STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

APPALACHIAN STATE UNIVERSITY

BOONE, 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

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, Appalachian State University

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

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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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

STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Appalachian State University
Boone, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Appalachian State University Foundation, Inc. or Appalachian Student Housing Corporation, the University's discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Appalachian State University Foundation, Inc. and Appalachian Student Housing Corporation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

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

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 4, 2019

Management's Discussion and Analysis

Introduction

Appalachian State University (University) presents the following management discussion and analysis as a comparative overview of significant changes that have occurred during the fiscal year ended June 30, 2019. The discussion and analysis, prepared by management, is to be read in combination with the financial statements and notes to the financial statements.

The statements and accompanying notes that follow the discussion and analysis are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for financial reporting for public colleges and universities. The statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The notes to the financial statements provide additional information that is essential to understanding the financial statements.

Although not included in management's discussion and analysis, information for two component units is presented alongside the University's financial statements and include the Statements of Financial Position, Statements of Activities, and certain notes for Appalachian State University Foundation, Inc. (Foundation) and Appalachian Student Housing Corporation (Corporation). More information describing the relationship between the University and its discretely presented component units can be found in Note 1A, Significant Accounting Policies - Financial Reporting Entity.

Financial Highlights

For the year ended June 30, 2019, net position increased by $37.1 million over the prior fiscal year restated balances. The increase primarily resulted from cumulative changes in other postemployment benefits (OPEB), which accounted for a $20.7 million increase in unrestricted fund balances. Other changes include a $8.9 million increase in capital assets net of depreciation and associated liabilities, and $4.4 million worth of increases in restricted expendable net position in capital project funds.

Total revenues experienced a modest decrease of 1.5% totaling $6.9 million when compared to the prior year. This decrease is attributable to a reduction in capital grants received from the Connect NC bonds for the College of Health Sciences building. The majority of State bond funds for this facility were expended for construction costs in prior years.

The University's total operating and nonoperating expenses increased by $14.4 million. This 3.5% increase was primarily driven by increases in operating expenses for supplies, materials, noncapital equipment, and services.

Adoption of New Accounting Standard

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, became effective for fiscal year 2019. This pronouncement improves the information that is disclosed in the notes to the financial statements related to debt. The standard also requires disclosure of additional information related to assets pledged to secure debt and debt agreements that have default provisions or acceleration clauses with significant financial consequences. Due to the implementation of GASB Statement No. 88, the University reclassified $31.1 million in notes payable to notes from direct borrowings, and two bonds were reclassified to bonds from direct placement totaling $3.9 million. More information can be found in note 9. More information about GASB 88 can be found in note 18.

Statement of Net Position

The Condensed Statement of Net Position represents:

- The resources owned by the University or owed to the University (Assets);
- The consumption of net position related to a future reporting period(s) (Deferred Outflows of Resources);
- What the University owes or has received before services have been provided (Liabilities);
- The acquisition of net position related to a future reporting period(s) (Deferred Inflows of Resources); and
- The residual of: Assets + Deferred Outflows of Resources – Liabilities – Deferred Inflows of Resources (Net Position).

This statement is similar to a balance sheet and presents the University's financial position at a single point in time. Restated prior year balances have been included for comparison and discussion.

Condensed Statement of Net Position

	Fiscal Year 2019	Fiscal Year 2018 (as Restated)	$ Change	% Change
Assets				
Current Assets	$ 129,658,257	$ 113,683,565	$ 15,974,692	14.1
Capital Assets, Net	654,124,341	651,126,613	2,997,728	0.5
Other Noncurrent Assets	121,262,486	69,542,148	51,720,338	74.4
Total Assets	905,045,084	834,352,326	70,692,758	8.5
Total Deferred Outflows of Resources	76,978,137	51,103,488	25,874,649	50.6
Liabilities				
Current Liabilities	47,438,808	41,898,541	5,540,267	13.2
Long-Term Liabilities, Net	664,089,639	635,036,550	29,053,089	4.6
Other Noncurrent Liabilities	4,490,308	4,448,493	41,815	0.9
Total Liabilities	716,018,755	681,383,584	34,635,171	5.1
Total Deferred Inflows of Resources	177,221,956	152,422,644	24,799,312	16.3
Net Position				
Net Investment in Capital Assets	424,209,053	415,272,446	8,936,607	2.2
Restricted - Nonexpendable	16,491,953	16,454,814	37,139	0.2
Restricted - Expendable	25,082,685	19,916,307	5,166,378	25.9
Unrestricted	(377,001,181)	(399,993,981)	22,992,800	(5.7)
Total Net Position	$ 88,782,510	$ 51,649,586	$ 37,132,924	71.9

Total Assets

Assets represent financial resources that contribute to the University's ability to make payments as they become due. Assets increase the University's net position. This fiscal year, total assets increased $70.7 million over fiscal year 2018 balances primarily due to changes in noncurrent restricted cash balances, which increased by $51.5 million from the issuance of Millennial Campus Revenue Bond, Series 2018, and General Revenue Bonds, Series 2019. At June 30, 2019 balances in the construction funds related to these issuances totaled $31.3 and $18.0 million respectively. The proceeds of the bonds will fund the construction of a facility in the north end zone of the existing stadium and the renovation of an academic building. Additional details about these projects will be discussed in the Capital Assets and Debt Administration section.

Increases in current assets also contributed to the increase in total assets. Restricted cash and cash equivalents increased by $6.5 million and will primarily be used to pay current liabilities related to capital projects. Unrestricted cash and cash equivalents increased 8.1% as a result of increases in cash balances in debt service fee funds, the steam utility fund, and residence life. Debt service fee funds increased by $1.9 million as a result of a new debt service fee for the renovation of Sanford Hall, an academic building. A $2.0 million increase was realized in the steam utility fund due to a rate increase that will fund improvements to the steam infrastructure. Lastly, cash balances in residence life operations totaled $4.5 million based on the current rate structure that builds balances in preparation for future housing projects and renovations.

Deferred Outflows of Resources

Deferred outflows of resources relate to the consumption of assets by the University applicable to a future reporting period. While deferred outflows of resources do have a positive effect on net position, they are not presently available to satisfy the University's obligations. Balances in deferred outflows of resources increased by $25.9 million related to changes in the University's pension plan and OPEB. Deferred outflows for pensions increased by $9.4 million and deferred outflows for OPEB increased $17.4 million due to the difference between actual and projected earnings in addition to changes in actuarial assumptions.

Total Liabilities

Liabilities are obligations of financial resources (assets) that the University has no ability to avoid satisfying when they become due. Liabilities have a negative effect on net position.

Current liabilities increased $5.5 million primarily due to an increase in accounts payable, intergovernmental payables, and the current portion of long-term debt. The most significant increases were recognized in the current portion of long-term debt totaling $1.9 million primarily resulting from the issuance of the 2018 Millennial Campus bonds and Series 2019 General Revenue bonds, and a $1.7 million increase in intergovernmental payables related to an income tax liability owed.

Changes in long-term liabilities account for the majority of the $34.6 million increase in total liabilities. These increases are related to two new bond issuances totaling $56.5 million that were closed during fiscal year 2019. Millennial Campus Revenue Bonds Series 2018 issued in December of 2018 added $39.9 million in bonds payable with a $1.6 million premium to be amortized over the life of the bonds. In June of 2019, the University issued General Revenue Bonds Series, 2019 and added $16.6 million in bonds payable with a $1.6 million premium to be amortized over the life of the bonds. These increases in long-term liabilities were offset by $22.1 million in principal payments and defeased debt on the University's bonds and notes from direct borrowings.

Other significant changes in long-term liabilities resulted from a $13.3 million increase in the University's proportionate share of the State's net pension liability and a $2.1 million increase in the University's accrued leave liability that resulted from special leave granted to employees in fiscal year 2019. These changes were negated by a $29.6 million decrease in the University's proportionate share of the State's net OPEB liability.

Deferred Inflows of Resources

Deferred inflows of resources represent inflows of resources that have already occurred and are applicable to future periods. Like a liability, they have a negative effect on net position, but do not represent obligations on the University's financial resources. For fiscal year 2019, the most significant change in deferred inflows of resources is related to changes in assumptions made by the OPEB plans' actuaries that was offset by changes in contributions to the plan during the measurement period. The net effect of these changes totaled $25.8 million.

Net Position

Net position represents the difference between the University's assets and deferred outflows of resources from liabilities and deferred inflows of resources. It is comprised of net investment in capital assets, restricted nonexpendable, restricted expendable, and unrestricted net position.

Net investment in capital assets represents the University's investment in assets such as buildings, land, general infrastructure, machinery and equipment, and other improvements, net of accumulated depreciation/amortization, outstanding principal balances of capital-related debt, deferred loss on refunding, and other liabilities related to the construction or acquisition of capital assets. Net investment in capital assets increased by $8.9 million primarily related to the combination of large asset additions which are offset by depreciation/amortization of capital assets and the principal payments of all capital-associated University debt.

Restricted nonexpendable net position consists of loan funds, research funds, and endowment gifts with specific restrictions on spending the principal balance. There were no significant increases in the restricted nonexpendable net position during the fiscal year 2019.

Restricted expendable net position consists of income from endowment funds, gifts and pledges with specific restrictions, funds restricted to specific University programs, either by legislation or other third-party restrictions, unexpended capital project funds, and grants from third-party agencies with expenditure restrictions. A $4.4 million increase in net position restricted for capital projects represented the most significant change in 2019. This increase was primarily a result of additional repair and renovation funding from the State.

Unrestricted net position is comprised of fund balances that are not subject to external restrictions on use. Management may designate use of these funds for various institutional, academic, and other initiatives to support the mission of the University. Changes in the deferred outflows of resources, liabilities, and deferred inflows of resources for both the University's proportionate share in the State's pension plan and OPEB plans have a significant impact on unrestricted net position. This year, $20.7 million of the increase in unrestricted fund balances was a result of the cumulative effect of changes in the OPEB plan as discussed previously.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position (condensed, comparative table presented below) presents the University's revenues and expenses incurred throughout the fiscal year. The change in net position from year-to-year is an indicator of the financial condition of the institution.

