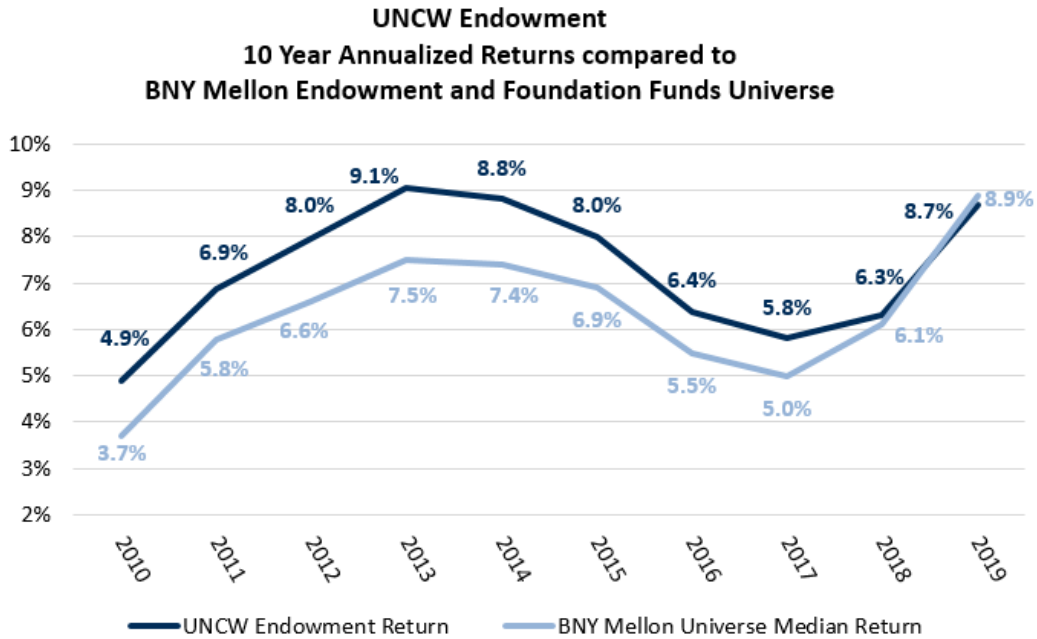
Additional state appropriations from enrollment growth funding increased state appropriations and state aid per fall student FTE in 2019 to \$9,748, the highest amount per FTE since 2010. The increase in state appropriations alone could not fund the increased cost of instruction per FTE without an increase in tuition and fees. Although tuition and fee rates did not increase for resident and non-resident undergraduates, they did increase 2.0% for resident graduates and 4.0% for non-resident graduates. Tuition and fee revenue increased 0.9% as compared to state appropriations increase of 8.1% in fiscal year 2019.

Endowment Net Position 2010-2019

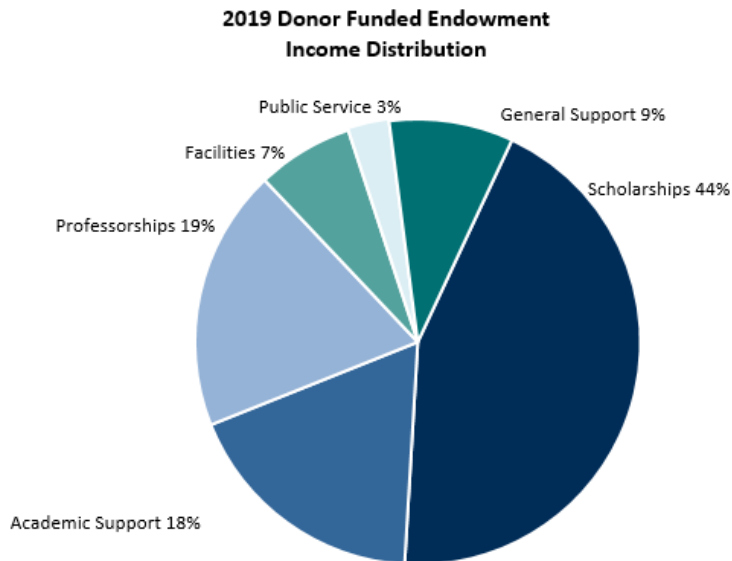


Total endowment net position was valued at \$104.9 million as of June 30, 2019, which represents an increase of 3.1% from the prior fiscal year. New gifts of \$2.6 million and investment returns of \$6.5 million allowed for annual spending and fee distributions of \$5.1 million and other withdrawals of \$865 thousand.

For fiscal year 2019, the Endowment returned 6.4% above the median of our peers. Our long-term performance has continued to allow us to meet University funding obligations to scholarships and academic programs.



Over the ten-year period 2010-2019, the University's annualized returns averaged 8.7%. The Endowment's performance remains strong relative to the median return of its peers as reflected in the BNY Mellon Endowment and Foundation Funds Universe.



During fiscal year 2019, the Endowment primarily supported scholarships (44%), professorships (19%), and academic support (18%).

Statement of Net Position

The Statement of Net Position presents assets (current and noncurrent), deferred outflows, liabilities (current and noncurrent), deferred inflows, and net position (total assets plus deferred outflows minus total liabilities and deferred inflows) of the University. This statement provides a fiscal snapshot of the University's financial position as of June 30, 2019. This statement includes information on assets available for continuing operations and amounts due to vendors, investors, and lending institutions.

Condensed Statement of Net Position
June 30, as Indicated

	2019	2018 (as Restated)	Change	% Change
Assets				
Current Assets	\$ 193,214,662	\$ 164,354,310	\$ 28,860,352	17.6%
Capital Assets, Net	550,283,079	522,894,552	27,388,527	5.2%
Other Noncurrent Assets	166,851,873	110,778,899	56,072,974	50.6%
Total Assets	910,349,614	798,027,761	112,321,853	14.1%
Deferred Outflows of Resources				
Deferred Loss on Refunding	7,192,604	7,689,618	(497,014)	-6.5%
Deferred Outflows Related to Pensions	24,136,267	16,651,045	7,485,222	45.0%
Deferred Outflows Related to OPEB	25,752,058	8,622,578	17,129,480	100.0%
Total Deferred Outflows of Resources	57,080,929	32,963,241	24,117,688	73.2%
Liabilities				
Current Liabilities	39,678,407	25,211,997	14,466,410	57.4%
Long-Term Liabilities, Net	485,264,759	478,930,962	6,333,797	1.3%
Other Noncurrent Liabilities	10,638,849	11,831,470	(1,192,621)	-10.1%
Total Liabilities	535,582,015	515,974,429	19,607,586	3.8%
Deferred Inflows of Resources				
Deferred Gain on Refunding	469,449	528,130	(58,681)	-11.1%
Deferred Inflows Related to Pensions	391,139	1,104,728	(713,589)	-64.6%
Deferred Inflows Related to OPEB	128,732,022	108,070,109	20,661,913	19.1%
Total Deferred Inflows of Resources	129,592,610	109,702,967	19,889,643	18.1%
Net Position				
Net Investment in Capital Assets	327,108,295	320,268,162	6,840,133	2.1%
Restricted - Nonexpendable	63,247,362	59,477,388	3,769,974	6.3%
Restricted - Expendable	123,466,571	45,311,045	78,155,526	172.5%
Unrestricted	(211,566,310)	(219,742,989)	8,176,679	3.7%
Total Net Position	\$ 302,255,918	\$ 205,313,606	\$ 96,942,312	47.2%

On June 30, 2019, total University assets were \$910.3 million. The largest asset categories were the University's cash and cash equivalents of \$198.6 million, endowment investments of \$97.9 million, and net capital assets of \$550.3 million.

The \$28.9 million increase in current assets was largely due to the \$11.8 million due from the NC Department of Insurance reported as due from primary government at June 30, 2019. This amount relates to insurance recoveries for damage incurred during Hurricane Florence. There

was also a \$16.9 increase in restricted pooled cash reserves used to cover the current liabilities related to capital projects, namely Veterans Hall and Dobo Hall.

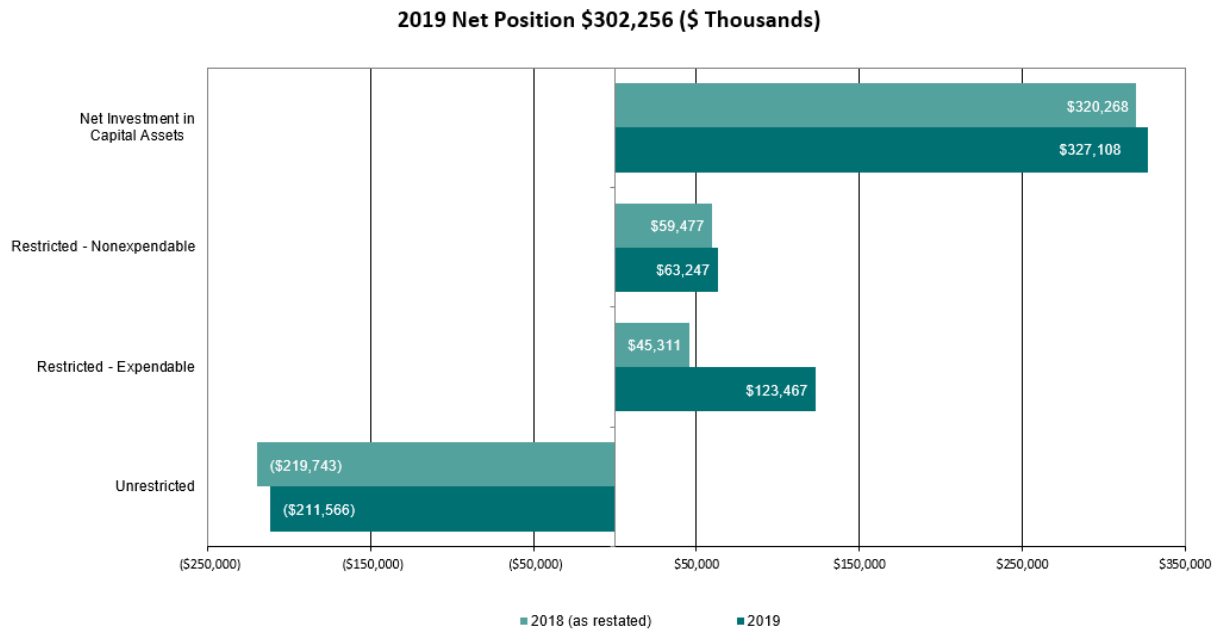
The increase in capital assets, net of \$27.4 million is primarily due to continued construction on Veteran's Hall (\$32.4 million) and the Dobo Hall renovation (\$8.0 million) offset by \$11.6 million in asset impairments and disposals resulting from Hurricane Florence.

The \$56.1 million increase in other noncurrent assets was largely due to the \$32.9 million due from the NC Department of Insurance reported as restricted due from primary government at June 30, 2019 for the reconstruction of Dobo Hall. Additionally, noncurrent restricted cash reserves increased by \$15.7 million in order to cover future capital commitments.

In fiscal year 2019, deferred outflows for pensions increased \$7.5 million due mainly to changes in assumptions and investment earnings underperforming projections. Deferred outflows related to other postemployment benefits increased by \$17.1 million based on the change in the University's proportionate share of the total liability and the difference between the University's contributions and proportional share of contributions.

The \$14.5 million increase in current liabilities consisted of accounts payable related to capital projects for Veterans Hall and Dobo Hall.

In fiscal year 2019, deferred inflows related to other postemployment benefits increased 19.1% or \$20.7 million largely due to changes in actuarial assumptions.



The 2.1% increase in net investment in capital assets was largely the result of the construction projects for Veterans Hall and Dobo Hall.

