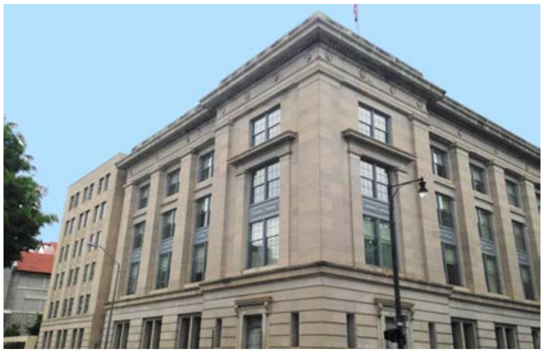
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2018

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

NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

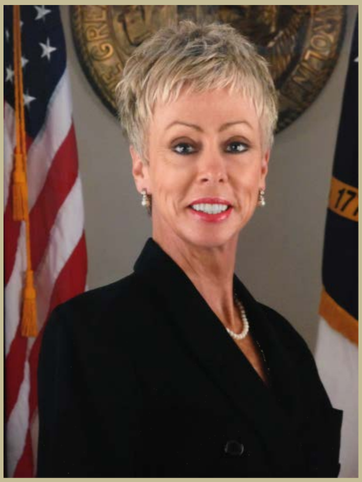
We have completed a financial statement audit of The University of North Carolina at Pembroke for the year ended June 30, 2018, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly 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



Beth A. Wood, CPA
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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Pembroke (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Pembroke Foundation, Inc., which represent 11 percent and 1 percent, respectively, of the assets and revenues of the University. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The University of North Carolina at Pembroke Foundation, Inc., is based solely on the report 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.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Pembroke, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 20 to the financial statements, during the year ended June 30, 2018, The University of North Carolina at Pembroke adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as amended by Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2018 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

November 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of The University of North Carolina at Pembroke (the "University") for the year ended June 30, 2018, with comparative information for the year ended June 30, 2017. We encourage you to read this MD&A section in conjunction with the audited financial statements and the Notes to the Financial Statements appearing in this report.

About The University of North Carolina at Pembroke

The University is a constituent institution of the University of North Carolina and is North Carolina's Historically American Indian University, with over 7,130 students and 800 faculty and staff. Founded in 1887 and originally known as the Croatan Normal School, the University is one of the most diverse universities in the United States and has grown into a comprehensive public institution of higher learning, with 41 undergraduate majors and 17 graduate degree programs.

About the Financial Statements

The following financial statements reflect all assets, liabilities, deferred inflows/outflows and net position (equity) of the University, which is considered the "primary government" for financial reporting purposes. In addition, the financial statements also include the consolidated results for the University's component unit, the University of North Carolina at Pembroke Foundation, Inc. (the "Foundation"), which is a legally separate entity that meets the financial accountability criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity.* Condensed financial information for the blended component unit is provided in the Notes to the Financial Statements.

The University presents its financial reports in a "business-type activity" format, in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34*. In addition to this MD&A section, the financial report includes a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, a Statement of Cash Flows, Notes to the Financial Statements, and required supplementary information.

The Statement of Net Position is the University's balance sheet. It reflects the total assets, liabilities, deferred inflows & outflows of financial resources, and net position (equity) of the University as of June 30, 2018. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at fair value. Capital assets, which include the University's land, buildings, infrastructure, and equipment, are shown net of accumulated depreciation. Net position is grouped in the following categories:

- Net Investment in Capital Assets
- Restricted – Nonexpendable
- Restricted – Expendable
- Unrestricted

The Statement of Revenues, Expenses and Changes in Net Position is the University's income statement. It details how net position has increased during the year ended June 30, 2018 with comparative information for fiscal year 2017. Student tuition and fees revenue is shown net of scholarship discounts and bad debt expenses, depreciation is provided for capital assets, and there are required subtotals for net operating income (loss) and net income (loss) before capital contributions and additions to permanent endowments. It should be noted that the required subtotal for net operating income or loss will reflect a "loss" for state-supported colleges and universities. This is due to the way operating and nonoperating items are defined under GASB Statement No. 9, *Reporting Cash Flows or Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating expenses include virtually all University expenses, except for interest on long-term debt and other nonoperating expenses. Operating revenues, however, exclude certain significant revenue streams that the University and other public institutions have traditionally relied upon to fund current operations, including state instructional support, gifts, and investment income.