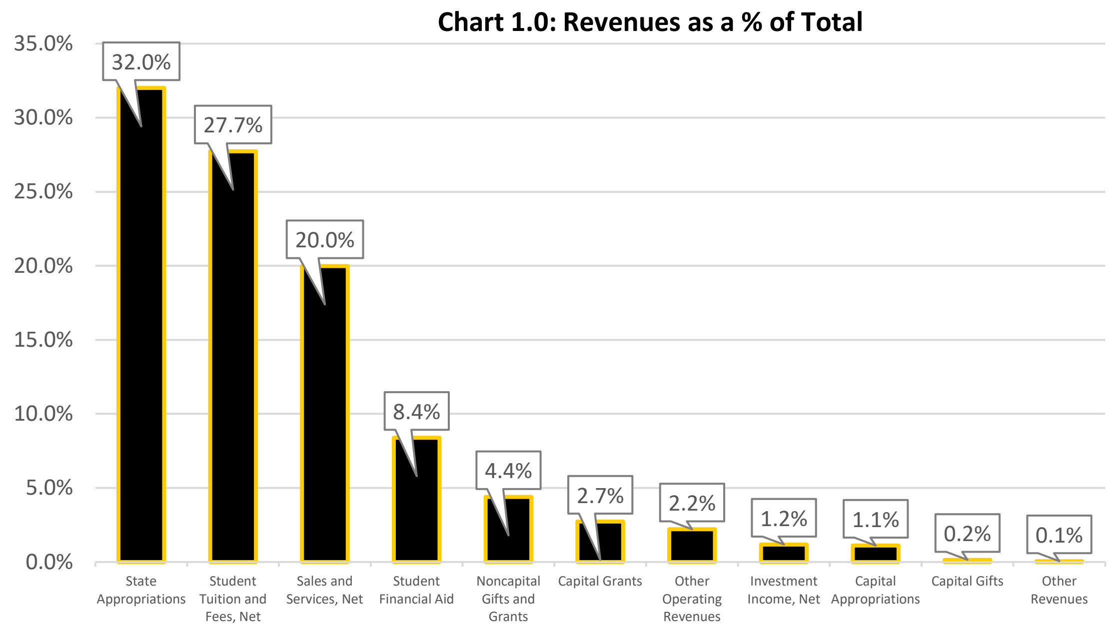
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Fiscal Year 2019	Fiscal Year 2018*	$ Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	$ 129,095,977	$ 126,662,698	$ 2,433,279	1.9
Grants and Contracts	9,039,690	5,837,029	3,202,661	54.9
Sales and Services, Net	93,019,699	86,691,444	6,328,255	7.3
Other Operating Revenues	1,257,010	1,295,648	(38,638)	(3.0)
Total Operating Revenues	232,412,376	220,486,819	11,925,557	5.4
Operating Expenses				
Salaries and Benefits	255,757,143	258,345,801	(2,588,658)	(1.0)
Supplies and Materials	49,428,782	43,554,613	5,874,169	13.5
Services	56,001,162	47,838,900	8,162,262	17.1
Scholarships and Fellowships	24,269,787	22,900,209	1,369,578	6.0
Utilities	11,002,096	10,618,089	384,007	3.6
Depreciation/Amortization	21,429,798	20,204,949	1,224,849	6.1
Total Operating Expenses	417,888,768	403,462,561	14,426,207	3.6
Operating Loss	(185,476,392)	(182,975,742)	(2,500,650)	1.4
Nonoperating Revenues (Expenses)				
State Appropriations	149,227,756	140,514,281	8,713,475	6.2
Noncapital Grants - Student Financial Aid	39,061,317	36,192,334	2,868,983	7.9
Noncapital Grants	7,064,658	6,240,388	824,270	13.2
Noncapital Gifts	13,353,750	12,865,750	488,000	3.8
Investment Income, Net	5,332,299	5,096,785	235,514	4.6
Interest and Fees on Debt	(9,732,508)	(10,213,460)	480,952	(4.7)
Other Nonoperating Revenues (Expenses)	(486,020)	2,101,101	(2,587,121)	(123.1)
Net Nonoperating Revenues	203,821,252	192,797,179	11,024,073	5.7
Income Before Other Revenues	18,344,860	9,821,437	8,523,423	86.8
Capital Appropriations	5,188,446	2,335,575	2,852,871	122.1
Capital Grants	12,712,733	41,955,989	(29,243,256)	(69.7)
Capital Gifts	707,385	4,022,809	(3,315,424)	(82.4)
Additions to Endowments	179,500	337,203	(157,703)	(46.8)
Total Other Revenues	18,788,064	48,651,576	(29,863,512)	(61.4)
Increase in Net Position	37,132,924	58,473,013	(21,340,089)	(36.5)
Net Position				
Net Position at Beginning of Year	51,649,586	(4,881,293)	56,530,879	(1,158.1)
Restatement to Record the University's Workers' Compensation Liability*		(1,942,134)		
Net Position at End of Year (as Restated)	$ 88,782,510	$ 51,649,586	$ 37,132,924	71.9
Reconciliation of Increase in Net Position				
Total Revenues	$ 465,240,220	$ 472,149,034	$ (6,908,814)	(1.5)
Less: Total Expenses	428,107,296	413,676,021	14,431,275	3.5
Increase in Net Position	$ 37,132,924	$ 58,473,013	$ (21,340,089)	(36.5)

*Note: The restatement for the University's workers' compensation liability is shown as a separate line item due to insufficient information to restate amounts in the Statement of Revenues, Expenses, and Changes in Net Position

Total Revenues

Revenues for the year ended June 30, 2019 totaled $465.2 million. Of the University's total revenues, 32.0% came from the State in the form of appropriations (Chart 1.0). While these funds are provided for operating activities, under current GASB standards appropriations are considered nonoperating revenue because they are an allocation from the State rather than being generated by the University providing services. In contrast, the University generated 27.7% of its revenues from student tuition and fees, and 20.0% from sales and services. Additional information about the University's operating revenues can be found in note 12.



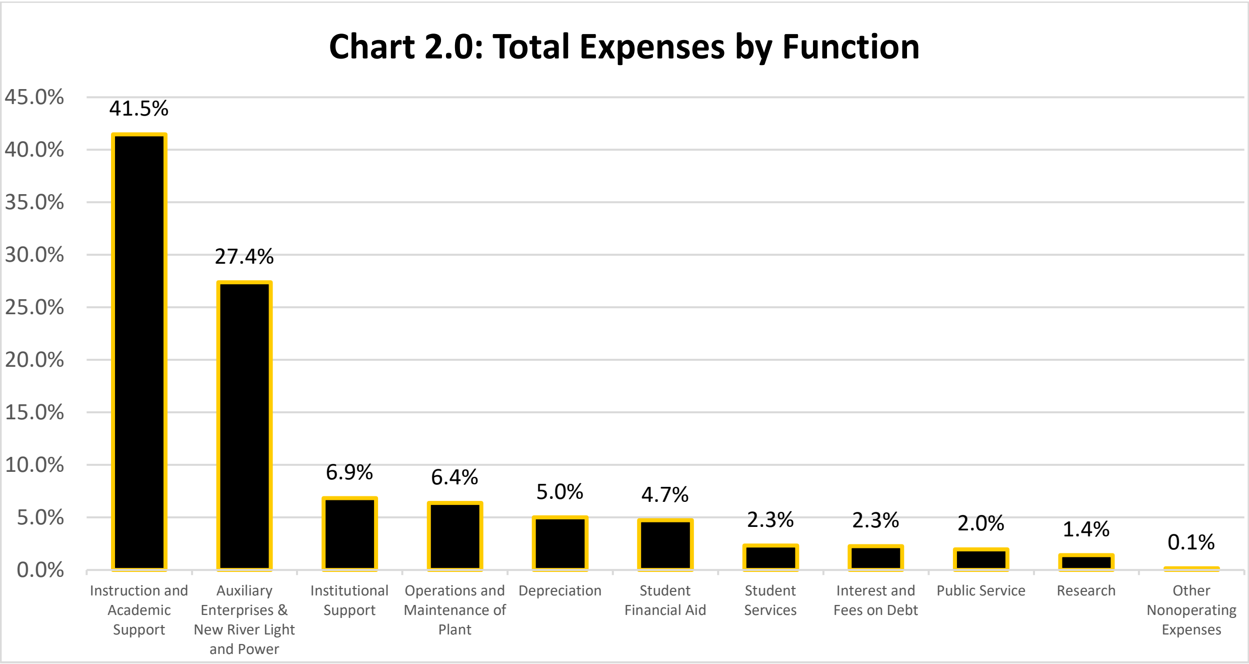
When compared to the prior year operating revenues grew by 5.4% with significant increases in sales and services totaling $6.3 million. Notable changes occurred in athletics revenues totaling $2.5 million from increases in sponsorships and NCAA and Sunbelt Conference distributions, and an increase in Housing revenues totaling $0.6 million. During the year the University also saw a 54.9% increase in contracts and grants revenues totaling $3.2 million. This is primarily related to state grant funds received for the University's laboratory school in Winston-Salem, The Academy at Middlefork, which is a K-5 school run by the College of Education with state, local, and federal support.

The most significant changes in nonoperating and other revenues occurred in state appropriations, capital appropriations, capital grants, and capital gifts. State appropriations increased by $8.7 million. This 6.2% increase was primarily related to additional state support of $4.2 million in building reserves for the recently completed Levine Hall, which houses the Beaver College of Health Sciences, $2.2 million for enrollment growth, and $1.4 million for increases in employee salaries and benefits.

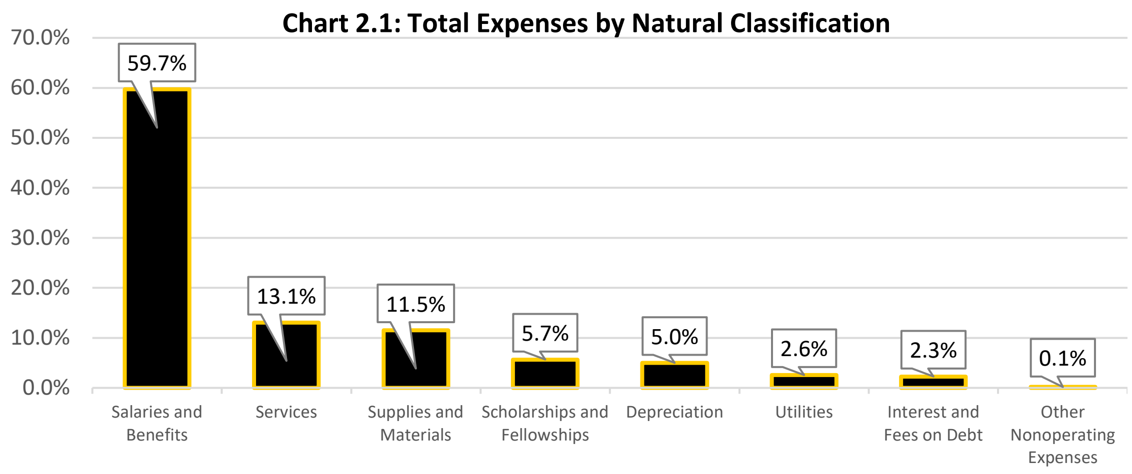
Capital appropriations increased by $2.9 million in funds primarily restricted to campus repairs and renovations, while capital grants decreased by $29.2 million. This decrease is due to a reduction in allotments from the State as the construction of Levine Hall neared completion. Approximately $42.0 million in grants were received for construction related costs during 2018 as compared to $12.7 million in 2019. In addition, capital gifts decreased by $3.3 million. The decrease is related to the approximate $3.0 million donation of a scoreboard for the football stadium and Holmes Center that was gifted in fiscal year 2018.