The primary drivers of the increase to restricted expendable net position of \$78.2 million were the \$27.2 million in Hurricane Florence Disaster Relief funding from the State of North Carolina and the \$32.9 million restricted receivable due from the NC Department of Insurance at

June 30, 2019 for the reconstruction of Dobo Hall. Additionally, UNCW received \$5.5 million to be used for planning costs of the Randall Library renovation and expansion project.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position includes the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, both operating and nonoperating, as well as any other revenues, expenses, gains, and losses received or expended by the University.

Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided; examples include state appropriations, noncapital grants and gifts, and investment income. Nonoperating expenses include interest and fees on debt, loss on sale of assets, and other expenses not involved in the normal operations of the University.

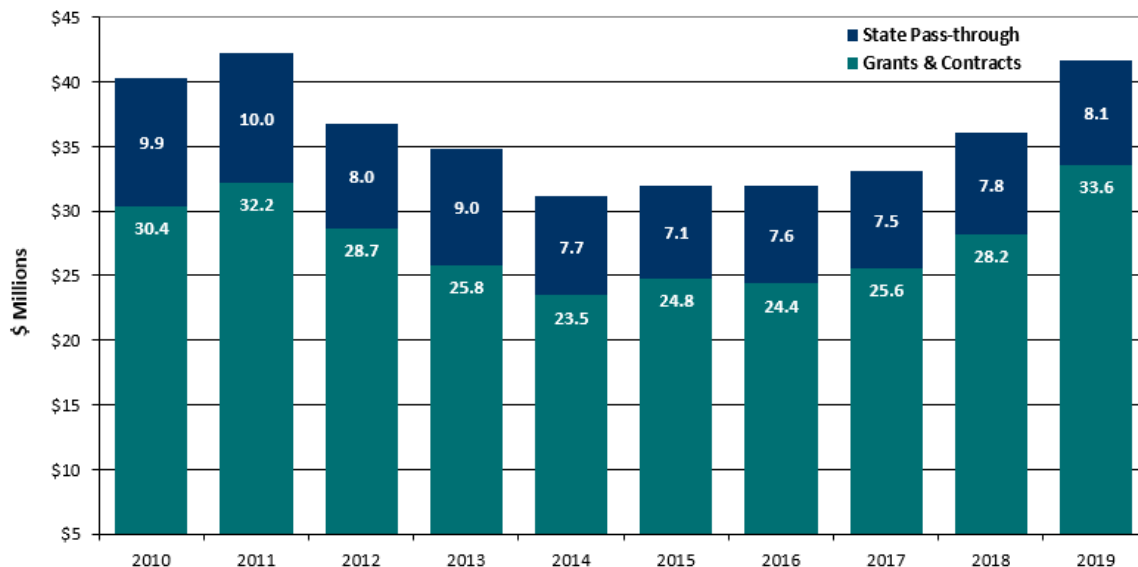
Condensed Statement of Revenues, Expenses, and Changes in Net Position
For Year Ended June 30, as Indicated

	2019	2018 (Restated)	Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 115,422,104	\$ 114,344,826	\$ 1,077,278	0.9%
Sales and Service, Net	46,621,551	49,993,468	(3,371,917)	-6.7%
Grants and Contracts	11,932,761	8,348,478	3,584,283	42.9%
Other Operating Revenues	3,045,311	3,297,270	(251,959)	-7.6%
Total Operating Revenues	<u>177,021,727</u>	<u>175,984,042</u>	<u>1,037,685</u>	0.6%
Operating Expenses				
Salaries and Benefits	198,401,012	196,337,288	2,063,724	1.1%
Supplies and Materials	26,031,217	26,611,596	(580,379)	-2.2%
Services	61,358,554	61,805,881	(447,327)	-0.7%
Capital Asset Impairment Loss, Net	221,231		221,231	100.0%
Scholarships and Fellowships	23,778,223	20,208,747	3,569,476	17.7%
Utilities	7,685,078	7,335,943	349,135	4.8%
Depreciation	13,618,326	12,541,397	1,076,929	8.6%
Total Operating Expenses	<u>331,093,641</u>	<u>324,840,852</u>	<u>6,252,789</u>	1.9%
Operating Loss	<u>(154,071,914)</u>	<u>(148,856,810)</u>	<u>(5,215,104)</u>	3.5%
Nonoperating Revenues (Expenses)				
State Appropriation	147,823,501	136,796,170	11,027,331	8.1%
Noncapital Gifts and Grants	40,734,684	30,378,011	10,356,673	34.1%
Investment Income, Net	9,383,245	11,764,740	(2,381,495)	-20.2%
Interest and Fees on Debt	(8,585,139)	(8,703,357)	(118,218)	-1.4%
Insurance Recoveries on Capital Asset Impairment, Net	22,188,102		22,188,102	100.0%
Other Hurricane Losses, Net	(26,452,345)		26,452,345	100.0%
Federal Interest Subsidy on Debt	687,987	690,487	(2,500)	-0.4%
Other Nonoperating Revenues (Expenses)	(321,629)	245,668	(567,297)	-230.9%
Other Revenues				
Capital Appropriations	6,339,523	1,913,915	4,425,608	231.2%
Capital Grants and Gifts	55,463,234	7,209,469	48,253,765	669.3%
Additions to Endowments	3,753,063	1,627,505	2,125,558	130.6%
Total Net Nonoperating and Other Revenues	<u>251,014,226</u>	<u>181,922,608</u>	<u>69,091,618</u>	38.0%
Increase in Net Position	96,942,312	33,065,798	63,876,514	193.2%
Net Position - Beginning of Year	<u>205,313,606</u>	<u>172,247,808</u>	<u>33,065,798</u>	19.2%
Net Position - End of Year	<u>\$ 302,255,918</u>	<u>\$ 205,313,606</u>	<u>\$ 96,942,312</u>	47.2%
Reconciliation of Change in Net Position				
Total Revenues	\$ 463,395,066	\$ 366,610,007	\$ 96,785,059	26.4%
Less: Total Expenses	<u>366,452,754</u>	<u>333,544,209</u>	<u>32,908,545</u>	9.9%
Increase in Net Position	<u>\$ 96,942,312</u>	<u>\$ 33,065,798</u>	<u>\$ 63,876,514</u>	193.2%

Student tuition and fees increased 0.9% due to an increase in enrollment for undergraduate and graduate students during fiscal year 2019.

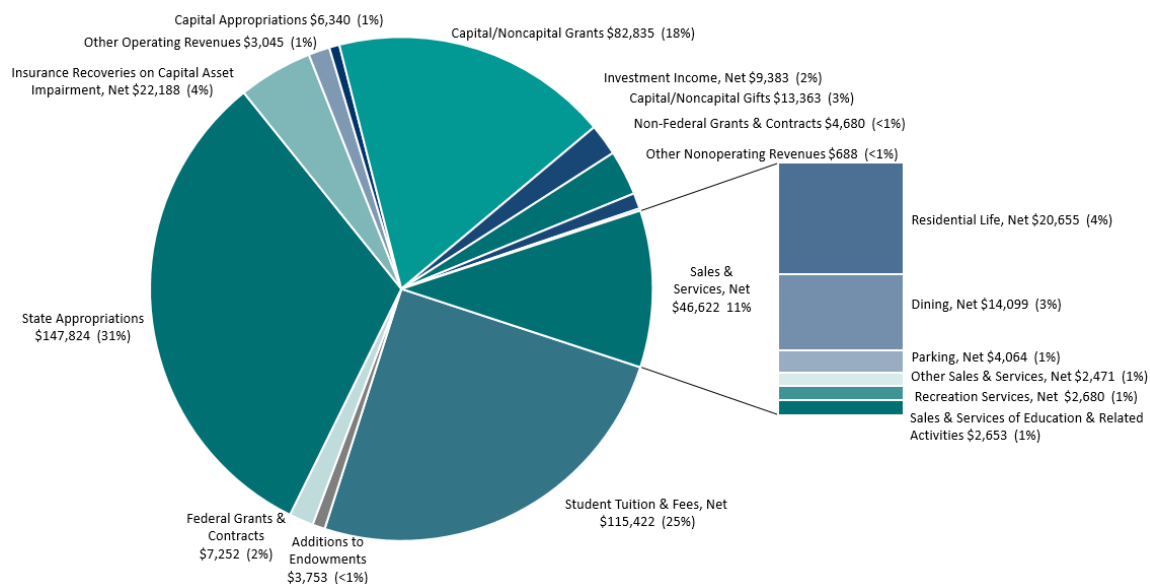
Sales and services revenue decreased 6.7% largely due to student refunds for housing and dining plans as a result of Hurricane Florence.

Grants & Contracts Revenue 2010-2019
(Includes Noncapital Grants - State Pass-through)



Grants and contracts revenue, excluding state pass-through revenue, increased \$5.4 million in fiscal year 2019 mostly due to the receipt of \$2.0 million in state and local grants revenue for D.C. Virgo Preparatory Academy operations. Noncapital gifts and grants increased \$10.4 million mostly due to a \$10.0 million gift commitment made by David and Helen Congdon - the largest gift in University history.

2019 Revenue by Source \$463,395
(\$ Thousands)



State appropriations increased 8.1% or \$11.0 million to \$147.8 million. The University had a \$363 thousand budget cut in fiscal year 2019 and received \$7.9 million in enrollment growth funding and \$1.0 million for legislative salary increases. Additionally, there was an increase in state appropriations of \$1.2 million for veteran's waivers and increases for adjustments to employee health and retirement plans totaling \$1.3 million.

Investment income decreased 20.2% or \$2.4 million in fiscal year 2019 due to a realized loss on closing out The Investment Fund for Foundations (TIFF), an underperforming investment.

UNCW received capital appropriations funding of \$6.3 million in fiscal year 2019 including \$5.5 million to be used for planning costs of the Randall Library renovation and expansion project. This was a \$4.4 million increase over prior year.

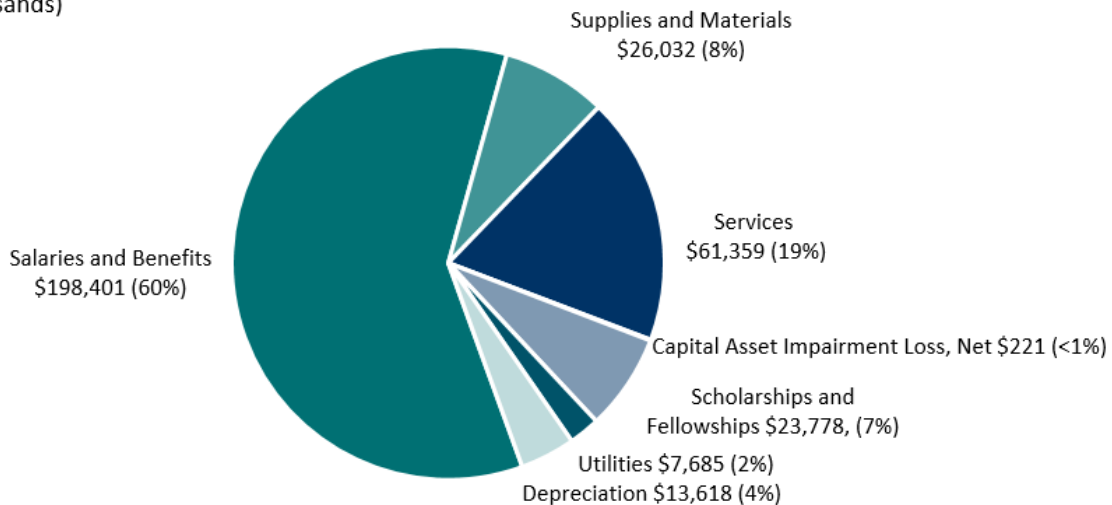
Due to damage sustained during Hurricane Florence, UNCW received \$22.2 million in net insurance recoveries related to the impairment of Dobo Hall.