The Statement of Cash Flows details how cash has increased (or decreased) during the year ended June 30, 2018 with comparative information for fiscal year 2017. It breaks out the sources and uses of University cash into the following categories:

- Operating Activities
- Noncapital Financing Activities
- Capital Financing Activities and Related Financing Activities
- Investing Activities

Cash flows associated with the University's expendable net position appear in the operating and noncapital financing categories. Capital financing activities include payments for capital assets and long-term debt repayments. Purchases and sales of investments are reflected as investing activities.

The Notes to the Financial Statements, which follow the financial statements, provide additional details on the amounts in the financial statements.

Financial Highlights

The University's net position continued its upward trend, increasing by $16.25 million. The University received $10 million in capital appropriations for the renovations to West Hall and received $700 thousand in capital grants and gifts for the new school of business complex due to break ground in the near future.

Analysis of Financial Position – Statement of Net Position

Assets and Deferred Outflows of Resources	FY 2018	FY 2017 (as Restated)	Change	% Change
Cash and Short-Term Investments	$ 20,451,264	$ 17,474,541	$ 2,976,723	17%
Receivables and Inventories	2,451,108	3,228,118	(777,010)	-24%
Current Assets	22,902,372	20,702,659	2,199,713	11%
Endowment Investments	24,028,445	22,705,234	1,323,211	6%
Cash and Investments	17,782,928	4,902,497	12,880,431	263%
Other Noncurrent Assets	1,268,883	1,065,271	203,612	19%
Capital Assets, Net of Accumulated Depreciation	167,345,092	168,550,159	(1,205,067)	-1%
Noncurrent Assets	210,425,348	197,223,161	13,202,187	7%
Total Assets	$ 233,327,720	$ 217,925,820	$ 15,401,900	7%
Accumulated Decrease in Fair Value of Hedging Derivatives	$ 1,102,118	$ 1,507,968	$ (405,850)	-27%
Deferred Outflows Related to Pensions	8,413,702	11,441,765	(3,028,063)	-26%
Deferred Outflows Related to OPEB	3,259,062	3,091,116	167,946	5%
Deferred Outflows of Resources	$ 12,774,882	$ 16,040,849	$ (3,265,967)	-20%

Current cash and short-term investments increased by $2.98 million to $20.45 million, this reflects a $2.34 million increase in cash for donations received for the school of business and $1 million increase in cash due to liquidation of bookstore inventory during the transition of bookstore operations to the Follett Higher Education Group (Follett).

Current receivables and inventories decreased $777 thousand in the current year. This was the effect of a reduction of $1.58 million in inventories offset by an increase of $800 thousand in net receivables. The decrease in inventories is a result of inventory liquidated for the transition of the bookstore operations. The increase in net receivables is due to an increase of $343 thousand in commission receivables from Sodexo Management, Inc. and Follett and a $272 thousand increase in pledges receivables related to the new school of business complex that the University plans to construct in fiscal year 2019.

The endowment fund increased by 6% due to a favorable investment environment and additional contributions to endowments of $550 thousand. Endowment funds are invested in a diversified portfolio of equity, fixed income, real estate, hedge funds, private equity, and other investment vehicles.

Noncurrent cash and investments primarily reflect assets that are deposited with the University's bond trustees or are held with the University to be used in current capital construction or improvements. Overall, these balances increased $12.88 million due to the University receiving $10 million of state capital appropriations for repairs and renovations to West Hall.

Capital assets, net of accumulated depreciation, decreased by $1.21 million as increases in capital construction and acquisition activity fell below the pace of depreciation expenses.