Total Expenses

The following chart shows the percent of expenses by function for fiscal year 2019. Representative of the University's primary mission, 41.5% of expenses are related to instruction and academic support. The next largest expense category is auxiliary services and New River Light and Power (NRLP) at 27.4%. Functions in these categories primarily provide services to students, faculty and staff, and the surrounding community. Auxiliaries primarily include housing and residence life, dining services, student union, student recreational facilities, athletics, and bookstore.



When expenses are viewed by natural classification salaries and benefits make up 59.7% of total expenses (Chart 2.1). This demonstrates how important the University's human resources are to fulfilling the mission of the institution. Of this amount, $162.4 million or 63.5% of salaries and benefits were incurred in the instruction, academic support, and student services functions.



The most notable changes in expenses occurred in operating expenses for supplies and materials, in addition to increases in purchased services. Supplies and materials increased by $5.9 million with $3.0 million of this increase being primarily related to the purchase of noncapital (less than $5,000 per-item) furniture, fixtures, and equipment for the College of Health Sciences in the new Levine Hall. Expenditures provided supplies, materials, and equipment for classrooms, labs, administrative offices, and common areas in the building. A $1.9 million increase in the cost of goods sold by the University Bookstore also contributed to the overall increase.

Services increased by $8.2 million during the fiscal year. This change is attributable to a combination of factors. The most significant change came from services provided for repairs and maintenance totaling $3.0 million. The majority of the costs were for maintenance on buildings and other campus structures. New River Light & Power incurred a $1.7 million tax expense on electric sales to the local community. Costs will be submitted to the Utilities Commission through a rate case to be recovered incrementally through rates. A total of $1.3 million in contracted services were incurred in connection with the University's GEAR Up program, which is an early college access program run in conjunction with surrounding local school districts. Lastly, the University experienced increases totaling $1.3 million for advertising, printing, and other current services.

Capital Assets and Debt Administration

A comparative analysis of capital assets illustrates significant changes in construction in progress and buildings. (Table 1.0)

Table 1.0
Analysis of Capital Assets
(Dollars in Thousands)

	FY2019	FY2018	$ Change	% Change
Nondepreciable				
Construction in Progress	$ 15,994	$ 69,856	$ (53,862)	(77.1)
Land	59,658	59,658		
Art, Literature, and Artifacts	3,688	3,583	105	2.9
Nondepreciable Total	79,340	133,097	(53,757)	(40.4)
Depreciable				
Buildings, Net	499,616	442,150	57,466	13.0
Computer Software, Net	582	636	(53)	(8.4)
General Infrastructure, Net	48,731	49,608	(877)	(1.8)
Machinery and Equipment, Net	25,856	25,636	220	0.9
Depreciable Total, Net	574,785	518,030	56,755	11.0
Grand Total	$ 654,125	$ 651,127	$ 2,998	0.5

In August of 2018, Levine Hall, housing the Beaver College of Health Sciences, was placed into service. As a result, $72.9 million was moved from construction in progress to buildings. The decrease in construction in progress was offset by $21.5 million in costs for other projects currently under construction. Significant capitalized costs include $8.3 million for the Wey Hall interior renovation and $7.2 million for the North End Zone Facility. The $57.5 million increase in buildings net of depreciation includes the transfer of Levine Hall less the current year's depreciation expense of $16.3 million.

Major capital projects currently in the planning, construction phase, or recently completed include:

- Child Development Center Expansion - A feasibility study has been commissioned to explore options to expand or relocate the University's child development center. The center currently serves the children of faculty, staff, and students. The results of the study are currently under review.
- Track, Tennis, and Softball Relocation - This project will relocate the University's track, tennis, and softball facilities from the current location near Kidd Brewer Stadium to the property acquired from Watauga County in fiscal year 2018. The track is planned for completion in the spring of 2020 followed by tennis facilities and softball facilities. The facilities are planned to be funded by donations and the projected budget is $11.8 million.
- Kidd Brewer Stadium, North End Zone facility - Demolition of the Owens Field house was completed in fiscal year 2019 and site preparation has begun on this 98 thousand square foot mixed use facility. It will house various athletics programs and offices, dining services, catering, and conference event space in addition to 1,000 premium seats. The facility is estimated to cost $45.0 million and is funded by proceeds from the sale of Series 2018 Millennial Campus Revenue bonds and private donations. The debt will be serviced by facility use charges to athletics, dining, campus services, or other third parties.
- Public Private Partnership (P3) - Housing and Parking project - Construction is underway to replace six residence halls on the west side of campus and to construct a parking deck. The plan will create a student residential community replacing 1,800 beds and adding between 200 and 400 new beds. The project is financed by a private partner who will receive housing receipts from students through the University to recover their investment, service the debt, and provide maintenance to the buildings. In exchange, the University will receive the use of housing facilities and any net revenues from the private entity. The University will provide residence life programing and some maintenance responsibilities. This partnership is considered a service concession arrangement under GASB accounting standards. As a result, the University will recognize an asset along with associated liabilities and deferred inflows when the facilities are placed into service. The parking deck with 475 spaces will be completed in August 2019.
- Sanford Hall - Construction on this project began in the summer of 2019 and is expected to be completed by December of 2020. It will be a complete renovation of a 73 thousand square foot academic building that houses multiple academic departments. Project costs are budgeted at $18.0 million and are financed by Series 2019 General Revenue Bond with debt service to be paid from student fees.
- Levine Hall was completed in August of 2018 and was placed in service at the beginning of the fall semester. This facility houses 14 of the Beaver College of Health Sciences' programs. This project was funded by Connect NC bonds of $70.0 million issued by the State and $5.0 million in donations from the Leon Levine Foundation. Levine Hall is the first UNC System building to be completed that was financed by the Connect NC bonds.

During fiscal year 2019 the University issued two general revenue bonds and a millennial campus revenue bond to refund existing debt and to provide capital for new construction. The first issuance of debt was completed in October of 2018 to refund UNC System Pool Revenue Bonds, Series 2008A. The University issued $9.27 million in General Revenue Refunding Bonds Series 2018A at an interest rate of 2.99%. Over the life of the bonds the University expects to save $478 thousand in interest costs representing an economic value of $434 thousand. These bonds are presented separately as bonds from direct placements in Note 9 of the financial statements because they were sold directly to an investor and not made available for public sale. Moody's Investor Services assigned an Aa3 rating for the bonds.

In December of 2018 the University issued Millennial Campus Revenue Bonds, Series 2018 payable over 30 years for the construction of the North End Zone facility at Kidd Brewer Stadium. The property where the facility is located has been designated as a Millennial Campus. This designation gives delegated authority to the UNC Board of Governors to issue debt. The University issued $39.9 million in bonds with a $1.6 million premium at an interest rate of 4.14%. Proceeds and institutional funds of $46.5 million were deposited to project construction funds and $3.3 million was deposited into a capitalized interest fund. The purpose of the capitalized interest fund is to provide a source of repayment of interest during the construction period. As a condition of the bond's revenue requirements, revenues generated by the facility will be pledged to service the debt. Moody's Investor Services assigned an A1 rating to the bonds and affirmed the University's Aa3 rating. The millennial campus bonds received a lower rating because they are subordinate to the University's General Revenue Bonds.

The University issued General Revenue Bonds Series 2019 in June of 2019 payable over 30 years from student infrastructure fees. A total of $16.6 million in bonds with a premium of $1.6 million were issued for the renovation of Sanford Hall, an academic building, at an interest rate of 3.16%. Bond proceeds of $18.0 million were deposited in a construction fund for the renovation. Moody's Investor Services assigned an Aa3 rating for the bonds.

Economic Outlook

The University continues to focus on slow, steady, and stable enrollment growth. Applications grew by 2,110 representing a 15% increase over the prior academic year. For the fall of 2018 the University welcomed a class of 19,108 students, the largest in the University's history. Looking forward, this trend of a 1.5% to 2% increase in enrollment each year is expected to continue as the University approaches its goal of eclipsing 20,000. The incoming class of freshmen for the fall of 2019 is expected to be between 3,400 and 3,600 students with total enrollment exceeding 19,250. In addition to continued enrollment growth, the University's freshman to sophomore retention rate remains high at 88%, which is above the national average.

The combination of increasing student demand, steady enrollment growth, and high retention rates contributes to increasing tuition revenues. This growth in revenues is supplemented by strong state support, which contributes to the University's overall financial stability. As of June 30, 2019, the State had not yet passed a budget for fiscal year 2020, however the University anticipates continued strong support. The total projected general fund budget is anticipated to be $274.6 million. Of this amount, $152.3 million is projected to come from appropriations and $122.3 million from receipts (Table 2.0 below). In addition to state appropriations, the University expects to receive additional state support for repairs and renovations totaling $4.47 million.

Table 2.0
2019-2020 General Fund Projected Budget

	Appropriations	Budgeted Receipts	Total General Fund Budget
Base Budget	$ 147,802,753	$ 122,335,625	$ 270,138,378
Employee Salaries & Benefits Adjustments	2,473,509		2,473,509
Nonresident Veterans Tuiton Waivers	841,809	(841,809)	
UNC Lab School Local Funds		450,000	450,000
UNC Lab School System Allocation	200,000		200,000
Teacher Recruitment	75,000		75,000
UNC Campus Scholarships	77,000		77,000
Other Appropriations/ Receipts	801,861	391,809	1,193,670
Total Additions	4,469,179		4,469,179
Projected Budget	$ 152,271,932	$ 122,335,625	$ 274,607,557

Lastly, as the University looks toward the future, investment in infrastructure is a key component of success. As discussed in the capital assets and debt management section it is clear that in order to accomplish continued slow and steady growth in a responsible and sustainable manner, facilities across campus are being renovated, expanded, or constructed. From improving utility infrastructure to undertaking the largest residence hall construction project in the school's history, the University is positioning itself well for the citizens and students it serves.