In fiscal year 2019, capital grants and gifts revenue increased \$48.3 million. For fiscal year 2019, capital grants included \$25.8 million in NC Connect Bonds used for the construction of Veterans Hall and \$27.2 million in Hurricane Florence Disaster Relief funding. In contrast in fiscal year 2018, \$3.7 million was received in NC Connect Bonds and \$928 thousand was received in various research grants.

Additions to endowments increased 130.6% or \$2.1 million for fiscal year 2019. This increase is largely due to \$1.2 million in matching gifts for existing distinguished professor endowments provided by the UNC System as well as the establishment of a new distinguished professor endowment of \$1.0 million.

2019 Operating Expense by Nature \$331,094

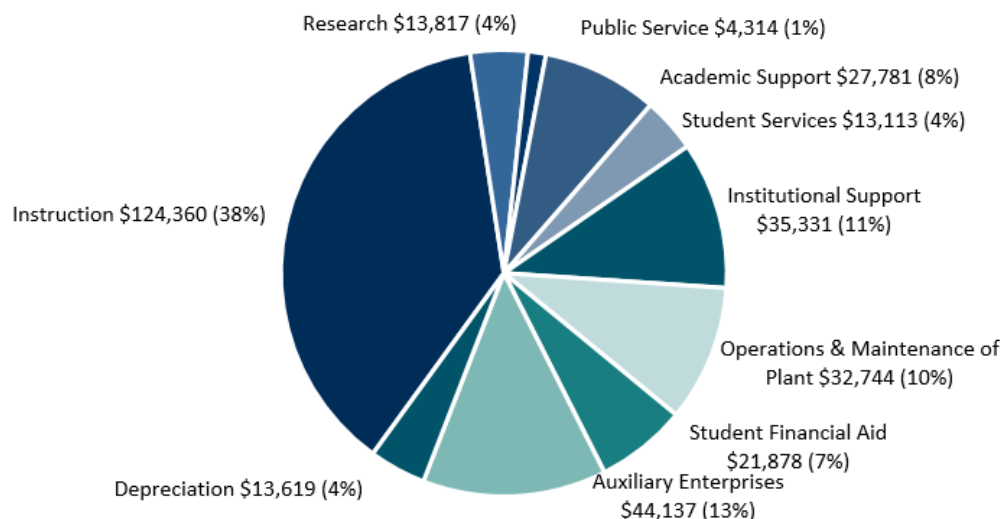
(\$ Thousands)



Scholarships and fellowships increased 17.7% or \$3.6 million in fiscal year 2019 largely due to a net increase of \$2.1 million in veterans' waivers. Veterans' waivers are recorded as scholarships and provide qualified military personnel and their dependents the benefit of in-state tuition rates even though they would not otherwise qualify for in-state residency.

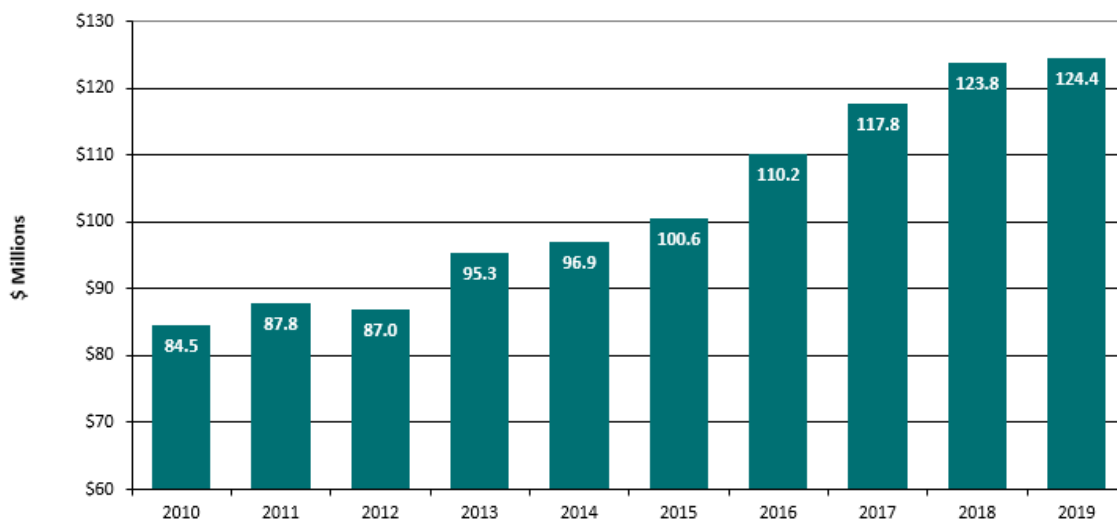
2019 Operating Expense by Function \$331,094

(\$ Thousands)



Instruction expense of \$124.4 million remains the largest expense by function as it grew by \$562 thousand. The largest component of instruction expense was salaries and benefits, which increased because of a 2% permanent legislative salary increase for eligible SHRA employees, and the permanent performance increase for eligible EHRA employees. As reflected in the following graph, instruction expense continues to increase in correlation to the University's enrollment growth over the last ten years.

Instruction Expense 2010-2019 *



*Instruction expense in fiscal years 2015 through 2019 includes the accounting change for GASB 68 for TSERS pension plan. Fiscal years 2018 and 2019 also include the accounting change for GASB 75 for OPEB.

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. The Statement of Cash Flows also helps users assess the University's:

- Ability to generate future net cash flows;
- Ability to meet its obligations as they come due;
- Need for external financing.

Condensed Statement of Cash Flows
For Year Ended June 30, as Indicated

	2019	2018	Change	% Change
Cash Provided (Used) by:				
Operating Activities	\$ (150,568,722)	\$ (135,348,806)	\$ (15,219,916)	11.2%
Noncapital Financing Activities	153,128,185	169,591,140	(16,462,955)	-9.7%
Capital Financing Activities	22,243,763	(29,029,925)	51,273,688	-176.6%
Investing Activities	5,432,593	1,248,471	4,184,122	335.1%
Net Change In Cash	30,235,819	6,460,880	23,774,939	368.0%
Cash Beginning of Year	168,404,316	161,943,436	6,460,880	4.0%
Cash Ending of Year	<u>\$ 198,640,135</u>	<u>\$ 168,404,316</u>	<u>\$ 30,235,819</u>	18.0%

Operating Activities

Major cash sources of \$176.8 million were generated from student tuition and fees, sales and services, and contracts and grants. Major cash uses were compensation to employees of \$210.3 million, payments to vendors and suppliers for goods and services of \$93.8 million, and disbursements to students for scholarships and fellowships of \$23.8 million.

Noncapital Financial Activities

The largest cash inflow was state appropriations of \$147.8 million. While GASB standards require that this revenue be classified as nonoperating, these funds were essentially used to maintain operations. Hurricane Florence related payments to vendors and suppliers of \$52.0 million were partially offset by \$19.4 million in all-risk insurance proceeds received during fiscal year 2019. Other noncapital inflows included grants and gifts of \$34.0 million as well as additions to endowments of \$3.8 million.

Capital Financing Activities

Cash provided included \$21.9 million in proceeds from capital debt for the construction of a second parking deck on campus, \$6.3 million in capital appropriations, and \$55.0 million in capital grants and gifts. Included in these capital grants was a \$27.2 million grant for Hurricane Florence Disaster Relief funding. Cash used was primarily for the acquisition of capital assets of \$45.0 million and the repayment of principal and interest on capital debt of \$16.6 million.

Investing Activities

Cash provided included sales and maturities of investments of \$13.9 million, which includes the sale of the University's investment in TIFF and investment income of \$3.0 million. Cash used reflected the purchase of investments and related fees of \$11.5 million.

Capital Assets and Debt Administration

Capital Assets

The University had \$550.3 million invested in capital assets at June 30, 2019, as reported in the table below, an increase of \$27.4 million from 2018.

Capital Assets Net of Depreciation
June 30, as Indicated

	2019	2018	Change
Land and Permanent Easements	\$ 9,808,502	\$ 9,808,502	\$ 0
Art, Literature, and Artifacts	2,155,207	1,827,548	327,659
Construction In Progress	59,778,385	21,894,633	37,883,752
Buildings, Net	426,529,759	439,249,021	(12,719,262)
Machinery and Equipment, Net	21,195,645	23,103,811	(1,908,166)
General Infrastructure, Net	30,815,581	27,011,037	3,804,544
Total Capital Assets	\$ 550,283,079	\$ 522,894,552	\$ 27,388,527

Construction in progress increased \$37.9 million with \$32.4 million due to the continued construction of Veterans Hall and \$8.0 million due to the emergency construction to Dobo Hall resulting from Hurricane Florence. These increases were offset by projects that commenced in a prior fiscal year, but were completed and placed into service during fiscal year 2019.

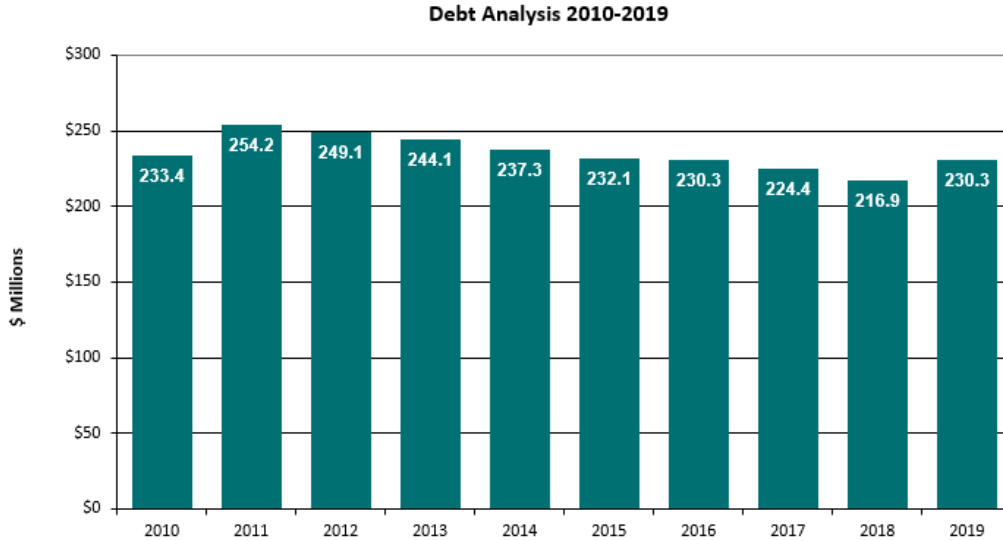
In addition to annual depreciation of \$7.9 million, buildings decreased due to the disposal of the University Apartments and the impairment of Dobo Hall that resulted in net decreases of \$985 thousand and \$10.7 million, respectively. These decreases were offset by additions resulting from the completion of the Guaranteed Energy Savings project of \$3.8 million and the University Police Department expansion of \$1.0 million.

The decrease in machinery and equipment is largely due to depreciation of \$4.6 million offset by purchased additions totaling \$3.0 million.

The general infrastructure increase includes the completion of MacMillan and Lot K Extension parking lots for \$3.6 million and the resurfacing of Greene track for \$906 thousand.