The accumulated decrease in fair value of the hedging derivatives is related to the interest rate swap for the 2001A variable interest rate bond. This amount is entirely offset by the hedging derivative liability, and represents the amount that would have to be paid to the swap's counterparty should the Foundation wish to terminate the swap agreement.

Deferred outflows related to pensions decreased $3.03 million due to over performance of investment earnings relative to projections, as well as changes in actuarial assumptions performed every five years.

Liabilities and Deferred Inflows of Resources	FY 2018	FY 2017 (as Restated)	Change	% Change
Accounts Payable and Accrued Liabilities	$ 1,876,655	$ 2,271,007	$ (394,352)	-17%
Unearned Revenue	2,007,541	807,127	1,200,414	149%
Current Portion of Long-Term Liabilities	3,866,011	3,640,653	225,358	6%
Other Current Liabilities	702,124	704,002	(1,878)	0%
Current Liabilities	8,452,331	7,422,789	1,029,542	14%
Other Noncurrent Liabilities	1,238,787	1,581,132	(342,345)	-22%
Hedging Derivative Liability	1,102,118	1,507,968	(405,850)	-27%
Noncurrent Portion of Long-Term Liabilities	162,579,037	215,974,509	(53,395,472)	-25%
Noncurrent Liabilities	164,919,942	219,063,609	(54,143,667)	-25%
Total Liabilities	$ 173,372,273	$ 226,486,398	$ (53,114,125)	-23%
Deferred Inflows Related to Pensions	$ 517,520	$ 850,489	$ (332,969)	-39%
Deferred Inflows Related to OPEB	49,335,054		49,335,054	100%
Deferred Inflows of Resources	$ 49,852,574	$ 850,489	$ 49,002,085	5762%

Accounts payable and accrued liabilities decreased by 17% to $1.88 million due to limited construction activity in process which resulted in a $200 thousand decrease in contract retainage year over year.

The $1.20 million increase in unearned revenue is due to the University receiving $1 million from Sodexo Management, Inc. for the University's new school of business complex that will start construction in the near future.

The current portion of long-term liabilities saw a 6% increase as a result of the University entering into three new capital leases during 2018. These new capital leases were used to improve the student experience by upgrading the University wireless internet in residence halls and academic buildings as well as investments to enhance the University's internal technology security.

The noncurrent portion of long-term liabilities decreased by $53.4 million. This significant decrease is due to the University's share of net pension liability and other postemployment benefit liability decreasing $1.53 million and $50.96 million, respectively. These decreases are due to the actuarial calculations, see Notes 15 and 16 of the Notes to the Financial Statements.

Deferred inflows related to other postemployment benefit (OPEB) plans increased $49.34 million due to differences between actual and expected experience, changes in proportion and differences between the University's contributions and proportionate share of contributions, and changes in actuarial assumptions performed every five years.

Net Position	FY 2018	FY 2017 (as Restated)	Change	% Change
Net Investment in Capital Assets	$ 112,998,226	$ 113,413,230	$ (415,004)	0%
Restricted				
Nonexpendable	17,793,304	17,190,582	602,722	4%
Expendable	27,896,141	13,235,754	14,660,387	111%
Unrestricted	(135,809,916)	(137,209,784)	1,399,868	-1%
Total Net Position	$ 22,877,755	$ 6,629,782	$ 16,247,973	245%

Restricted expendable net position consists of income from endowment funds, gifts, pledges with specific restrictions, grants from third party agencies with expenditure restrictions, and funds on deposit with bond trustees for the future debt service payments. This category increased by $14.66 million, largely from the increases in expendable capital projects of $10 million related to West Hall funds received for renovations and repairs.