Financial Statements

Appalachian State University
Statement of Net Position — *Exhibit A-1*
June 30, 2019 — *Page 1 of 2*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 93,624,366
Restricted Cash and Cash Equivalents	9,376,547
Receivables, Net (Note 5)	11,099,082
Due from University Component Unit	29,843
Inventories	12,783,052
Notes Receivable, Net (Note 5)	710,812
Other Assets	2,034,555
Total Current Assets	129,658,257
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	84,260,750
Endowment Investments	16,039,551
Restricted Investments	11,067,389
Other Investments	7,428,095
Notes Receivable, Net (Note 5)	2,025,996
Net Other Postemployment Benefits Asset	317,566
Other Assets	123,139
Capital Assets - Nondepreciable (Note 6)	79,339,862
Capital Assets - Depreciable, Net (Note 6)	574,784,479
Total Noncurrent Assets	775,386,827
Total Assets	905,045,084
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Loss on Refunding	11,122,974
Deferred Outflows Related to Pensions	37,038,351
Deferred Outflows Related to Other Postemployment Benefits (Note 15)	28,816,812
Total Deferred Outflows of Resources	76,978,137
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 8)	18,544,229
Funds Held for Others	548,880
Unearned Revenue	9,394,444
U.S. Government Grants Refundable	5,829
Interest Payable	2,936,973
Long-Term Liabilities - Current Portion (Note 9)	16,008,453
Total Current Liabilities	47,438,808
Noncurrent Liabilities:	
Accounts Payable and Accrued Liabilities (Note 8)	147,575
Deposits Payable	255,027
Funds Held for Others	455,693
U. S. Government Grants Refundable	3,632,013
Long-Term Liabilities, Net (Note 9)	664,089,639
Total Noncurrent Liabilities	668,579,947
Total Liabilities	716,018,755

Appalachian State University
Statement of Net Position — *Exhibit A-1*
June 30, 2019

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	627,283
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	176,594,673
Total Deferred Inflows of Resources	177,221,956

NET POSITION

Net Investment in Capital Assets	424,209,053
Restricted for:	
Nonexpendable:	
Research	20,000
Endowed Professorships	16,022,793
Loans	449,160
Expendable:	
Scholarships and Fellowships	68,423
Research	51,149
Endowed Professorships	11,233,814
Departmental Uses	75,339
Capital Projects	11,792,293
Restricted for Specific Programs	172,654
Other	1,689,013
Unrestricted	(377,001,181)
Total Net Position	$ 88,782,510

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

Appalachian State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2019 *Exhibit A-2*

OPERATING REVENUES		
Student Tuition and Fees, Net (Note 12)	$	129,095,977
Federal Grants and Contracts		5,980,175
State and Local Grants and Contracts		2,102,557
Nongovernmental Grants and Contracts		956,958
Sales and Services, Net (Note 12)		93,019,699
Interest Earnings on Loans		77,871
Other Operating Revenues		1,179,139
Total Operating Revenues		232,412,376
OPERATING EXPENSES		
Salaries and Benefits		255,757,143
Supplies and Materials		49,428,782
Services		56,001,162
Scholarships and Fellowships		24,269,787
Utilities		11,002,096
Depreciation/Amortization		21,429,798
Total Operating Expenses		417,888,768
Operating Loss		(185,476,392)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		149,227,756
Noncapital Grants - Student Financial Aid		39,061,317
Noncapital Grants		7,064,658
Noncapital Gifts		13,353,750
Investment Income (Net of Investment Expense of $169,276)		5,332,299
Interest and Fees on Debt		(9,732,508)
Other Nonoperating Expenses		(486,020)
Net Nonoperating Revenues		203,821,252
Income Before Other Revenues		18,344,860
Capital Appropriations		5,188,446
Capital Grants		12,712,733
Capital Gifts		707,385
Additions to Endowments		179,500
Increase in Net Position		37,132,924
NET POSITION		
Net Position - July 1, 2018, as Restated (Note 19)		51,649,586
Net Position - June 30, 2019	$	88,782,510

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

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

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	231,846,212
Payments to Employees and Fringe Benefits		(271,584,354)
Payments to Vendors and Suppliers		(114,045,041)
Payments for Scholarships and Fellowships		(24,269,787)
Loans Issued		(32,916)
Collection of Loans		656,289
Interest Earned on Loans		275,827
Student Deposits Received		4,920,424
Student Deposits Returned		(4,979,800)
Other Receipts		599,220
Net Cash Used by Operating Activities		(176,613,926)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		149,227,756
Noncapital Grants - Student Financial Aid		39,061,317
Noncapital Grants		6,132,208
Noncapital Gifts		12,215,559
Additions to Endowments		179,500
William D. Ford Direct Lending Receipts		89,407,599
William D. Ford Direct Lending Disbursements		(89,306,988)
Related Activity Agency Receipts		199,200
Related Activity Agency Disbursements		(137,875)
Net Cash Provided by Noncapital Financing Activities		206,978,276
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Debt		59,553,650
Capital Appropriations		5,188,446
Capital Grants		12,712,733
Capital Gifts		506,948
Proceeds from Sale of Capital Assets		50,800
Acquisition and Construction of Capital Assets		(24,854,491)
Principal Paid on Capital Debt and Leases		(7,818,668)
Interest and Fees Paid on Capital Debt and Leases		(8,683,146)
Net Cash Provided by Capital Financing and Related Financing Activities		36,656,272
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		1,868,903
Investment Income		2,886,699
Purchase of Investments and Related Fees		(6,715,939)
Net Cash Used by Investing Activities		(1,960,337)
Net Increase in Cash and Cash Equivalents		65,060,285
Cash and Cash Equivalents - July 1, 2018		122,201,378
Cash and Cash Equivalents - June 30, 2019	$	187,261,663

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

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(185,476,392)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/Amortization Expense		21,429,798
Allowances, Write-Offs, and Amortizations		(14,570)
Other Nonoperating Income		641,806
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(1,641,166)
Due from University Component Units		(29,843)
Inventories		762,013
Notes Receivable, Net		623,373
Other Current Assets		(685,076)
Other Noncurrent Assets		46,046
Net Other Postemployment Benefits Asset		324,371
Deferred Outflows Related to Pensions		(9,444,182)
Deferred Outflows Related to Other Postemployment Benefits		(17,416,528)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		2,867,667
Unearned Revenue		857,826
Net Pension Liability		13,272,909
Net Other Postemployment Benefits Liability		(29,642,968)
Workers' Compensation Liability		(276,587)
Compensated Absences		2,412,528
Deposits Payable		35,113
Funds Held for Others		(59,376)
Deferred Inflows Related to Pensions		(983,366)
Deferred Inflows Related to Other Postemployment Benefits		25,782,678
Net Cash Used by Operating Activities	$	(176,613,926)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	7,507,261
Assets Acquired through a Gift		200,437
Change in Fair Value of Investments		1,934,935
Reinvested Distributions		(684,545)
Loss on Disposal of Capital Assets		(366,815)
Bond Issuance Cost Withheld		(115,673)
Amortization of Bond Premiums		(931,826)
Increase in Receivables Related to Nonoperating Income		831,839
Payments Made on Behalf of the University		(6,104,579)
Funds Escrowed to Defease Debt		9,270,000
UNC Management Company Investment Management Fees		(169,126)

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

Appalachian State University
Discretely Presented Component Units
Statement of Financial Position
June 30, 2019 *Exhibit B-1*

	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation
ASSETS		
Cash	$ 4,665,769	$ 8,082,401
Accounts Receivable, Net		835
Contributions Receivable, Net	22,969,109	
Sales Tax Refund Receivable		10,835
Other Receivables	46,960	
Prepaid Expenses	59,971	94,085
Investments	120,943,065	
Real Estate Held for Investment	4,870,600	
Beneficial Interest in Perpetual Trusts	1,646,069	
Contributions Receivable from Trusts	1,799,757	
Contributions Receivable from Irrevocable Bequests	4,186,378	
Cash Surrender Value of Life Insurance	182,576	
In-Kind Gifts	8,004	
Property and Equipment	1,884,000	18,832,016
Total Assets	$ 163,262,258	$ 27,020,172
LIABILITIES		
Accounts Payables and Accrued Expenses	$ 187,738	$ 65,979
Due to Appalachian State University	29,843	
Tenant Security Deposits		236,085
Deferred Income		118,907
Deferred Revenues	528	
Long-Term Debt	5,445,513	
Split-Interest Agreement Obligations	1,835,121	
Total Liabilities	7,498,743	420,971
NET ASSETS		
Without Donor Restrictions	7,573,147	26,599,201
With Donor Restrictions	148,187,368	
Total Net Assets	155,760,515	26,599,201
Total Liabilities and Net Assets	$ 163,259,258	$ 27,020,172

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

Appalachian State University
Discretely Presented Component Units
Statement of Activities
For the Fiscal Year Ended June 30, 2019

Exhibit B-2

	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues, Gains, Losses and Other Support		
Contributions	$ 4,520,587	$ 0
Net Rental Income		4,695,387
Investment Income, Net	1,702,654	
Auxiliary Income	160,825	
Net Change in Beneficial Interests in Perpetual Trusts, Irrevocable Bequests, Contributions Receivable from Trusts, and Split-Interest Agreement Obligations	(3,231)	
Interest Income		52,563
Other Income	13,922	83,714
Net Assets Released from Restrictions	13,646,410	
Total Revenues, Gains, Losses and Other Support Without Donor Restrictions	20,041,167	4,831,664
Expenses:		
Program Services		
General University Support	7,573,207	
Student Financial Aid	6,205,059	
Alumni Affairs	208,015	
Housing Support		2,635,353
Other	269,155	
Support Services		
General and Administrative	908,769	
Fundraising	4,420,751	
Total Expenses	19,584,956	2,635,353
Increase in Net Assets Without Donor Restrictions	456,211	2,196,311
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Revenues, Gains, Losses and Other Support		
Contributions	17,934,480	
Investment Income, Net	4,490,355	
Auxiliary Income	159,513	
Net Change in Beneficial Interests in Perpetual Trusts, Irrevocable Bequests, Contributions Receivable from Trusts, and Split-Interest Agreement Obligations	101,303	
Other Income	4,692	
Net Assets Released from Restrictions	(13,646,410)	
Total Revenues, Gains, Losses and Other Support With Donor Restrictions	9,043,933	
Net Increase in Allowance for Doubtful Contributions Receivable	(1,592,399)	
Increase in Net Assets With Donor Restrictions	7,451,534	
Increase in Net Assets	7,907,745	2,196,311
Net Assets at Beginning of Year	147,852,770	24,402,890
Net Assets at End of Year	$ 155,760,515	$ 26,599,201

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

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

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

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 30 self-perpetuating members, four ex officio voting members, and four ex officio non-voting members who are administrative officers of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Corporation's primary function is to develop, finance, prepare, provide, and supervise residential housing facilities for students and employees of the University. The Corporation board consists of seven members, of which three members are administrative officers of the University. Because the Corporation's sole purpose is to benefit the University, it is considered a component unit of the University and is reported in separate financial statements, due to the difference in its reporting model, as described below.