Debt

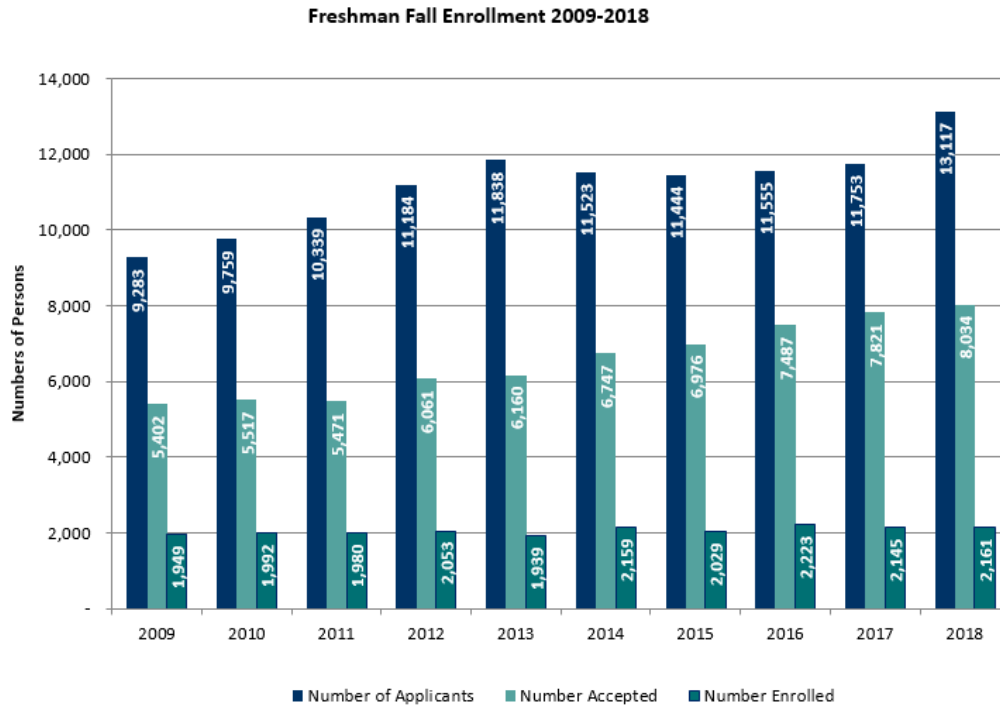
As of June 30, 2019, the University's \$230.3 million in long-term debt included outstanding revenue bonds payable, limited obligation bonds, and bonds from direct placements of \$220.0 million, notes from direct borrowings of \$10.2 million, and capital leases payable of \$147 thousand.



For additional information on capital assets and debt administration, see Notes 6, 9, and 10 of the financial statements.

Economic Forecast

The number of freshman applications climbed to 13,117 in fall 2018, leading to a slight rise in freshmen enrollment to 2,161. Graduate enrollment increased by 310 students in fall 2018 to 2,295. Preliminary data shows fall 2019 freshman applications reaching 13,287, an increase of 1.3%, and fall 2019 freshman enrollment rising by 181 to 2,342. Preliminary data for fall 2019 also shows graduate enrollment increasing 18.3% to 2,714.



For fiscal year 2020, the UNC System requested \$43.6 million for recurring enrollment funding for on-campus, undergraduate credit hours delivered in the summer rather than the typical enrollment growth request based on projected credit hours. The goal for this summer enrollment funding is to expand the availability of courses and academic services in the summer and bring summer tuition costs in-line with current in-state tuition rates, starting in summer 2020. The requested allocation to UNCW was \$2.5 million for fiscal year 2020.

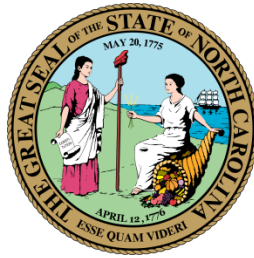
UNCW requested \$20.0 million from the Capital Improvements-Project Reserve Fund for the balance of funding for the Randall Library renovation and expansion. UNCW also requested an additional \$8.5 million to fund the Dobo Hall restoration.

The UNC System is operating with a fixed tuition program for undergraduate resident students, which began with the fall 2016 freshman class. Tuition for resident students remains fixed for four years. Each year, the incoming freshman resident cohort will have a fixed tuition rate. UNCW did not increase undergraduate or graduate tuition for fiscal year 2020. The UNC Board of Governors approved mandatory and general fee increases for UNCW for fiscal year 2020 of 3.4%.

Excellence, integrity, diversity and innovation shape the student-centered learning experience at UNCW. These values, along with our ever-present dedication to community engagement, are among the distinctive qualities that make UNCW one of the best institutions of higher education in the nation as evidenced by the University's partnership with New Hanover County Schools (NHCS). In fiscal year 2019, UNCW successfully collaborated with NHCS creating a K-8 laboratory school, D.C. Virgo Preparatory Academy, in Wilmington. The goal is to provide enhanced educational programming to students in this low-performing school.

Contacting the University's Financial Management

This financial report is designed to provide our students, citizens, investors, and creditors with a general overview of the University's finances and demonstrate accountability of all funds. Additional financial information may be obtained by contacting the Controller's Office at (910) 962-3144 or accessing the Controller's Office web page at http://www.uncw.edu/controller/financial_reports.html.



FINANCIAL STATEMENTS

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

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 130,510,682
Restricted Cash and Cash Equivalents	41,316,589
Receivables, Net (Note 5)	8,877,278
Due from Primary Government	11,825,305
Inventories	374,417
Prepaid Items	5,000
Notes Receivable, Net (Note 5)	305,391
	<hr/>
Total Current Assets	193,214,662

Noncurrent Assets:

Restricted Cash and Cash Equivalents	26,812,864
Receivables, Net (Note 5)	6,284,528
Restricted Due from Primary Government	32,851,242
Endowment Investments	97,861,372
Notes Receivable, Net (Note 5)	2,803,877
Net Other Postemployment Benefits Asset	237,990
Capital Assets - Nondepreciable (Note 6)	71,742,094
Capital Assets - Depreciable, Net (Note 6)	478,540,985
	<hr/>
Total Noncurrent Assets	717,134,952
	<hr/>
Total Assets	910,349,614

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	7,192,604
Deferred Outflows Related to Pensions	24,136,267
Deferred Outflows Related to Other Postemployment Benefits (Note 15)	25,752,058
	<hr/>
Total Deferred Outflows of Resources	57,080,929

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 8)	20,931,855
Deposits Payable	39,039
Unearned Revenue	8,511,754
Interest Payable	1,731,549
Long-Term Liabilities - Current Portion (Note 9)	8,464,210
	<hr/>
Total Current Liabilities	39,678,407

Noncurrent Liabilities:

Funds Held for Others	3,034,148
Unearned Revenue	4,377,525
U. S. Government Grants Refundable	3,227,176
Long-Term Liabilities, Net (Note 9)	485,264,759
	<hr/>
Total Noncurrent Liabilities	495,903,608
	<hr/>
Total Liabilities	535,582,015

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

Exhibit A-1
Page 2 of 2

DEFERRED INFLOWS OF RESOURCES

Deferred Gain on Refunding	469,449
Deferred Inflows Related to Pensions	391,139
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	<u>128,732,022</u>
Total Deferred Inflows of Resources	<u>129,592,610</u>

NET POSITION

Net Investment in Capital Assets	327,108,295
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	26,713,992
Research	1,896,157
Endowed Professorships	14,315,417
Departmental Uses	19,347,898
Loans	973,898
Expendable:	
Scholarships and Fellowships	16,712,289
Research	1,315,564
Endowed Professorships	10,986,448
Departmental Uses	23,196,275
Loans	774,767
Capital Projects	68,548,910
Debt Service	862,556
Other	1,069,762
Unrestricted	<u>(211,566,310)</u>
Total Net Position	<u>\$ 302,255,918</u>

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

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

Exhibit A-2

OPERATING REVENUES

Student Tuition and Fees, Net (Note 12)	\$ 115,422,104
Federal Grants and Contracts	7,252,396
State and Local Grants and Contracts	3,244,188
Nongovernmental Grants and Contracts	1,436,177
Sales and Services, Net (Note 12)	46,621,551
Interest Earnings on Loans	2,043
Other Operating Revenues	3,043,268
	<hr/>
Total Operating Revenues	177,021,727

OPERATING EXPENSES

Salaries and Benefits	198,401,012
Supplies and Materials	26,031,217
Services	61,358,554
Capital Asset Impairment Loss, Net (Note 6)	221,231
Scholarships and Fellowships	23,778,223
Utilities	7,685,078
Depreciation	13,618,326
	<hr/>
Total Operating Expenses	331,093,641
	<hr/>
Operating Loss	(154,071,914)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	147,823,501
Noncapital Grants - Student Financial Aid	29,318,102
Noncapital Grants	453,338
Noncapital Gifts	10,963,244
Investment Income (Net of Investment Expense of \$406,137)	9,383,245
Interest and Fees on Debt	(8,585,139)
Insurance Recoveries in Excess of Capital Asset Impairment, Net (Note 6)	22,188,102
Other Hurricane Losses, Net (Note 18)	(26,452,345)
Federal Interest Subsidy on Debt	687,987
Other Nonoperating Expenses	(321,629)
	<hr/>
Net Nonoperating Revenues	185,458,406
	<hr/>
Income Before Other Revenues	31,386,492
	<hr/>
Capital Appropriations	6,339,523
Capital Grants	53,063,130
Capital Gifts	2,400,104
Additions to Endowments	3,753,063
	<hr/>
Increase in Net Position	96,942,312

NET POSITION

Net Position - July 1, 2018, as Restated (Note 22)	205,313,606
	<hr/>
Net Position - June 30, 2019	\$ 302,255,918

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

University of North Carolina Wilmington
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	\$ 176,827,467
Payments to Employees and Fringe Benefits	(210,272,872)
Payments to Vendors and Suppliers	(93,835,213)
Payments for Scholarships and Fellowships	(23,778,223)
Loans Issued	(159,189)
Collection of Loans	633,946
Interest Earned on Loans	15,362
	<hr/>
Net Cash Used by Operating Activities	(150,568,722)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	147,823,501
Proceeds from All-risk Insurance	19,400,961
Hurricane Recovery Payments to Vendors and Suppliers	(51,953,765)
Noncapital Grants - Student Financial Aid	29,220,661
Noncapital Gifts	4,755,784
Additions to Endowments	3,753,063
William D. Ford Direct Lending Receipts	74,056,273
William D. Ford Direct Lending Disbursements	(74,056,273)
Related Activity Agency Receipts	127,980
	<hr/>
Net Cash Provided by Noncapital Financing Activities	153,128,185

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	21,883,891
Capital Appropriations	6,339,523
Capital Grants	53,063,130
Capital Gifts	1,978,984
Acquisition and Construction of Capital Assets	(45,022,155)
Principal Paid on Capital Debt and Leases	(7,846,498)
Interest and Fees Paid on Capital Debt and Leases	(8,725,271)
Federal Interest Subsidy on Debt Received	572,159
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	22,243,763

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	13,915,855
Investment Income	3,008,132
Purchase of Investments and Related Fees	(11,491,394)
	<hr/>
Net Cash Provided by Investing Activities	5,432,593
	<hr/>
Net Increase in Cash and Cash Equivalents	30,235,819
Cash and Cash Equivalents - July 1, 2018	168,404,316
	<hr/>
Cash and Cash Equivalents - June 30, 2019	\$ 198,640,135

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

Exhibit A-3
Page 2 of 2

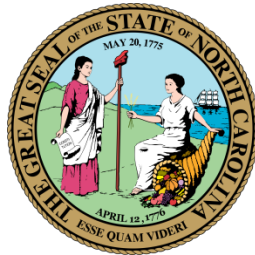
**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (154,071,914)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	13,618,326
Allowances and Write-Offs	(93,121)
Capital Asset Impairment Losses	221,231
Other Nonoperating Revenues	724,592
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	163,227
Inventories	13,038
Prepaid Items	(4,761)
Notes Receivable, Net	474,757
Net Other Postemployment Benefits Asset	231,870
Deferred Outflows Related to Pensions	(7,485,222)
Deferred Outflows Related to Other Postemployment Benefits	(17,129,480)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	556,336
Unearned Revenue	(390,752)
Net Pension Liability	9,142,713
Net Other Postemployment Benefits Liability	(18,437,376)
Workers' Compensation Liability	(359,862)
Compensated Absences	2,299,558
Deposits Payable	9,794
Deferred Inflows Related to Pensions	20,661,913
Deferred Inflows Related to Other Postemployment Benefits	(713,589)
Net Cash Used by Operating Activities	<u>\$ (150,568,722)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 7,494,170
Assets Acquired through a Gift	421,120
Change in Fair Value of Investments	6,375,113
Amortization of Bond Premiums	(674,369)
Increase in Receivables Related to Nonoperating Income	6,855,318
Loss on Impairment of Capital Assets	(10,663,140)

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

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

Blended Component Units - Although legally separate, the UNCW Corporation (Corporation), the UNCW Corporation II (Corporation II), the UNCW Research Foundation (Research Foundation), and the Donald R. Watson Foundation, Inc. (Watson Foundation), component units of the University, are reported as if they were part of the University.