Results of Operations Analysis – Statement of Revenues, Expenses, and Changes in Net Position

Operating Revenues

	FY 2018	FY 2017	Change	% Change
Student Tuition and Fees, Net	$ 25,644,014	$ 24,687,973	$ 956,041	4%
Grants and Contracts	530,908	545,392	(14,484)	-3%
Sales and Services, Net	16,360,638	18,435,953	(2,075,315)	-11%
Other Operating Revenues	797,363	485,413	311,950	64%
Total Operating Revenues	$ 43,332,923	$ 44,154,731	$ (821,808)	-2%

Sales and services revenue decreased by 11% due to outsourcing operations of the bookstore from the University to Follett, which reduced revenues by $1.90 million.

Operating Expenses

	FY 2018	FY 2017	Change	% Change
Salaries and Benefits	$ 72,941,794	$ 73,433,663	$ (491,869)	-1%
Supplies and Materials	6,791,952	9,245,669	(2,453,717)	-27%
Services	21,991,593	20,989,842	1,001,751	5%
Scholarships and Fellowships	9,107,502	9,958,974	(851,472)	-9%
Utilities	3,335,314	3,341,067	(5,753)	0%
Depreciation	6,348,465	5,973,154	375,311	6%
Total Operating Expenses	120,516,620	122,942,369	(2,425,749)	-2%
Operating Loss	$ (77,183,697)	$ (78,787,638)	$ 1,603,941	-2%

Supplies and materials decreased by $2.45 million related to the removal of all cost of goods sold related to the bookstore in the current year as a result of the transfer of ownership.

As with the majority of all public universities, the University shows a large operating loss which is due to the treatment of significant revenue streams, such as state appropriations, noncapital grants, and investment income, as non-operating revenue. The University's operating loss decreased by $1.6 million for reasons previously mentioned.

Operating Expenses (by Function)

	FY 2018	FY 2017	Change	% Change
Instruction	$ 36,089,311	$ 36,563,416	$ (474,105)	-1%
Research	681,138	527,049	154,089	29%
Public Services	2,123,045	1,808,242	314,803	17%
Academic Support	12,887,756	12,086,416	801,340	7%
Student Services	5,826,568	7,096,279	(1,269,711)	-18%
Institutional Support	14,273,086	14,009,226	263,860	2%
Operating & Maintenance of Plant	11,346,390	11,052,063	294,327	3%
Student Financial Aid	9,238,026	9,765,201	(527,175)	-5%
Auxiliary Enterprises	21,702,835	24,061,323	(2,358,488)	-10%
Depreciation	6,348,465	5,973,154	375,311	6%
Total Operating Expenses	$ 120,516,620	$ 122,942,369	$ (2,425,749)	-2%

From a functional expense perspective, student services and auxiliary enterprises had the largest decreases. The $1.27 million decrease in student services is due to a termination of a $445 thousand recruitment contract and a reduction in repairs and maintenance expenses in dormitories. Auxiliary enterprises decreased $2.36 million due to decrease in supplies and materials related to the transfer of ownership for the bookstore.

Nonoperating Revenues (Expenses)

	FY 2018	FY 2017	Change	% Change
State Appropriations	$ 55,613,954	$ 55,584,432	$ 29,522	0%
Noncapital Grants and Gifts	24,587,367	23,620,946	966,421	4%
Investment Income, Net	1,816,407	2,323,893	(507,486)	-22%
Interest and Fees on Debt	(2,668,332)	(2,905,794)	237,462	-8%
Federal Interest Subsidy on Debt	371,487	371,614	(127)	0%
Other Nonoperating Revenues (Expenses)	523,080	(335,782)	858,862	-256%
Net Nonoperating Revenues	$ 80,243,963	$ 78,659,309	$ 1,584,654	2%
Other Revenues				
Capital Appropriations	$ 11,219,717	$ 1,052,949	$ 10,166,768	966%
Capital Grants and Gifts	1,418,092	718,174	699,918	97%
Additions to Permanent Endowments	549,898	694,661	(144,763)	-21%
Total Other Revenues	$ 13,187,707	$ 2,465,784	$ 10,721,923	435%
Reconciliation of Net Position				
Beginning Net Position	$ 148,464,198	$ 146,126,743	$ 2,337,455	2%
Restatement*	(141,196,723)		(141,196,723)	-100%
Restatement**	(637,692)		(637,692)	-100%
Beginning Net Position (as restated)	6,629,783	146,126,743	(139,496,960)	
Total Revenues	139,432,924	128,521,399	10,911,525	8%
Total Expenses	(123,184,952)	(126,183,944)	(2,998,992)	-2%
Increase in Net Position	16,247,972	2,337,455	13,910,517	595%
Ending Net Position	$ 22,877,755	$ 148,464,198	$ (125,586,443)	-85%