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

During the year ended June 30, 2019, the Foundation distributed $14,255,436 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Vice Chancellor for the University Advancement or the Foundation President. The address is Dougherty Administration Building, 438 Academy Street, Boone, North Carolina 28608.

During the year ended June 30, 2019, the Corporation did not distribute any funds to the University. Complete financial statements for the Corporation can be obtained from the Vice Chancellor for Student Development at the same address listed above.

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.

   Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

   Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method. Rental textbooks are recorded at cost using specific identification (Serialized Rental Textbooks).

H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

   The University capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for other intangible assets which are capitalized when the value or cost is $100,000 or greater and electric utility assets which are capitalized in accordance with the guidelines from the North Carolina Utilities Commission.

Depreciation and amortization are computed using the straight-line method for the University and the composite rate method for the electric utility over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-75 years
Computer Software	2-30 years

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

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

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes: revenue bonds payable, bonds from direct placements, and notes from direct borrowings. Other long-term liabilities include: compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

Revenue bonds payable and bonds from direct placements are reported net of unamortized premiums. The University amortizes bond premiums over the life of the bonds using the straight-line method that approximates the effective interest method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are aggregated as deferred outflows of resources 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.

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

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

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

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

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

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 11 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

N. **Scholarship Discounts** - Student tuition and fees revenues 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.

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

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

P. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, copy centers, motor pool, postal services, steam plant, electric utility, 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 $186,063,203, 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 $250,524. The carrying amount of the University's deposits not with the State Treasurer was $947,936 and the bank balance was $608,872. 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, $603,524 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

B. Investments

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

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

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

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

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

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

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

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

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

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 percentage method. Under this method, each participating fund's investment balance is determined on percentage of original investment. 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 were all with the UNC Investments Fund, LLC.

UNC Investment Fund, LLC - At June 30, 2019, the University's investments include $34,365,587, 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

	Amount	Investment Maturity Less Than 1 Year
Investment Type		
Debt Securities		
Money Market Mutual Funds	$ 1,188	$ 1,188
Other Securities		
Equity Mutual Funds	62,659	
Domestic Stocks	97,497	
Foreign Stocks (denominated in U.S. Dollars)	8,104	
Total Non-Pooled Investments	$ 169,448	

At June 30, 2019, the University's non-pooled investments included $1,188 in money market mutual funds with credit exposure for which Standard and Poor's credit quality distribution was AAAm.

At June 30, 2019, the University's non-pooled investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty's Trust Dept or Agent not in University's Name
Domestic Stocks	$ 94,497
Foreign Stocks (denominated in US dollars)	8,104
Total	$ 102,601

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

		Amount
Investment Type		
Debt Securities		
Money Market Mutual Funds	$	1,188
Other Securities		
UNC Investment Fund		34,365,587
Equity Mutual Funds		62,659
Domestic Stocks		97,497
Foreign Stocks (denominated in U.S. Dollars)		8,104
Total Investments	$	34,535,035

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

		Amount
Short-Term Investment Fund	$	25,144,865
Money Market Funds		33,745
Equity Investments		3,795,775
Fixed Income Investments		500,182
Alternative Investments		91,468,498
Total Investments		120,943,065
Real Estate Held for Investment		4,870,600
Total Investments and Real Estate Held for Investment	$	125,813,665

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Equity Mutual Funds	$ 62,659	62,659	0	0
Domestic Stocks	97,497	97,497		
Foreign Stocks (denominated in U.S. Dollars)	8,104	8,104		
Total Investments by Fair Value Level	168,260	$ 168,260	$ 0	$ 0
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	186,063,203			
UNC Investment Fund	34,365,587			
Total Investments as a Position in an External Investment Pool	220,428,790			
Total Investments Measured at Fair Value	$ 220,597,050			

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.

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

Component Unit - Because the Foundation reports under the FASB reporting model, the disclosure of fair value measurements differ from the GASB reporting model used by the University.

The carrying value of the Foundation's receivables and accounts payable approximate the fair value of these financial instruments at June 30, 2019, due to the short maturities of these instruments. The carrying value of the fixed rate long-term debt is believed to approximate fair value as the terms were recently negotiated.

Fair value measurement rules define 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 and require the use of valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. In that regard, accounting rules establish a fair value hierarchy for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Inputs to the valuation methodology include significant other observable inputs, other than Level 1 inputs, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

A description of the valuation methodologies used for significant assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, are set forth below:

Investments - Investments are valued at the closing price reported on the active market on which the investment is traded, except for alternative investments valued at net asset value per share as a practical expedient.

Beneficial Interests in Perpetual Trusts - Beneficial interests in perpetual trusts are valued based on the fair value of the assets held in trust.

Contributions Receivable from Trusts - Contributions receivable from trusts are valued using present value techniques based on IRS mortality tables and the value of the underlying securities as reported by the third-party trustees.

Contributions Receivable from Irrevocable Bequests - Contributions receivable from irrevocable bequests are valued using present value techniques based on IRS mortality tables and the values of the irrevocable bequests.

Split-Interest Agreement Obligations – Split-interest agreement obligations are valued using present value techniques based on IRS mortality tables and the value of the split interest gifts.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes significant assets and liabilities measured at fair value on a recurring basis as of June 30, 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements at June 30, 2019 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments				
Short-Term Investment Fund	$ 0	$ 25,144,865	$ 0	$ 25,144,865
Money Market Funds	33,745			33,745
Equities	3,795,775			3,795,775
Fixed Income	500,182			500,182
Alternative Investments (a)				
Strategic Investments				90,785,693
Alternative Income Fund				83,866
Private Equity - Real Estate				598,939
Total Alternative Investments				91,468,498
Total Financial Assets	$ 4,329,702	$ 25,144,865	$ 0	$ 120,943,065
Beneficial Interests in Perpetual Trusts	$ 0	$ 0	$ 1,646,069	$ 1,646,069
Contributions Receivable from Trusts	$ 0	$ 0	$ 1,799,757	$ 1,799,757
Receivable from Irrevocable Bequests	$ 0	$ 0	$ 4,186,378	$ 4,186,378
Split-Interest Agreement Obligations	$ 0	$ 0	$ 1,835,121	$ 1,835,121

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

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Beneficial Interests in Perpetual Trusts	Contributions Receivable from Trusts	Contributions Receivable from Irrevocable Bequests	Split-Interest Agreement Obligations	Total
Balance at July 1, 2018	$ 1,660,328	$ 2,223,574	$ 5,173,299	$ 1,813,565	$ 10,870,766
Rescinded Commitments			(2,000,000)		(2,000,000)
Investment Income, Net	(14,259)	41,515			27,256
Payments on Split-Interest Agreements and Trusts		(668,634)		(258,056)	(926,690)
Net Change in Present Value		203,302	1,013,079	279,612	1,495,993
Balance at June 30, 2019	$ 1,646,069	$ 1,799,757	$ 4,186,378	$ 1,835,121	$ 9,467,325

The following table presents qualitative information about contributions receivable from trusts as of June 30, 2019:

	Fair Value	Technique	Discount Rate	Life Expectancy
Beneficial Interest in Charitable Remainder Trust	$ 1,799,757	Income approach	2.80%	1 - 14 years

Assets measured at fair value on a nonrecurring basis:

The following table summarizes nonfinancial assets measured at fair value on a nonrecurring basis by classification within the fair value hierarchy as of June 30, 2019.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Unrealized Gains
Assets				
Real Estate Held for Investment	$ 0	$ 0	$ 4,870,600	$ 0

The Foundation holds interests in donated and acquired real estate with an estimated fair value of $4,870,600. The amounts reported in the accompanying Statement of Financial Position include management's estimates of fair market value. Such estimates involve an analysis of various real estate market information, including the availability of contemporaneous appraisals.

The following table for June 30, 2019, sets forth a summary of the Foundation's investments with a reported net asset value.

	Fair Value Estimated Using Net Asset Value per Share June 30, 2019				
Investment	Fair Value *	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Fund of Funds					
All Weather Fund (a)	$ 8,337	$ 0	Quarterly	Investor withdrawal requests on hold as fund is winding down.	90-day notice
Strategic Investment Fund (b)	90,777,356		Monthly and Quarterly	Spending distributions up to 7% of the beginning market value in any given fiscal year; withdrawals up to a cumulative amount of $10 million in a quarter; capital withdrawals > $10 million paid quarterly in $50 million increments until redemption is completed; withdrawal requests in excess of $200 million are paid out over a maximum of 8 quarters; complete withdrawals are subject to a 5% holdback pending completion of the fiscal year audit.	30-day notice, prior to the first day of the month (spending distributions and withdrawals < $10 million) 90-day notice, prior to the first day of the quarter (capital withdrawals > $10 million)
Alternative Income Fund (c)	83,866		Semi-annual	Initial lock-up of 2 years.	Written notice at least 95 days prior to redemption
Private Equity					
Private Real Estate Fund (d)	598,939	536,400	Quarterly	Initial lock-up of 10 years.	Written notice at least 45 days prior to redemption
Total	$ 91,468,498	$ 536,400			

* The fair values of the investments have been estimated using the net asset value of the investment.

(a) Seeks capital appreciation while attempting to minimize downside risk by combining a portfolio of investment managers whose historical performance has had little correlation to the major market indices.

(b) Seeks to provide equity-like returns while mitigating risk through diversification and long-term asset allocation and to preserve the real purchasing power of the fund, while providing a predictable and growing stream of spending distributions to fund participants, and earning an annualized real total rate of return of at least 5.5% per year, net of all fees and expenses, over the long-term.

(c) Invests in various funds that provide access to institutional quality income-oriented investment managers in asset-backed, opportunistic, and distressed credit, mortgage-backed security, and special situation investment strategies.

(d) Private investment in various real estate sectors with a focus on high-quality assets with diversity in geographic area and investment type.