The Corporation was organized to enhance the University of North Carolina Wilmington's educational mission, including overseeing and assisting in the acquisition and financing of capital assets for the University. The Corporation is a public not-for-profit organization that reports its financial results under Governmental Accounting Standards Board (GASB) Statements. The Corporation is governed by a six-member board of which three are delegates of the University. The remaining three positions are filled by persons external to the University's operations and business functions and are appointed by the UNCW Chancellor to serve on the board. As the Corporation's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

The Corporation II includes the activities of the single member entities, UNCW Corporation Real Property I, LLC (Real Property), and UNCW Corporation College Station, LLC (College Station). The Corporation II was organized to enhance the University of North Carolina Wilmington's educational mission, including constructing or managing facilities for the University. These entities acquire real property that is used

solely by the University for auxiliary support, off-campus parking, or other agreed upon activities. The Corporation II is a public not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements. The Corporation II is governed by a seven-member board of which four are delegates of the University. The remaining three positions are filled by persons external to the University's operations and business functions and are appointed by the UNCW Chancellor to serve on the board. As the Corporation II's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

The Research Foundation includes the activities of the single member entities, UNCW Corporation Research I, LLC, MARBIONC Development Group, LLC, The CREST Millennial Campus, LLC, the UNCW Center for Innovation and Entrepreneurship, LLC, and the UNCW Innovation Coalition Corporation. The Research Foundation was organized to enhance the University of North Carolina Wilmington's educational mission. These entities, through collaborative research relationships, pursue commercialization opportunities and the economic development of research discoveries, materials and intellectual properties for the benefit of the University. The Research Foundation is a public not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements. The Research Foundation is governed by a four-member board, all of which are delegates of the University. As the Research Foundation's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

The Watson Foundation was organized to support charitable, religious, scientific and educational institutions located in the State of North Carolina provided that each supported organization is tax exempt and eligible to receive charitable donations. The Watson Foundation is a public not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from that of GASB. The financial statement format of the Watson Foundation was modified to make it compatible with the University's financial statement format. The Watson Foundation is governed by a five-member board of which three are appointed by the Board of Trustees, and two are appointed by the benefactor. Because a majority of the directors of the Watson Foundation are appointed by the members of the University of North Carolina Wilmington's Board of Trustees and the Watson Foundation's primary purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

Separate financial statements for the Corporation, the Corporation II, the Research Foundation, and the Watson Foundation may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC 28403-5918, or by calling 910-962-3139.

Condensed combining information regarding blended component units is provided in Note 20.

- 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.

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

earnings on such amounts. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-100 years
Machinery and Equipment	2-50 years
General Infrastructure	10-50 years

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

- J. **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.

- 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, limited obligation bonds, bonds from direct placements, notes from direct borrowings, and capital leases payable. Other long-term liabilities include: compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

Revenue bonds payable and limited obligation bonds are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method 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 disaggregated 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 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2018 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 15 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

- M. Deferred Outflows/Inflows of Resources** - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The University has the following items that qualify for reporting in this category: deferred 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 11 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

- O. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- P. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement

No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

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

- Q. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as physical plant, copy centers, 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 \$196,965,873, 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 \$20,175. The carrying amount of the University's deposits not with the State Treasurer was \$1,654,087, and the bank balance was \$1,645,467. 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 exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$1,337,559.

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

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

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

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

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

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

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

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

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

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit value method. Under this method, the pool uses a unit basis to determine each participating fund's market value and to distribute the fund's earnings. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board. At year-end, the pooled investments subject to interest rate risk were all held with the UNC Investment Fund, LLC.

UNC Investment Fund, LLC - At June 30, 2019, the University's investments include \$96,336,818, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2019, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Amount	Investment Maturities (in Years)	
		1 to 5	6 to 10
Debt Securities			
Debt Mutual Funds	\$ 328,767	\$ 159,672	\$ 169,095
Other Securities			
Equity Mutual Funds	1,195,787		
Total Non-Pooled Investments	\$ 1,524,554		

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

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	\$ 328,767	\$ 153,059	\$ 16,527	\$ 37,326	\$ 61,379	\$ 48,219	\$ 12,257

Rating Agency: Standard & Poor's

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

Investment Type	Amount
Debt Securities	
Debt Mutual Funds	\$ 328,767
Other Securities	
UNC Investment Fund	96,336,818
Equity Mutual Funds	1,195,787
Total Investments	\$ 97,861,372

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments are recorded at fair value as of June 30, 2019. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

The following table summarizes the University’s investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2019:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Debt Mutual Funds	\$ 328,767	\$ 328,767	\$ 0	\$ 0
Other Securities				
Equity Mutual Funds	1,195,787	1,195,787		
Total Investments by Fair Value Level	<u>1,524,554</u>	<u>\$ 1,524,554</u>	<u>\$ 0</u>	<u>\$ 0</u>
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	196,965,873			
UNC Investment Fund	96,336,818			
Total Investments as a Position in an External Investment Pool	<u>293,302,691</u>			
Total Investments Measured at Fair Value	<u>\$ 294,827,245</u>			

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

UNC Investment Fund - Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund’s operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair

value in accordance with GASB 72. The University's position in the pool is measured and reported at fair value and the UNC Investment Fund is not required to be categorized within the fair value hierarchy.

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

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. 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 4.5% of the average market value of the endowment over three previous years. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2019, net appreciation of \$42,475,866 was available to be spent, of which \$31,608,867 was classified in net position as restricted, expendable for specific purposes, including scholarships and fellowships, research, endowed professorships, departmental uses, and other. The remaining portion of net appreciation available to be spent is 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	\$ 2,159,146	\$ 255,115	\$ 1,904,031
Accounts	1,921,481	4,713	1,916,768
Intergovernmental	1,169,808		1,169,808
Pledges	3,648,920	32,446	3,616,474
Interest on Loans	152,969		152,969
Federal Interest Subsidy on Debt	115,828		115,828
Other	1,400		1,400
Total Current Receivables	\$ 9,169,552	\$ 292,274	\$ 8,877,278
Noncurrent Receivables:			
Pledges	\$ 6,294,088	\$ 20,677	\$ 6,273,411
Other	11,117		11,117
Total Noncurrent Receivables	\$ 6,305,205	\$ 20,677	\$ 6,284,528
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 235,798	\$ 22,790	\$ 213,008
Institutional Student Loan Programs	92,383		92,383
Total Notes Receivable - Current	\$ 328,181	\$ 22,790	\$ 305,391
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 2,799,835	\$ 335,980	\$ 2,463,855
Institutional Student Loan Programs	340,022		340,022
Total Notes Receivable - Noncurrent	\$ 3,139,857	\$ 335,980	\$ 2,803,877

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 9,808,502	\$ 0	\$ 0	\$ 9,808,502
Art, Literature, and Artifacts	1,827,548	327,659		2,155,207
Construction in Progress	21,894,633	48,560,474	10,676,722	59,778,385
Total Capital Assets, Nondepreciable	33,530,683	48,888,133	10,676,722	71,742,094
Capital Assets, Depreciable:				
Buildings	614,154,634	6,804,887	20,940,337	600,019,184
Machinery and Equipment	54,146,632	2,963,743	1,022,293	56,088,082
General Infrastructure	41,565,831	4,957,404		46,523,235
Total Capital Assets, Depreciable	709,867,097	14,726,034	21,962,630	702,630,501
Less Accumulated Depreciation for:				
Buildings	174,905,613	7,876,222	9,292,410	173,489,425
Machinery and Equipment	31,042,821	4,589,244	739,628	34,892,437
General Infrastructure	14,554,794	1,152,860		15,707,654
Total Accumulated Depreciation	220,503,228	13,618,326	10,032,038	224,089,516
Total Capital Assets, Depreciable, Net	489,363,869	1,107,708	11,930,592	478,540,985
Capital Assets, Net	\$ 522,894,552	\$ 49,995,841	\$ 22,607,314	\$ 550,283,079

During the year ended June 30, 2019, the University incurred \$8,564,389 in interest costs related to the acquisition and construction of capital assets all of which were charged in interest expense.

Donated assets were recorded using the actual cost of acquisition or construction costs provided to us by the donor.

Dobo Hall had a zero carrying value as an impaired capital asset idle at year-end in buildings.

Due to Hurricane Florence, UNCW recorded impairment losses of \$984,788 and \$10,663,140 for University Apartments and Dobo Hall, respectively. These losses were offset with insurance recoveries of \$33,614,799, leading to a net gain of \$21,966,871. The University Apartments, which were condemned and demolished after Hurricane Florence, showed a net loss of \$221,231 which was reported in operating expenses. Dobo Hall resulted in a net gain of \$22,188,102 which was reported as nonoperating revenue. Dobo Hall, the University's primary science classroom and laboratory facility, is currently under construction with plans to be back on line in the fall of 2020.

See Note 18 for detailed information regarding the University's overall financial impact of Hurricane Florence as of June 30, 2019.

NOTE 7 - SERVICE CONCESSION ARRANGEMENT FOR STUDENT HOUSING FACILITY

The University entered an agreement on December 20, 2018 with CHF-Wilmington, LLC (CHF) to construct and operate a Student Housing Facility. The University entered into this agreement to address a shortage of student housing caused by enrollment growth. The Student Housing Facility will consist of a 1,038-bed, two-building student housing facility to be delivered for occupancy in the fall of 2020 ("Phase I") and a 776-bed student housing facility to be delivered for occupancy in the fall of 2021 ("Phase II"). The project, with an estimated cost of \$130 million, is on property located on the campus of the University of North Carolina at Wilmington and leased to CHF for 50 years. Upon final payment of all indebtedness owed under the agreement, CHF will transfer all of its interest in the facility for no cost to the University. The University will report the project as a capital asset and a related deferred inflow of resources in fiscal year 2020.

The student housing facility will be managed by the University under the terms of the management agreement. The University will operate the facility with budgetary oversight from CHF.

NOTE 8 - 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	\$ 7,963,197
Accounts Payable - Capital Assets	10,207,512
Accrued Payroll	711,265
Contract Retainage	2,049,881
	<hr/>
Total Current Accounts Payable and Accrued Liabilities	\$ 20,931,855

NOTE 9 - LONG-TERM LIABILITIES

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

	Balance July 1, 2018 (as Restated)	Additions	Reductions	Balance June 30, 2019	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 52,410,000	\$ 21,350,000	\$ 4,040,000	\$ 69,720,000	\$ 3,415,000
Limited Obligation Bonds	113,440,000		1,505,000	111,935,000	1,725,000
Bonds from Direct Placements	27,479,886		1,553,435	25,926,451	1,590,036
Plus: Unamortized Premium	12,534,784	533,891	674,369	12,394,306	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenue Bonds Payable, Limited Obligation Bonds, and Bonds from Direct Placements, Net	205,864,670	21,883,891	7,772,804	219,975,757	6,730,036
Notes from Direct Borrowings	10,805,340		639,392	10,165,948	688,035
Capital Leases Payable	217,341	38,520	108,671	147,190	116,522
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Long-Term Debt	216,887,351	21,922,411	8,520,867	230,288,895	7,534,593
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	9,690,650	10,752,286	8,452,728	11,990,208	432,467
Net Pension Liability	29,603,399	9,142,713		38,746,112	
Net Other Postemployment Benefits Liability	230,381,927		18,437,376	211,944,551	
Workers' Compensation	1,119,065	278,177	638,039	759,203	497,150
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Long-Term Liabilities	270,795,041	20,173,176	27,528,143	263,440,074	929,617
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Long-Term Liabilities, Net	\$ 487,682,392	\$ 42,095,587	\$ 36,049,010	\$ 493,728,969	\$ 8,464,210

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

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

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2019	Principal Outstanding June 30, 2019
Revenue Bonds Payable						
UNCW General Revenue Bonds						
Construct MARBIONC Facility	2010	4.2 - 5.97 *	01/01/2040	\$ 15,750,000	\$ 3,095,000	\$ 12,655,000
Parking Deck	2019	3.0 - 5.0	04/01/2049	21,350,000		21,350,000
Total UNCW General Revenue Bonds				37,100,000	3,095,000	34,005,000
The University of North Carolina System Pool Revenue Bonds						
Refund Series J and Recreation (2005A)	(A)	5.25	04/01/2019	12,630,000	12,630,000	
Refund Series 2002A & 2003A; Rec Ctr Exp (2010C)	(B)	3.0 - 5.25	10/01/2026	32,170,000	17,115,000	15,055,000
Recreation Center Expansion (2010D)	(C)	6.627 - 6.727 *	10/01/2039	20,660,000		20,660,000
Total The University of North Carolina System Pool Revenue Bonds				65,460,000	29,745,000	35,715,000
Limited Obligation Bonds						
Student Housing-Seahawk Village & Seahawk Landing	2015	3.0 - 5.0	06/01/2037	59,550,000	4,850,000	54,700,000
Student Housing-Seahawk Crossing & Parking Deck	2016	2.0 - 5.0	06/01/2038	57,235,000		57,235,000
Total Limited Obligation Bonds				116,785,000	4,850,000	111,935,000
Bonds from Direct Placements						
Schwarz/Suites & Wagoner Renovation Projects	2011	3.64	03/01/2026	9,000,000	4,214,549	4,785,451
Refund 2003A Union	2012	2.84	01/01/2028	11,755,000	315,000	11,440,000
Refund 2006A	2016	2.17	10/01/2033	11,484,000	1,783,000	9,701,000
Total Bonds from Direct Placements				32,239,000	6,312,549	25,926,451
Total Revenue Bonds Payable, Limited Obligation Bonds, and Bonds from Direct Placements (principal only)				\$ 251,584,000	\$ 44,002,549	207,581,451
Plus: Unamortized Premium						12,394,306
Total Revenue Bonds Payable, Limited Obligation Bonds, and Bonds from Direct Placements, Net						\$ 219,975,757

(A) The University of North Carolina System Pool Revenue Bonds, Series 2005A
 (B) The University of North Carolina System Pool Revenue Bonds, Series 2010C
 (C) The University of North Carolina System Pool Revenue Bonds, Series 2010D

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

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

Revenue Bonds Payable of \$69,720,000 and **Bonds from Direct Placements** of \$25,926,451 (together, "General Revenue Bonds") are payable from any legally available funds of the University except appropriations from the State, tuition payments, and certain other restricted funds. The General Revenue Bonds contain events of default

including failure to pay principal and interest and failure to observe and perform any covenant, condition, agreement or provision contained in the bonds or in the bond indenture, which failure continues for a period of 30 days after written notice. On the occurrence and continuance of an event of default, the bond trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds to be immediately due and payable, whereupon they will, without further action, become due and payable. The bond trustee may also (1) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the bondholders, and require the University to carry out any agreements with or for the benefit of the bondholders and to perform its duties under the bond indenture and (2) take whatever action at law or in equity may appear necessary or desirable to enforce its rights against the University. The bond trustee will apply any proceeds in default and may require certain indemnities under and in accordance with the terms of the bond indenture.

Limited Obligation Bonds - UNCW's Limited Obligation Bonds of \$111,935,000 are obligations of UNCW Corporation secured by revenues which include rentals payable by the University under leases and use agreements on the facilities financed and refinanced with the Limited Obligation Bonds. The Limited Obligation Bonds are further secured by a deed of trust on the property financed and refinanced with the Limited Obligation Bonds. The Limited Obligation Bonds contain events of default including (1) failure to pay principal and interest, (2) failure to observe and perform any covenant, condition, agreement or provision contained in the bonds or in the bond indenture, which failure continues for a period of 30 days after written notice, (3) the occurrence of an event of default under the leases or use agreements and (4) the occurrence of a default under the deed of trust. On the occurrence and continuance of an event of default, the bond trustee may and shall, if required by a majority in aggregate principal amount of the bondholders, by written notice to the University, declare the obligations of the University as to the principal and interest components of base rentals under the leases and use agreement and the aggregate principal amount of bonds and the accrued interest with respect thereto to be immediately due and payable. The Trustee may also (1) enforce all rights and require the defaulting party to carry out any agreements with or for the benefit of the bondholders and to perform its or their duties under the leases, the deed of trust, the use agreements and the bond indenture; and (2) take whatever action at law or in equity is permissible and may appear necessary or desirable to enforce its rights against the defaulting party or property secured under the deed of trust held as security therefor, including foreclosure of the property held as security. The bond trustee will apply any proceeds in default and may require certain indemnities under and in accordance with the terms of the bond indenture and 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 March 5, 2010 and December 4, 2015, representing outstanding borrowings of \$9,653,064. 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.

UNCW has one outstanding note from direct borrowings of \$512,884 dated October 21, 2011, which is an obligation of UNCW Corporation College Station, LLC. It contains provisions that in the event of default, the lender may take any or all of the following actions: (1) declare all balances due immediately; (2) require additional pledged collateral; (3) take possession and foreclose upon the collateral; (4) exercise all rights and remedies available under the agreement or under applicable law; and (5) cease any obligation to advance funds.

Capital Leases Payable - One of UNCW's outstanding capital leases was used to acquire a modular building which commenced July 1, 2017 and has an outstanding balance of \$147,190. In the event of default, the Lessor may take any or all of the following actions: (1) declare all balances due immediately; (2) take possession of the assets; and (3) exercise all rights and remedies available under the agreement or under applicable law.

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		Limited Obligation Bonds		Bonds from Direct Placements		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest*
2020	\$ 3,415,000	\$ 3,401,306	\$ 1,725,000	\$ 4,635,925	\$ 1,590,036	\$ 714,460	\$ 688,035	\$ 347,190
2021	3,545,000	3,280,781	3,845,000	4,566,925	1,643,423	668,688	724,474	321,713
2022	3,170,000	3,116,109	4,410,000	4,393,625	2,223,625	621,484	769,430	294,836
2023	2,295,000	2,981,984	4,905,000	4,196,775	2,945,672	562,318	715,167	267,413
2024	1,505,000	2,895,820	5,075,000	4,025,625	3,035,594	476,049	689,851	244,010
2025-2029	8,970,000	13,300,007	28,970,000	16,499,075	11,752,101	1,090,242	4,093,818	829,899
2030-2034	11,870,000	10,210,132	35,570,000	9,899,125	2,736,000	162,284	2,485,173	166,260
2035-2039	15,635,000	6,097,826	27,435,000	2,276,600				
2040-2044	10,500,000	2,140,010						
2045-2049	8,815,000	809,100						
Total Requirements	\$ 69,720,000	\$ 48,233,075	\$ 111,935,000	\$ 50,493,675	\$ 25,926,451	\$ 4,295,525	\$ 10,165,948	\$ 2,471,321

* Interest on the variable rate College Station note from direct borrowings is based on LIBOR plus 2.05% calculated at 4.45% at June 30, 2019.

E. Notes from Direct Borrowings - The University was indebted for notes from direct borrowings for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2019	Principal Outstanding June 30, 2019
College Station	BB&T	Variable	11/05/2022	\$ 1,394,730	\$ 881,846	\$ 512,884
Energy Conservation Loan	BB&T	3.47%	03/01/2030	4,542,387	978,668	3,563,719
Energy Conservation Loan	PNC Equipment Finance, LLC	3.42%	06/30/2033	6,846,011	756,666	6,089,345
Total Notes from Direct Borrowings				<u>\$ 12,783,128</u>	<u>\$ 2,617,180</u>	<u>\$ 10,165,948</u>

NOTE 10 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to a modular building and printer are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2019:

Fiscal Year	Amount
2020	\$ 134,158
2021	9,950
2022	9,950
2023	9,950
2024	4,145
Total Minimum Lease Payments	168,153
Amount Representing Interest (5% - 6% Rate of Interest)	20,963
Present Value of Future Lease Payments	<u>\$ 147,190</u>

The modular building and printer acquired under capital lease amounted to \$793,107 at June 30, 2019.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$79,311 at June 30, 2019.

B. Operating Lease Obligations - The University entered into operating leases for \$2,060,425 for an aquaculture facility, land, an elementary school, printer, landscape equipment, and temporary classroom and laboratory trailers installed as a result of Hurricane Florence. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2019:

<u>Fiscal Year</u>	<u>Amount</u>
2020	\$ 602,197
2021	198,638
2022	144,728
2023	143,436
2024	91,425
2025-2029	200,000
2030-2034	200,000
2035-2039	200,000
2040-2044	200,000
2045-2046	80,000
Total Minimum Lease Payments	\$ <u>2,060,424</u>

Rental expense for all operating leases during the year was \$519,490.

NOTE 11 - NET POSITION

The deficit in unrestricted net position of \$211,566,310 has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources. A summary of the balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	<u>TSERS</u>	<u>Retiree Health Benefit Fund</u>	<u>Total</u>
Deferred Outflows Related to Pensions	\$ 24,136,267	\$ 0	\$ 24,136,267
Deferred Outflows Related to OPEB		24,902,264	24,902,264
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	38,746,112		38,746,112
Net OPEB Liability		211,944,551	211,944,551
Deferred Inflows Related to Pensions	391,139		391,139
Deferred Inflows Related to OPEB		128,714,000	128,714,000
Net Effect on Unrestricted Net Position	\$ <u>(15,000,984)</u>	\$ <u>(315,756,287)</u>	\$ <u>(330,757,271)</u>

NOTES TO THE FINANCIAL STATEMENTS

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

NOTE 12 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	\$ 136,959,828	\$ 21,532,925	\$ 4,799	\$ 115,422,104
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 24,415,530	\$ 3,747,377	\$ 13,610	\$ 20,654,543
Dining	15,878,864	1,772,277	7,759	14,098,828
Parking	4,068,608		4,712	4,063,896
Recreation Services	2,705,563		25,310	2,680,253
Printing and Duplicating	126,371			126,371
Bookstore	854,274			854,274
Postal Services	198,015		359	197,656
Other	1,320,224		27,582	1,292,642
Sales and Services of Education and Related Activities	2,658,570		5,482	2,653,088
Total Sales and Services, Net	\$ 52,226,019	\$ 5,519,654	\$ 84,814	\$ 46,621,551

NOTE 13 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Capital Asset Impairment Loss, Net	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 109,062,767	\$ 3,100,182	\$ 11,550,041	\$ 0	\$ 549,244	\$ 97,460	\$ 0	\$ 124,359,694
Research	7,712,005	1,142,484	4,783,725		178,637	242		13,817,093
Public Service	2,556,115	180,316	1,393,665		182,778	977		4,313,851
Academic Support	16,659,761	7,191,709	3,917,036		10,106	1,508		27,780,120
Student Services	9,759,082	553,345	2,705,622		95,047	363		13,113,459
Institutional Support	25,604,801	3,051,727	6,654,888		12,660	7,366		35,331,442
Operations and Maintenance of Plant	16,939,527	8,158,791	2,237,803	221,231		5,186,875		32,744,227
Student Financial Aid					21,878,289			21,878,289
Auxiliary Enterprises	10,106,954	2,652,663	28,115,774		871,462	2,390,287		44,137,140
Depreciation							13,618,326	13,618,326
Total Operating Expenses	\$ 198,401,012	\$ 26,031,217	\$ 61,358,554	\$ 221,231	\$ 23,778,223	\$ 7,685,078	\$ 13,618,326	\$ 331,093,641

NOTE 14 - PENSION PLANS

A. Defined Benefit Plan

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

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

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 \$4,090,427, and the University's contributions were \$8,378,558 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 \$38,746,112 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 0.38917%, which was an increase of 0.01607 from its proportion measured as of June 30, 2017, which was 0.37310%.