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of a three-year rolling average of an individual endowment account's net position value at the end of the previous year. An earnings reserve must be held in each endowment account in an account equal to 5% of the original contribution. Earnings in excess of the reserve amount as calculated at the end of the fiscal year are eligible to pay out. Realized and unrealized net capital losses that invade the original corpus amounts are recovered from accumulated income before any spending budgets are calculated. Subject to these limitations, the budgeted spending amount will be based on the net position value of each individual endowment fund. At June 30, 2019, net appreciation of $12,189,387 was available to be spent, which was classified in net position as restricted expendable for endowed professorships as it is restricted for specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2019, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 4,933,822	$ 782,939	$ 4,150,883
Accounts	3,269,571	74,217	3,195,354
Intergovernmental	3,700,552		3,700,552
Interest on Loans	52,293		52,293
Total Current Receivables	$ 11,956,238	$ 857,156	$ 11,099,082
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 710,537	$ 0	$ 710,537
Institutional Student Loan Programs	718	443	275
Total Notes Receivable - Current	$ 711,255	$ 443	$ 710,812
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 2,253,976	$ 227,980	$ 2,025,996

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	$ 59,657,743	$ 0	$ 0	$ 59,657,743
Art, Literature, and Artifacts	3,583,244	104,815		3,688,059
Construction in Progress	69,855,662	21,461,110	75,322,712	15,994,060
Total Capital Assets, Nondepreciable	133,096,649	21,565,925	75,322,712	79,339,862
Capital Assets, Depreciable:				
Buildings	674,959,790	74,019,502	2,497,483	746,481,809
Machinery and Equipment	56,658,869	3,158,796	914,261	58,903,404
General Infrastructure	80,508,418	1,470,890	50,721	81,928,587
Computer Software	918,617			918,617
Total Capital Assets, Depreciable	813,045,694	78,649,188	3,462,465	888,232,417
Less Accumulated Depreciation/Amortization for:				
Buildings	232,809,350	16,253,799	2,196,962	246,866,187
Machinery and Equipment	31,023,359	2,788,394	764,217	33,047,536
General Infrastructure	30,899,929	2,334,276	36,411	33,197,794
Computer Software	283,092	53,329		336,421
Total Accumulated Depreciation/Amortization	295,015,730	21,429,798	2,997,590	313,447,938
Total Capital Assets, Depreciable, Net	518,029,964	57,219,390	464,875	574,784,479
Capital Assets, Net	$ 651,126,613	$ 78,785,315	$ 75,787,587	$ 654,124,341

During the year ended June 30, 2019, the University incurred $10,306,828 in interest costs related to the acquisition and construction of capital assets. Of this total, $9,657,570 was charged in interest expense, and $649,258 was capitalized.

NOTE 7 - SERVICE CONCESSION ARRANGEMENT FOR RESIDENCE HALLS AND PARKING FACILITIES

The University entered into a Service Concession Arrangement with Beyond Boone, LLC (Operator), the sole member of which is Beyond Owners Group, Inc., on February 13, 2019 to construct and replace residence halls and parking facilities. The master plan calls for the replacement of 1,797 beds of existing student housing with 2,223 new beds. The University entered into this agreement to address the demand for updated on-campus housing, additional beds to meet on-campus housing demand, and to replace parking infrastructure that will be displaced by the construction of the residence halls. The project will be developed in three phases over a three-and-a-half-year time period. Phase I of the project will result in the construction of a 590-bed residence hall, a 322-bed residence hall, and a 475-space parking deck to replace two existing residence halls with beds totaling 674 beds. Demolition of these facilities is scheduled for the fall of 2020. The new housing and parking facilities are scheduled to be delivered for use and occupancy in the fall and summer of 2020. Phase II will result in the construction of a 638-bed residence hall and 230 surface parking spaces. The facilities are scheduled to be delivered for use and occupancy in the fall of 2021. Two existing residence halls with a total of 560 beds are scheduled for demolition in the fall of 2021. Lastly, Phase III of the project will result in the construction of a 683-bed residence hall and the addition of 171 surface parking spaces scheduled to be delivered for use and occupancy in the fall of 2022. Two existing residence halls with a total of 563 beds are scheduled for demolition in the fall of 2020.

The project, with an estimated cost of $168.3 million, is located on the campus of the University on land leased to the Operator for 50 years. Upon final payment of all indebtedness owed under the agreement, the Operator will transfer all of its interest in the facilities for no cost to the University. The University will report the project as capital assets, liabilities, and related deferred inflows of resources beginning in fiscal year 2020 as assets are placed into service.

The residence halls will be managed by the University under the terms of the management agreement and operating agreement in conjunction with the ground lease and asset management agreement with the Operator.

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	$	5,437,083
Accounts Payable - Capital Assets		5,475,362
Accrued Payroll		3,841,756
Contract Retainage		2,031,899
Intergovernmental Payables		1,758,129
Total Current Accounts Payable and Accrued Liabilities	$	18,544,229
Noncurrent Accounts Payable and Accrued Liabilities		
Accounts Payable	$	147,575

NOTE 9 - LONG-TERM LIABILITIES

University

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

	Balance July 1, 2018 (as Restated)	Additions	Reductions	Balance June 30, 2019	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 219,520,000	$ 56,505,000	$ 20,165,000	$ 255,860,000	$ 10,325,000
Bonds from Direct Placements	3,865,000	9,270,000	635,000	12,500,000	2,385,000
Plus: Unamortized Premium	13,957,256	3,164,323	931,826	16,189,753	
Total Revenue Bonds Payable and Bonds from Direct Placements, Net	237,342,256	68,939,323	21,731,826	284,549,753	12,710,000
Notes from Direct Borrowings	31,123,800		1,962,653	29,161,147	777,301
Capital Leases Payable	16,014		16,014		
Total Long-Term Debt	268,482,070	68,939,323	23,710,493	313,710,900	13,487,301
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	12,786,676	11,157,515	8,744,987	15,199,204	2,032,906
Net Pension Liability	49,232,413	13,272,909		62,505,322	
Net Other Postemployment Benefits Liability	316,660,087		29,642,968	287,017,119	
Workers' Compensation	1,942,134	607,993	884,580	1,665,547	488,246
Total Other Long-Term Liabilities	380,621,310	25,038,417	39,272,535	366,387,192	2,521,152
Total Long-Term Liabilities, Net	$ 649,103,380	$ 93,977,740	$ 62,983,028	$ 680,098,092	$ 16,008,453

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 and Bonds from Direct Placements - The University was indebted for revenue bonds payable and bonds from direct placements for the purposes shown in the following table:

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2019	Principal Outstanding June 30, 2019	See Table Below
Revenue Bonds Payable							
Millennial Campus							
Millennial Campus Revenue Bonds - End Zone Facility	2018	4.14%	05/01/2049	$ 39,865,000	$ 0	$ 39,865,000	(1)
The University of North Carolina System Pool Revenue Bonds							
Stadium East Stands	(A)	4.65%	10/01/2019	8,370,000	8,095,000	275,000	
Frank Hall Renovations	(A)	4.65%	10/01/2019	7,060,000	6,830,000	230,000	
Cone Resident Hall	(B)	4.35%	10/01/2024	8,880,000	8,385,000	495,000	
Bookstore Bonds	(B)	3.76%	10/01/2025	5,000,000	2,975,000	2,025,000	
East Stands and Field House	(B)	4.35%	10/01/2024	7,875,000	7,440,000	435,000	
Total The University of North Carolina System Pool Revenue Bonds				37,185,000	33,725,000	3,460,000	
ASU General Revenue Bonds							
ASU General Revenue Bonds - Housing, Student Union, Steam Utility System	2011	4.07%	10/01/2021	60,435,000	54,675,000	5,760,000	
ASU General Revenue Bonds - Housing, Athletics, Student Recreation Center	2012	2.84%	05/01/2028	26,495,000	7,040,000	19,455,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2014A	3.35%	07/15/2039	22,540,000	3,210,000	19,330,000	
ASU General Revenue Taxable Bonds - Housing, Athletics, Parking	2014B	2.95%	07/15/2025	12,965,000	2,735,000	10,230,000	
ASU General Revenue Bonds - Housing, Dining	2014C	2.77%	10/01/2031	21,210,000	2,445,000	18,765,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2016A	2.45%	10/01/2033	23,965,000		23,965,000	
ASU General Revenue Bonds - Housing, Student Recreation Center	2016B	2.45%	10/01/2026	7,700,000	2,440,000	5,260,000	
ASU General Revenue Bonds - Housing	2016C	3.22%	10/01/2046	25,845,000		25,845,000	
ASU General Revenue Bonds - Housing, Athletics	2016D	2.71%	10/01/2034	10,895,000		10,895,000	
ASU General Revenue Bonds - Housing, Bookstore, Athletics, Student Union, and Steam Utility System	2017A	2.82%	10/01/2036	56,390,000		56,390,000	
ASU General Revenue Bonds - Academic Building	2019	3.16%	10/01/2048	16,640,000		16,640,000	
Total ASU General Revenue Bonds				285,080,000	72,545,000	212,535,000	
Bonds from Direct Placements							
ASU Utility System Revenue Bonds - Utility System	2011	3.14%	12/20/2021	2,700,000	2,025,000	675,000	(2)
ASU Utility System Revenue Bonds - Utility System	2016	2.23%	05/05/2026	3,650,000	1,095,000	2,555,000	(2)
ASU General Revenue Refunding Bonds - Steam Utility System	2018A	2.99%	10/01/2023	9,270,000		9,270,000	
Total Bonds from Direct Placements				15,620,000	3,120,000	12,500,000	
Total Revenue Bonds Payable and Bonds from Direct Placements (principal only)				$ 377,750,000	$ 109,390,000	268,360,000	
Plus: Unamortized Premium						16,189,753	
Total Revenue Bonds Payable and Bonds from Direct Placements, Net						$ 284,549,753	

(A) The University of North Carolina System Pool Revenue Bonds, Series 2009B
(B) The University of North Carolina System Pool Revenue Bonds, Series 2010B-1

The University has pledged future revenues, net of specific operating expenses, to repay the Millennial Campus Revenue Bonds (1) and Utility System Bonds from direct placement (2) as shown in the table below:

			For the Year Ended June 30, 2019			
Ref	Revenue Source	Total Future Revenues Pledged	Revenues Net of Expenses	Principal	Interest	Estimate of % of Revenues Pledged
(1)	University Charges to Athletics and Auxilary Services	$ 77,973,650	$ 0	$ 0	$ 672,846	100.00%
(2)	Electric Utilities	$ 3,538,678	$ 1,186,316	$ 635,000	$ 113,143	30.00%

The facility funded by the Millennial Campus Revenue Bonds is currently under construction. Revenues will be earned once the facility is placed into service. Bond proceeds totaling $3,305,721 were deposited into a University fund to pay all of the debt service requirement during the construction period.

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

Revenue Bonds Payable - The University has outstanding General Revenue bonds totaling $212,535,000 and UNC System Pool Revenue Bonds of $3,460,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina General Trust Indenture dated May 1, 2003. The University also has outstanding Millennial Campus Revenue Bonds totaling $39,865,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina Master Trust Indenture dated December 1, 2018. Under both indentures, an event of default is defined as a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

Under all the agreements for Revenue Bonds, if an event of default occurs the provisions allow, or if required by a majority of owners of bonds, require the Trustee to declare the bonds to be immediately due and payable.