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%)
\$ 73,895,401	\$ 38,746,112	\$ 9,252,377

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 \$9,318,132. 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	\$ 2,827,717	\$ 388,843
Changes of Assumptions	7,775,348	
Net Difference Between Projected and Actual Earnings on Plan Investments	3,692,511	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,462,133	2,296
Contributions Subsequent to the Measurement Date	8,378,558	
Total	<u><u>\$ 24,136,267</u></u>	<u><u>\$ 391,139</u></u>

The amount of \$8,378,558 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

<u>Year Ended June 30:</u>	<u>Amount</u>
2020	\$ 8,761,923
2021	5,669,386
2022	1,003,065
2023	(67,804)
Total	<u><u>\$ 15,366,570</u></u>

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Member and employer contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2019, these rates were set at 6% of covered payroll for members and 6.84% of covered payroll for employers. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$167,602,790, of which \$77,795,121 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$4,667,707 and \$5,321,186, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions.

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 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 16. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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

The Plan's and RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The University's contractually-required contribution rate for the year ended June 30, 2019 was 6.27% of covered payroll. The University's contributions to the RHBF were \$9,152,250 for the year ended June 30, 2019.

2. Disability Income

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

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

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term

benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the ORP.

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2019 was 0.14% of covered payroll. The University's contributions to DIPNC were \$204,356 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 \$211,944,551 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total OPEB liability to June 30, 2018. The University's proportion of the net OPEB liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2018, the University's proportion was 0.74397%, which was an increase of 0.04130 from its proportion measured as of June 30, 2017, which was 0.70267%.

Net OPEB Asset: At June 30, 2019, the University reported an asset of \$237,990 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2018. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2017, and update procedures were

used to roll forward the total OPEB asset to June 30, 2018. The University’s proportion of the net OPEB asset was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2018, the University’s proportion was 0.78348%, which was an increase of 0.01473 from its proportion measured as of June 30, 2017, which was 0.76875%.

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	\$	250,413,450	\$ 211,944,551	\$ 181,105,807
		1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$	(182,355)	\$ (237,990)	\$ (291,361)

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	\$ 174,847,911	\$ 211,944,551	\$ 260,642,859
	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	\$ (238,679)	\$ (237,990)	\$ (237,340)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2019, the University recognized a OPEB contra-expense of \$5,321,841 for RHBF and an expense of \$7,830 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	\$ 415,150	\$ 415,150
Changes of Assumptions		44,940	44,940
Net Difference Between Projected and Actual Earnings on Plan Investments	22,794	185,348	208,142
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	15,727,220		15,727,220
Contributions Subsequent to the Measurement Date	9,152,250	204,356	9,356,606
Total	\$ 24,902,264	\$ 849,794	\$ 25,752,058

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

	RHBFB	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 14,493,703	\$ 0	\$ 14,493,703
Changes of Assumptions	91,819,273		91,819,273
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	22,401,024	18,022	22,419,046
Total	\$ 128,714,000	\$ 18,022	\$ 128,732,022

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	\$ (27,103,986)	\$ 151,709
2021	(27,103,986)	151,685
2022	(27,103,986)	114,002
2023	(27,081,323)	87,795
2024	(4,570,705)	61,125
Thereafter		61,100
Total	\$ (112,963,986)	\$ 627,416

NOTE 16 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 15, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$25,000 per occurrence deductible.

The University maintains all-risk coverage for all of its buildings and the contents located within those buildings. The University attempts to cover all buildings and contents based on their replacement values. The University has covered all building and content losses subject to a \$25,000 per occurrence deductible.

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

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$2,000,000 per claim and \$10,000,000 in the aggregate per fiscal year via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Policies include cyber, boiler and machinery, crime, oceanographic equipment, watercraft and watercraft pollution coverage, and professional liability.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects, software in development, and other purchases. Outstanding commitments on construction contracts were \$105,091,606, on software in development contracts were \$295,008 and on other purchases were \$12,056,284 at June 30, 2019.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end are as follows:

Purpose	Amount
Endowment Pledges	\$ 816,404

NOTE 18 - HURRICANE FLORENCE

In September 2018, Hurricane Florence impacted areas of the southeastern United States, including Wilmington, NC, and specifically UNCW’s campus. The hurricane caused significant damage to our facilities, infrastructure, and grounds. Dobo Hall, a science classroom and laboratory facility on the campus of UNCW, was significantly damaged during the storm. Due to the extensive damage, UNCW closed Dobo Hall and has begun construction work to restore the facility with the goal to render it safe, functional, and code compliant by the fall of 2020. The University Apartments, which were used for student housing, were condemned and have been demolished.

The following table summarizes the Hurricane Florence related financial activity included in the financial statements for the year ended June 30, 2019:

Description	Loss Before Insurance Recovery	Insurance Recovery	Net Loss/(Gain)
Building Impairment - University Apartments	\$ 984,788	\$ 763,557	\$ 221,231
Building Impairment - Dobo Hall	10,663,140	32,851,242	(22,188,102)
Other Hurricane Losses	57,678,611	31,226,266	26,452,345
Total	\$ 69,326,539	\$ 64,841,065	\$ 4,485,474

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, requires that the losses incurred as a result of Hurricane Florence be reported net of the associated insurance recoveries when the recovery and loss occur in the same year. As such, we have reported a net impairment loss of \$221,231 related to the University Apartments, net insurance recoveries related to the impairment of Dobo Hall of \$22,188,102, and a net loss of other costs associated with Hurricane Florence of \$26,452,345 resulting in net disaster costs of \$4,485,474.

The following table presents the components of other hurricane losses referenced in the previous paragraph and table as well as additional revenue sources related to Hurricane Florence.

Other Hurricane Losses

	Amount
Restoration of Buildings and Grounds	\$ 52,431,186
Equipment Replacements	3,475,499
Other Incremental Disaster-Related Operating Costs	1,771,926
Total Disaster Costs	\$ 57,678,611

Additional Revenue Sources

Capital Grants (Hurricane Florence Disaster Relief)	27,215,501
Noncapital Grants (FEMA)	453,608

Financial activity related to Hurricane Florence will continue in the year ending June 30, 2020. Building restoration work begun in fiscal year 2019 will continue through fiscal year 2021. Also, due to the loss of Dobo Hall, UNCW entered into operating leases for modular units which are being used until Dobo Hall is fully operational, and lease payments will continue during the new fiscal year. Finally, the majority of the costs associated with the reconstruction of Dobo Hall will occur during the year ending June 30, 2020. The University maintains “all-risk” insurance through the North Carolina Department of Insurance, and reimbursements are generally provided after costs are incurred. In addition, UNCW qualifies for assistance through FEMA. As a result of the insurance coverage and FEMA eligibility, UNCW anticipates reimbursements for substantially all additional Hurricane Florence related costs incurred during the fiscal year ending June 30, 2020.

NOTE 19 - RELATED PARTIES

Foundations - There are four separately incorporated nonprofit foundations associated with the University. These foundations are the UNCW Student Aid Association, Inc. (Student Aid), the Foundation of the University of North Carolina at Wilmington, Inc. (Foundation), the Alumni Association of the University of North Carolina at Wilmington (Alumni), and the Friends of the University of North Carolina at Wilmington, Inc. (Friends).

Student Aid fosters and promotes the education of student athletes by obtaining donations for the scholarship program at the University. The association also raises funds for the improvement and construction of physical facilities used by the University for athletic purposes, for the University's athletic scholarship fund, and to provide operational and supplementary support for the entire sports program. In addition, the association exists to encourage a fraternal spirit of loyalty and interest in the University by alumni, friends, and benefactors. Direct support from Student Aid totaled \$1,559,469 for the year ended June 30, 2019. The University maintains a cash balance for Student Aid. This liability, or funds held for others, due to Student Aid was \$1,850,664, as of June 30, 2019.

The Foundation assists the University by soliciting and receiving private gifts from individuals, corporations, and other organizations. These gifts support the University by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds for academic programs. In addition, the Foundation can accept and liquidate non-cash gifts for the University and acquire property on the University's behalf. The Foundation's direct support to the University totaled \$319,472 for the year ended June 30, 2019. The University maintains a cash balance for the Foundation. This liability, or funds held for others, due to Foundation was \$320,144, as of June 30, 2019.

Alumni serves to connect and involve alumni, students, and friends in the promotion and advancement of the University. Occasionally donations are made from this association to the University. This support totaled \$3,750 for the year ended June 30, 2019. The University maintains a cash balance for the Alumni. This liability, or funds held for others, due to Alumni was \$368,624, as of June 30, 2019.

Friends contributes gifts to the University based on grant requests and may at a donor's request, contribute to a University academic scholarship fund. This support totaled \$17,070 for the year ended June 30, 2019. The University maintains a cash balance for Friends. This liability, or funds held for others, due to Friends was \$13,971, as of June 30, 2019.

All of these foundations are self-sustaining; however, the University does support their operations through donated administrative services. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. Separate financial statements for these foundations may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC 28403-5918, or by calling (910) 962-3139.

NOTE 20 - 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	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Eliminations*	Total
ASSETS							
Current Assets	\$ 192,732,974	\$ 524	\$ 0	\$ 2,314	\$ 478,850	\$ 0	\$ 193,214,662
Capital Assets, Net	549,037,079			1,246,000	15,833	(15,833)	550,283,079
Other Noncurrent Assets	165,327,319	1,524,554					166,851,873
Component Unit Receivable from Primary Government			122,058,695	71,416		(122,130,111)	
Total Assets	907,097,372	1,525,078	122,058,695	1,319,730	494,683	(122,145,944)	910,349,614
TOTAL DEFERRED OUTFLOWS OF RESOURCES							
	57,080,929		6,058,192			(6,058,192)	57,080,929
LIABILITIES							
Current Liabilities	37,148,357		2,102,929	423,870	3,251		39,678,407
Long-Term Liabilities, Net	364,938,054		119,955,766	370,939			485,264,759
Other Noncurrent Liabilities	10,638,849						10,638,849
Primary Government Payable to Component Unit	122,130,111					(122,130,111)	
Total Liabilities	534,855,371		122,058,695	794,809	3,251	(122,130,111)	535,582,015
TOTAL DEFERRED INFLOWS OF RESOURCES							
	129,592,610		6,058,192			(6,058,192)	129,592,610
NET POSITION							
Net Investment in Capital Assets	326,303,763			804,532			327,108,295
Restricted - Nonexpendable	62,247,566	999,796					63,247,362
Restricted - Expendable	122,866,933	525,282			74,356		123,466,571
Unrestricted	(211,687,942)			(279,611)	417,076	(15,833)	(211,566,310)
Total Net Position	\$ 299,730,320	\$ 1,525,078	\$ 0	\$ 524,921	\$ 491,432	\$ (15,833)	\$ 302,255,918

*The elimination net position amount of \$15,833 is a result of the Research Foundation having a lower capitalization threshold than the University.