Bonds from Direct Placements - The University has outstanding direct placements for Series 2011 Utility System Bonds totaling $675,000 and Series 2016 Utility System Bonds totaling $2,555,000. These bonds are subject to default provisions as defined in the Appalachian State University d/b/a New River Light & Power General Trust Indenture dated December 1, 2011. An event of default occurs when there is a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

For the 2016 Utility System Bonds, the Second Series Indenture defines additional events of default as (1) any petition or action for relief under any bankruptcy, reorganization, insolvency, or other laws and such petition results in an entry of an order of relief or continues as pending for a period of 60 days, (2) one or more judgements, orders, decrees, or arbitration awards is entered against the University as a result of ownership, control, or operation of any portion of the project funded by the note as to any single or series of transactions, incidents, or conditions of $1,000,000 or more that remain unsatisfied pending appeal for 60 days after entry, (3) any representation or warranty made or deemed to be made by the University that proves to be untrue or incomplete in any material respect, and (4) any material provision of the General Indenture or Second Series Indenture ceases to be binding on the University, or is declared null and void, or the validity is contested by the University, or if any proceeding is undertaken by any governmental agency or authority with jurisdiction over the University seeks to invalidate the enforceability of the indentures, or if the University denies that it has further obligation under the Second Series Indenture or on the 2016 Bonds.

The University has outstanding direct placements for Series 2018 General Revenue Refunding Bonds totaling $9,270,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina General Trust Indenture dated May 1, 2003. An event of default is defined as a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

Under all the agreements for direct placements, if an event of default occurs the provisions allow, or if required by a majority of owners of bonds, require the Trustee to declare the bonds to be immediately due and payable.

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the direct borrowing of the Guaranteed Energy Savings and Performance Contracting Phase I dated September 29, 2009 with an outstanding amount of $1,626,488. This agreement 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 within 10 days following the due date, (2) insurance coverage on the asset is not maintained, (3) the University fails to perform or abide by any condition, agreement or covenant for a period of thirty days of receiving written notice by the lender to the University specifying such failure and requesting that it be remedied, unless the University shall agree in writing to an extension of time prior to its expiration, (4) Lender's determination that any representation or made by warranty made by the University in the Agreement was untrue in any material respect upon execution of the Agreement or any Equipment Schedule, (5) the occurrence of an event of taxability, or (6) the filing of a petition in bankruptcy by or against the University, or failure by the University promptly to lift any execution, garnishment, or attachment of such consequence as would impair the ability of the University to carry on its governmental functions or assignments by the University for the benefit of its creditors, or the entry by the University into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of any adjustment of indebtedness of the University, or the dissolution or liquidation of the University.

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

The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the direct borrowing of the Guaranteed Energy Savings and Performance Contracting Phase II dated June 6, 2013 with an outstanding amount of $11,207,276. This agreement 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 within 30 days following the due date, (2) any representation or Warranty furnished by the University in the Agreement proves to be false or misleading in any material respect when made, or (3) any other material failure by the University to perform or comply with the terms and conditions of the Agreement, unless corrected within 30 days after written notice to the University.

Upon the occurrence of any event of default related to the Phase II agreement, each party agrees to exercise good faith efforts to resolve the matter fairly, amicably, and in a timely manner. The parties shall consider litigation as a last resort, to be employed only when alternative dispute resolution procedures fail.

The carrying value of the energy savings improvement assets associated with the agreements for both Phase I and Phase II of the Energy Savings and Performance Contracting is $14,839,615 and is subject to security provisions in the agreements to ensure timely debt service payments.

The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014 with an outstanding amount of $852,383. This agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of nonappropriation from the State occurs, (3) insurance coverage on the asset is not maintained, or (4) the University fails to perform any warranty, covenant, condition, or agreement within thirty days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within thirty days.

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

The University has outstanding notes from direct borrowings of $15,475,000 through a long-term note agreement with Watauga County dated September 28, 2017. The University has pledged a land asset with a book value of $18,390,209, which is subject to security provisions in the agreement to ensure timely debt service payments. This agreement contains provisions related to events of default. An event of default occurs when: (1) payment of any installment of principal or interest is not paid within 15 days from the due date or (2) default under the terms of any instrument securing the note, and such default is not resolved within 15 days after written notice to maker.

Upon the occurrence of any default, the County may without further notice, declare the remainder of the principal sum, together with all the interest accrued due and payable. The unpaid principal, accrued interest, and all other sums due under the note will be subject interest at the rate of 5% per annum after default until paid.

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

	Annual Requirements					
	Revenue Bonds Payable		Bonds from Direct Placements		Notes from Direct Borrowings	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 10,325,000	$ 9,893,191	$ 2,385,000	$ 323,023	$ 777,301	$ 45,334
2021	11,400,000	9,563,619	2,435,000	253,307	1,990,443	249,462
2022	11,165,000	9,028,824	2,355,000	182,718	2,067,105	212,152
2023	11,779,999	8,526,837	2,270,000	118,395	2,312,210	174,562
2024	12,420,000	7,970,424	2,325,000	55,204	2,175,727	146,341
2025-2029	63,329,998	31,269,206	730,000	25,730	9,963,361	301,976
2030-2034	55,139,999	19,624,980			4,000,000	
2035-2039	32,760,004	11,801,656			4,000,000	
2040-2044	22,250,000	7,348,809			1,875,000	
2045-2049	25,290,000	2,655,875				
Total Requirements	$ 255,860,000	$ 117,683,421	$ 12,500,000	$ 958,377	$ 29,161,147	$ 1,129,827

Interest on the variable rate debt is predetermined in each of the bond covenants.

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

On October 1, 2018, the University issued $9,270,000 in General Revenue Series 2018 refunding bonds with an average interest rate of 2.99%. The bonds were issued for a current refunding of $9,270,000 of outstanding Series 2008A UNC System Pool Revenue bonds with an average interest rate of 4.38%. The refunding was undertaken to reduce total debt service payments by $477,655 over the next five years and resulted in an economic gain of $433,821. The substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited.

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2019, the outstanding balance of prior year defeased bonds was $68,720,000.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2019	Principal Outstanding June 30, 2019
Energy Savings Project	Sun Trust Bank	2.27%	04/29/2022	$ 5,263,401	$ 3,636,913	$ 1,626,488
Energy Savings Project	T. D. Bank	1.99%	07/01/2027	16,499,917	5,292,641	11,207,276
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Group	1.84%	02/14/2023	1,495,951	643,568	852,383
Old Watauga High School	Watauga County	0.00%	07/01/2040	15,475,000		15,475,000
Total Notes from Direct Borrowings				$ 38,734,269	$ 9,573,122	$ 29,161,147

Component Unit - Effective March 6, 2015, the Foundation entered into a revolving line of credit agreement with a financial institution for up to $2,000,000 that expires and is payable on March 6, 2020. The line bears interest at a variable interest rate of LIBOR plus 1.25%, and is collateralized by outstanding pledge commitments. As of June 30, 2019, no funds were borrowed against the revolving line of credit.

The Foundation entered into a future advance loan agreement with a financial institution on March 5, 2012, to finance the renovation of the Schaefer Center for the Performing Arts. The Foundation assigned donor pledges made for purposes of the renovation to the bank as collateral for the loan. The outstanding balance as of June 30, 2019, was $3,117,196. The note is payable in annual installments of $487,585 including principal and interest due January 15 of each year with all remaining principal and interest due January 15, 2027. The loan carries an interest rate of 4.10%.

The Foundation entered into a loan agreement with a financial institution on February 8, 2017 to finance a video boards project. The Foundation assigned donor pledges for the project to the bank as collateral for the loan. The outstanding balance as of June 30, 2019 was $2,328,317. The loan is payable in monthly installments beginning in October 2017 and ending in September 2022. The loan carries an interest rate of 2.76%.

Aggregate maturities required on all debt as of June 30, 2019, are due in future years as follows:

Fiscal Year	Amount
2020	$ 1,074,411
2021	1,088,979
2022	1,104,779
2023	583,620
2024	421,335
Thereafter	1,172,389
Total Principal Maturities	$ 5,445,513

NOTE 10 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
2020	$ 1,824,867
2021	1,614,885
2022	1,582,527
2023	1,237,861
2024	569,658
2025-2029	2,117,758
Total Minimum Lease Payments	$ 8,947,556

Rental expense for all operating leases during the year was $1,692,436.

NOTE 11 - NET POSITION

The deficit in unrestricted net position of $377,001,181 has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources. A summary of the balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
Deferred Outflows Related to Pensions	$ 37,038,351	$ 0	$ 37,038,351
Deferred Outflows Related to OPEB		27,682,236	27,682,236
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	62,505,322		62,505,322
Net OPEB Liability		287,017,119	287,017,119
Deferred Inflows Related to Pensions	627,283		627,283
Deferred Inflows Related to OPEB		176,588,518	176,588,518
Net Effect on Unrestricted Net Position	$ (26,094,254)	$ (435,923,401)	$ (462,017,655)

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	$ 159,865,823	$ 30,761,839	$ 8,007	$ 129,095,977
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	$ 28,141,536	$ 5,286,783	$ 0	$ 22,854,753
Dining	19,249,734	3,041,830		16,207,904
Student Union Services	79,432			79,432
Health, Physical Education, and Recreation Services	1,856,119	25,500	13,696	1,816,923
Bookstore	10,865,986	960,778	7,620	9,897,588
Parking and Transportation	5,232,607	326,980	539	4,905,088
Camp Programs	3,005,699			3,005,699
Athletic	11,894,514			11,894,514
Other	1,464,700	63,142	645	1,400,913
Sales and Services of Education and Related Activities	7,002,116	932,017	288,719	5,781,380
New River Light and Power	15,197,169		21,664	15,175,505
Total Sales and Services, Net	$ 103,989,612	$ 10,637,030	$ 332,883	$ 93,019,699

NOTE 13 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 122,616,475	$ 3,390,831	$ 5,513,845	$ 304,024	$ 0	$ 0	$ 131,825,175
Research	4,036,083	424,750	1,527,041	28,105			6,015,979
Public Service	3,128,452	141,814	4,718,180	472,902	2,743		8,464,091
Academic Support	31,405,221	7,653,666	6,140,910	639,979	8,081		45,847,857
Student Services	8,426,997	492,808	1,047,867				9,967,672
Institutional Support	22,073,613	2,271,228	4,974,395	24,403	7,070		29,350,709
Operations and Maintenance of Plant	14,953,447	1,302,631	6,362,434		4,773,011		27,391,523
Student Financial Aid	673,012	110	299,622	19,253,878			20,226,622
Auxiliary Enterprises	46,515,192	23,745,826	23,030,241	3,546,496	6,211,191		103,048,946
New River Light and Power	1,928,651	10,005,118	2,386,627				14,320,396
Depreciation/ Amortization						21,429,798	21,429,798
Total Operating Expenses	$ 255,757,143	$ 49,428,782	$ 56,001,162	$ 24,269,787	$ 11,002,096	$ 21,429,798	$ 417,888,768

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 $6,105,900, and the University's contributions were $12,506,918 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 $62,505,322 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 0.62781%, which was an increase of 0.00732 from its proportion measured as of June 30, 2017, which was 0.62049%.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

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

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

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

The actuarial assumptions used in the December 31, 2017 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (the valuation date) are summarized in the following table:

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

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

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

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

Net Pension Liability		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
$ 119,208,243	$ 62,505,322	$ 14,925,957

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 $15,334,600. 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	$ 4,561,680	$ 627,283
Changes of Assumptions	12,543,211	
Net Difference Between Projected and Actual Earnings on Plan Investments	5,956,768	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,469,774	
Contributions Subsequent to the Measurement Date	12,506,918	
Total	$ 37,038,351	$ 627,283

The amount of $12,506,918 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

Year Ended June 30:	Amount
2020	$ 14,006,001
2021	8,821,077
2022	1,186,454
2023	(109,382)
Total	$ 23,904,150

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 $210,792,624, of which $87,043,039 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $5,222,582 and $5,953,744, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. The amount of forfeitures reflected in pension expense was $386,394 and the amount of liability for ORP was $39,188.