NOTES TO THE FINANCIAL STATEMENTS

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

	University	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Eliminations*	Total
OPERATING REVENUES							
Student Tuition and Fees, Net	\$ 115,422,104	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 115,422,104
Federal Grants and Contracts	7,252,396						7,252,396
State and Local Grants and Contracts	3,244,188						3,244,188
Nongovernmental Grants & Contracts	1,436,177						1,436,177
Sales & Services, Net	46,406,139		5,000,104	25,627	231,379	(5,041,698)	46,621,551
Interest Earnings on Loans	2,043						2,043
Other Operating Revenues	2,951,992	1,846	19,364	143,246	183,956	(257,136)	3,043,268
Total Operating Revenues	176,715,039	1,846	5,019,468	168,873	415,335	(5,298,834)	177,021,727
OPERATING EXPENSES							
Operating Expenses	317,357,972	85,305	19,364	23,303	352,205	(362,834)	317,475,315
Depreciation	13,618,326						13,618,326
Total Operating Expenses	330,976,298	85,305	19,364	23,303	352,205	(362,834)	331,093,641
Operating Income (Loss)	(154,261,259)	(83,459)	5,000,104	145,570	63,130	(4,936,000)	(154,071,914)
NONOPERATING REVENUES (EXPENSES)							
State Appropriations	147,823,501						147,823,501
Noncapital Grants - Student Financial Aid	29,318,102						29,318,102
Noncapital Grants	453,338						453,338
Noncapital Gifts	10,947,999				15,245		10,963,244
Investment Income, Net	9,377,511	67,120				(61,386)	9,383,245
Interest & Fees on Debt	(8,559,512)		(5,000,104)	(25,627)		5,000,104	(8,585,139)
Insurance Recoveries on Capital Asset Impairment, Net	22,188,102						22,188,102
Other Hurricane Losses, Net	(26,452,345)						(26,452,345)
Federal Interest Subsidy on Debt	687,987						687,987
Other Nonoperating Expense	(321,629)						(321,629)
Net Nonoperating Revenues (Expenses)	185,463,054	67,120	(5,000,104)	(25,627)	15,245	4,938,718	185,458,406
Capital Appropriations	6,339,523						6,339,523
Capital Grants	53,063,130						53,063,130
Capital Gifts	2,400,104						2,400,104
Additions to Endowments	3,753,063						3,753,063
Increase (Decrease) in Net Position	96,757,615	(16,339)		119,943	78,375	2,718	96,942,312
NET POSITION							
Net Position, July 1, 2018 (as Restated)	202,972,705	1,541,417		404,978	413,057	(18,551)	205,313,606
Net Position, June 30, 2019	\$ 299,730,320	\$ 1,525,078	\$ 0	\$ 524,921	\$ 491,432	\$ (15,833)	\$ 302,255,918

*The elimination net position amount of \$15,833 is a result of the Research Foundation having a lower capitalization threshold than the University.

Condensed Statement of Cash Flows June 30, 2019

	University	The Donald R. Watson Foundation, Inc.	The UNCW Corporation	The UNCW Corporation II	The UNCW Research Foundation	Total
Net Cash Provided (Used) by Operating Activities	\$ (157,192,363)	\$ (93,232)	\$ 6,508,784	\$ 160,955	\$ 47,134	\$ (150,568,722)
Net Cash Provided by Noncapital Financing Activities	153,128,185					153,128,185
Net Cash Provided (Used) by Capital and Related Financing Activities	28,913,502		(6,508,784)	(160,955)		22,243,763
Net Cash Provided by Investing Activities	5,345,933	86,660				5,432,593
Net Increase (Decrease) in Cash and Cash Equivalents	30,195,257	(6,572)			47,134	30,235,819
Cash and Cash Equivalents, July 1, 2018	167,987,584	7,096			409,636	168,404,316
Cash and Cash Equivalents, June 30, 2019	\$ 198,182,841	\$ 524	\$ 0	\$ 0	\$ 456,770	\$ 198,640,135

NOTE 21 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

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

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

NOTE 22 - NET POSITION RESTATEMENT

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

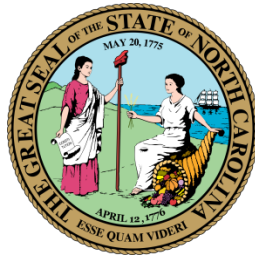
	Amount
July 1, 2018 Net Position as Previously Reported	\$ 206,432,671
Restatement:	
Record the University's Workers' Compensation Liability	(1,119,065)
July 1, 2018 Net Position as Restated	\$ 205,313,606

NOTE 23 - SUBSEQUENT EVENTS

On October 31, 2019, the UNC Board of Governors on behalf of UNCW, issued \$41,395,000 in University of North Carolina Wilmington General Revenue and Revenue Refunding Bonds, Series 2019B with an average interest rate of 4.176%. The bonds were executed and delivered to construct a dining hall, refund \$12,230,000 of outstanding UNCW Taxable Revenue Bonds, Series 2010, and refund \$20,660,000 of UNC System Taxable Pool Revenue Bonds, Series 2010D. The refunded bonds are considered to be defeased and the liability was removed from the statement of net position subsequent to June 30, 2019. The refunding was undertaken to reduce total debt service payments by \$7,634,825 over the next twenty-one years and resulted in a net present value savings of \$6,119,316.

The UNC Board of Governors, on behalf of UNCW, executed and delivered a Forward Bond Purchase Agreement with Wells Fargo Bank on October 1, 2019 for the issuance of \$11,180,000 of University of North Carolina Wilmington

General Revenue Bonds, Series 2020A with an average interest rate of 5%. The bonds are expected to be issued on January 7, 2020 to refund \$12,065,000, the portion of the UNC Pool Revenue Bonds, Series 2010C maturing on or after October 1, 2020 and allocable to UNCW on April 1, 2020. Upon the issuance of the bonds, sufficient funds will be available in the debt service fund held with the trustee to pay off the refunded bonds on April 1, 2020. The refunding is being undertaken to reduce total debt payments by \$868,768 over the next eight years and resulted in a net present value savings of \$803,283.



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit B-1

Teachers' and State Employees' Retirement System	<u>2019</u>	<u>2018</u>	<u>2017</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.38917%	0.37310%	0.35978%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 38,746,112	\$ 29,603,399	\$ 33,067,499
Covered Payroll	\$ 62,252,744	\$ 57,507,190	\$ 53,596,237
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	62.24%	51.48%	61.70%
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	0.35723%	0.36424%	0.38300%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 13,164,633	\$ 4,270,426	\$ 23,252,003
Covered Payroll	\$ 53,297,118	\$ 52,894,845	\$ 55,820,098
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	24.70%	8.07%	41.66%
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.

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

Exhibit B-2

Teachers' and State Employees' Retirement System	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 8,378,558	\$ 6,710,846	\$ 5,739,218	\$ 4,904,056	\$ 4,876,686
Contributions in Relation to the Contractually Determined Contribution	<u>8,378,558</u>	<u>6,710,846</u>	<u>5,739,218</u>	<u>4,904,056</u>	<u>4,876,686</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 68,173,782	\$ 62,252,744	\$ 57,507,190	\$ 53,596,237	\$ 53,297,118
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	\$ 4,596,562	\$ 4,649,814	\$ 4,220,585	\$ 2,874,128	\$ 2,073,920
Contributions in Relation to the Contractually Determined Contribution	<u>4,596,562</u>	<u>4,649,814</u>	<u>4,220,585</u>	<u>2,874,128</u>	<u>2,073,920</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 52,894,845	\$ 55,820,098	\$ 56,728,297	\$ 58,298,735	\$ 58,092,990
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.

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

Changes of Benefit Terms:

	<u>Cost of Living Increase</u>									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Teachers' and State Employees' Retirement System	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%

Changes of Assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. The discount rate for the Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. For the December 31, 2017 valuation, the discount rate was lowered to 7.00%.

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

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

N/A - Not Applicable

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

Exhibit B-3

Retiree Health Benefit Fund	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Liability	0.74397%	0.70267%	0.77946%
Proportionate Share of Collective Net OPEB Liability	\$ 211,944,551	\$ 230,381,927	\$ 339,091,594
Covered Payroll	\$ 135,553,502	\$ 124,750,663	\$ 118,788,130
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	156.35%	184.67%	285.46%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina			
Proportionate Share Percentage of Collective Net OPEB Asset	0.78348%	0.76875%	0.72922%
Proportionate Share of Collective Net OPEB Asset	\$ 237,990	\$ 469,860	\$ 452,846
Covered Payroll	\$ 135,553,502	\$ 124,750,663	\$ 118,788,130
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.18%	0.38%	0.38%
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.

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

Exhibit B-4

Retiree Health Benefit Fund	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 9,152,250	\$ 8,200,987	\$ 7,252,952	\$ 6,652,135	\$ 6,275,091
Contributions in Relation to the Contractually Determined Contribution	9,152,250	8,200,987	7,252,952	6,652,135	6,275,091
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 145,968,903	\$ 135,553,502	\$ 124,750,663	\$ 118,788,130	\$ 114,300,390
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	\$ 5,947,985	\$ 5,809,294	\$ 5,322,845	\$ 5,329,549	\$ 4,820,988
Contributions in Relation to the Contractually Determined Contribution	5,947,985	5,809,294	5,322,845	5,329,549	4,820,988
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 110,147,863	\$ 109,609,322	\$ 106,456,906	\$ 108,766,301	\$ 107,133,057
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	\$ 204,356	\$ 189,775	\$ 474,053	\$ 487,031	\$ 468,632
Contributions in Relation to the Contractually Determined Contribution	204,356	189,775	474,053	487,031	468,632
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 145,968,903	\$ 135,553,502	\$ 124,750,663	\$ 118,788,130	\$ 114,300,390
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	\$ 484,651	\$ 482,281	\$ 553,576	\$ 565,585	\$ 557,092
Contributions in Relation to the Contractually Determined Contribution	484,651	482,281	553,576	565,585	557,092
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 110,147,863	\$ 109,609,322	\$ 106,456,906	\$ 108,766,301	\$ 107,133,057
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.

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

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

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

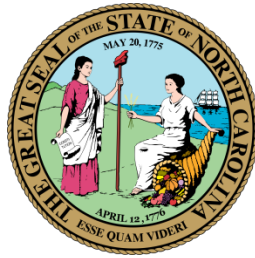
Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer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

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

In 2018, for the December 31, 2017 actuarial valuation, the discount rate for the RHBF was updated to 3.87% and the medical and prescription drug claims cost were changed based on most recent experience. Enrollment assumptions were updated to model expected migrations among RHBF plan options and trend assumptions for the RHBF include contribution changes for the 2019 period as those amounts have been finalized.

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

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
University of North Carolina Wilmington
Wilmington, 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 Wilmington (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 7, 2019. Our report includes a reference to other auditors who audited the financial statements of the UNCW Corporation (Corporation), the UNCW Corporation II (Corporation II), and the UNCW Research Foundation (Research Foundation), as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Corporation, the Corporation II, and the Research Foundation 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 7, 2019

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



This audit required 770 hours at an approximate cost of \$80,080.