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 $11,838,264 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 $264,331 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 $287,017,119 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total OPEB liability to June 30, 2018. The University's proportion of the net OPEB liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2018, the University's proportion was 1.00750%, which was an increase of 0.04168 from its proportion measured as of June 30, 2017, which was 0.96582%.

Net OPEB Asset: At June 30, 2019, the University reported an asset of $317,566 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2018. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total OPEB asset to June 30, 2018. The University's proportion of the net OPEB asset was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2018, the University's proportion was 1.04545%, which was a decrease of 0.00484 from its proportion measured as of June 30, 2017, which was 1.05029%.

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	$ 339,115,221	$ 287,017,119	$ 245,257,337
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (243,328)	$ (317,566)	$ (388,782)

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	$ 236,782,761	$ 287,017,119	$ 352,968,104

	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	$ (318,486)	$ (317,566)	$ (316,698)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2019, the University recognized OPEB contra-expense of $8,874,574 for RHBF and expense of $18,296 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	$ 553,963	$ 553,963
Changes of Assumptions		59,967	59,967
Net Difference Between Projected and Actual Earnings on Plan Investments	30,867	247,322	278,189
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	15,813,105	8,993	15,822,098
Contributions Subsequent to the Measurement Date	11,838,264	264,331	12,102,595
Total	$ 27,682,236	$ 1,134,576	$ 28,816,812

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 19,627,496	$ 0	$ 19,627,496
Changes of Assumptions	124,342,442		124,342,442
Net Difference Between Projected and Actual Earnings on Plan Investments			
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	32,618,580	6,155	32,624,735
Total	$ 176,588,518	$ 6,155	$ 176,594,673

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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

Year Ended June 30:	RHBF	DIPNC
2020	$ (38,372,146)	$ 210,283
2021	(38,372,146)	210,251
2022	(38,372,146)	154,919
2023	(38,341,455)	119,949
2024	(7,286,653)	84,362
Thereafter		84,326
Total	$ (160,744,546)	$ 864,090

NOTE 16 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

University employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan

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

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

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

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The University also purchased through the Fund extended coverage for sprinkler leakage, vandalism, theft, floor, and "all risks" for some buildings and contents.

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 with a $50,000 deductible.

4. **Statewide Workers' Compensation Program**

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

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

5. **Other Insurance Held by the University**

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These coverages provide insurance for participants in international educational and study abroad programs, participants in the University camp programs, boiler and machinery, drone liability, business travel, fine art coverage, student blanket professional liability, business travel insurance, professional liability for specific athletic trainers, athletic accident insurance, medical malpractice coverage, volunteer liability policy, inland marine policy for equipment as needed, a leased computerized business equipment policy, and excess liability on certain policies.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. **Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $41,239,481 and on other purchases were $6,003,742 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
Harry M. Davis Distinguished Professorship in Bankinig	$ 520,633

NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

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

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

Component Units - For the fiscal year ended June 30, 2019, the Foundation and Corporation implemented Financial Accounting Standards Board Update

No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update amends the requirements related to net asset classifications for not-for-profit entities. With this update, net assets on the face of the statement of financial position and changes in net assets on the face of the statement of activities are presented using two classes: *net assets with donor restrictions* and *net assets without donor restrictions*, in addition to the previously required total net assets and changes in total net assets.

NOTE 19 - 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	$	53,591,720
Restatement:		
Record the University's Workers' Compensation Liability		(1,942,134)
July 1, 2018 Net Position as Restated	$	51,649,586

NOTE 20 - SUBSEQUENT EVENT

On September 13, 2019, the University's Board of Trustees passed a resolution regarding oversight of the University's affiliated organizations. The resolution grants the University's Board of Trustees the authority to approve membership, composition, bylaws, and governing rule changes of all University affiliated organizations (including the Foundation and Corporation). As a result of this resolution, the Foundation's financial statements will be blended with those of the University in the next fiscal year. The Corporation will remain discretely presented based on the nature of its relationship with the University.

REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

Teachers' and State Employees' Retirement System	**2019**	**2018**	**2017**
Proportionate Share Percentage of Collective Net Pension Liability	0.62781%	0.62049%	0.59985%
Proportionate Share of TSERS Collective Net Pension Liability	$ 62,505,322	$ 49,232,413	$ 55,132,411
Covered Payroll	$ 94,335,041	$ 89,737,238	$ 85,376,440
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	66.26%	54.86%	64.58%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.61%	89.51%	87.32%

	2016	**2015**	**2014**
Proportionate Share Percentage of Collective Net Pension Liability	0.57921%	0.56360%	0.55660%
Proportionate Share of TSERS Collective Net Pension Liability	$ 21,345,035	$ 6,607,765	$ 33,791,292
Covered Payroll	$ 83,116,332	$ 79,589,512	$ 79,073,247
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	25.68%	8.30%	42.73%
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.

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

Exhibit C-2

Teachers' and State Employees' Retirement System	**2019**	**2018**	**2017**	**2016**	**2015**
Contractually Required Contribution	$ 12,506,918	$ 10,169,317	$ 8,955,776	$ 7,811,944	$ 7,605,144
Contributions in Relation to the Contractually Determined Contribution	12,506,918	10,169,317	8,955,776	7,811,944	7,605,144
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 101,764,996	$ 94,335,041	$ 89,737,238	$ 85,376,440	$ 83,116,332
Contributions as a Percentage of Covered Payroll	12.29%	10.78%	9.98%	9.15%	9.15%

	2014	**2013**	**2012**	**2011**	**2010**
Contractually Required Contribution	$ 6,916,329	$ 6,586,802	$ 5,756,472	$ 3,982,952	$ 2,838,461
Contributions in Relation to the Contractually Determined Contribution	6,916,329	6,586,802	5,756,472	3,982,952	2,838,461
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 79,589,512	$ 79,073,247	$ 77,371,931	$ 80,790,099	$ 79,382,154
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.

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

Changes of Benefit Terms:

Cost of Living Increase

Teachers' and State Employees' Retirement System	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
	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

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

Exhibit C-3

Retiree Health Benefit Fund	**2019**	**2018**	**2017**
Proportionate Share Percentage of Collective Net OPEB Liability	1.00750%	0.96582%	1.08025%
Proportionate Share of Collective Net OPEB Liability	$ 287,017,119	$ 316,660,087	$ 469,945,468
Covered Payroll	$ 179,056,042	$ 172,557,711	$ 164,465,182
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	160.29%	183.51%	285.74%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina			
Proportionate Share Percentage of Collective Net OPEB Asset	1.04545%	1.05029%	1.01711%
Proportionate Share of Collective Net OPEB Asset	$ 317,566	$ 641,937	$ 631,625
Covered Payroll	$ 179,056,042	$ 172,557,711	$ 164,465,182
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.18%	0.37%	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.

Appalachian State University
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years — *Exhibit C-4*

Retiree Health Benefit Fund	**2019**	**2018**	**2017**	**2016**	**2015**
Contractually Required Contribution	$ 11,838,264	$ 10,832,891	$ 10,025,603	$ 9,210,050	$ 8,743,687
Contributions in Relation to the Contractually Determined Contribution	11,838,264	10,832,891	10,025,603	9,210,050	8,743,687
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 188,808,035	$ 179,056,042	$ 172,557,711	$ 164,465,182	$ 159,265,704
Contributions as a Percentage of Covered Payroll	6.27%	6.05%	5.81%	5.60%	5.49%

	2014	**2013**	**2012**	**2011**	**2010**
Contractually Required Contribution	$ 8,201,682	$ 7,935,118	$ 7,280,234	$ 7,307,381	$ 6,558,898
Contributions in Relation to the Contractually Determined Contribution	8,201,682	7,935,118	7,280,234	7,307,381	6,558,898
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 151,882,994	$ 149,719,202	$ 145,604,674	$ 149,130,224	$ 145,753,282
Contributions as a Percentage of Covered Payroll	5.40%	5.30%	5.00%	4.90%	4.50%

Disability Income Plan of North Carolina	**2019**	**2018**	**2017**	**2016**	**2015**
Contractually Required Contribution	$ 264,331	$ 250,678	$ 655,719	$ 674,307	$ 652,989
Contributions in Relation to the Contractually Determined Contribution	264,331	250,678	655,719	674,307	652,989
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 188,808,035	$ 179,056,042	$ 172,557,711	$ 164,465,182	$ 159,265,704
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	$ 668,285	$ 658,764	$ 757,144	$ 775,477	$ 757,917
Contributions in Relation to the Contractually Determined Contribution	668,285	658,764	757,144	775,477	757,917
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 151,882,994	$ 149,719,202	$ 145,604,674	$ 149,130,224	$ 145,753,282
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.

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Appalachian State University
Boone, 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 Appalachian State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 4, 2019. Our report includes a reference to other auditors who audited the financial statements of Appalachian State University Foundation, Inc. and Appalachian Student Housing Corporation, as described in our report on the University's financial statements. The financial statements of those entities 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.

<u>Internal Control Over Financial Reporting</u>

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 4, 2019

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For additional information, contact the North Carolina Office of the State Auditor at 919-807-7666.

This audit required 706.5 hours at an approximate cost of $73,476.