*Note: The restatement for GASB 75 is shown as a separate line item because actuarial calculations performed relative to the implementation of GASB 75 do not provide sufficient information to restate amounts in the Statement of Revenues, Expenses, and Changes in Net Position.

**Note: The restatement for correction of Accounting Error - Unearned Revenue is shown as a separate line item because the amount was originally recognized as revenue prior to FY 2017 and should have been amortized over several years.

Nonoperating revenues, in total, remained consistent with the prior year. Notable changes occurred in investment income and other nonoperating revenues (expenses). While endowment investments increased in the current year, there was a $507 thousand decrease in investment income when compared to the prior year. This was due to the fact that investment performance in the prior year was 10% while earnings in the current year were 6%.

The University received $11.21 million in capital appropriations, an increase of $10.17 million over prior year. The increase is due to the University receiving $10 million for the repairs and renovations to West Hall. Capital grants and gifts also increased approximately $700 thousand due to the University receiving several grants and gifts for the new school of business complex due to break ground in fiscal year 2019.

During the current fiscal year, the University implemented Governmental Accounting Standards Board (GASB) Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. As a result of this new accounting and reporting change, participants in the State's OPEB plans, including the University, were allocated a proportionate share of the OPEB plan's net OPEB liabilities/assets, deferred outflows of resources, deferred inflows of resources and OPEB benefit expense, specifically for the Disability Income Plan of North Carolina (DIPNC) and the Retiree Health Benefit Fund (RHBF). For the purpose of reporting actuarial determined OPEB benefit expense for fiscal year 2018, the Statement of Net Position was restated as of July 1, 2017. The amounts for the restatement as well as the amounts for June 30, 2018 were based on the allocated proportionate shares from the State's Plans as determined by actuarial valuation and the deferred outflows for current contributions as determined by the participating entity.

Significant to this reporting change was that the OPEB restatement for the RHBF resulted in a decrease in the University's June 30, 2017 unrestricted net position by $141.20 million that reduced the University's overall unrestricted net position balance at June 30, 2017 to $7.27 million. To understand the continuing impact of the GASB 75 change as of June 30, 2018 and the effect of reporting the proportionate share of the RHBF as well as the University's proportionate share of the Teachers' and State Employers' Retirement System Pension Plan (TSERS) on unrestricted net position, Note 12 - "Net Position" has been added to the Notes to the Financial Statements. As reported in Note 12, the total impact from reporting the RHBF as well as the TSERS Pension Plan obligations at June 30, 2018 was a negative $146.55 million. The difference between the net effect amount reported in Note 12 and the unrestricted net position reported on financial statements (a negative $135.81 million) is a positive $10.74 million. This positive difference represents unrestricted funds held by the University in its institutional trust, special funds, debt funds, and investment funds, as well as any unrestricted funds held by the University's blended component units, and also includes any operating state funds authorized for carryforward.

For further information regarding the GASB 75 change, see Note 16 – Other Postemployment Benefits, in the Notes to the Financial Statements.

Statement of Cash Flows

Cash Inflows (Outflows) from:	FY 2018	FY 2017	Change	% Change
Operating Activities	$ (70,388,062)	$ (70,793,792)	$ 405,730	1%
Noncapital Financing Activities	80,977,250	79,363,017	1,614,233	2%
Capital Financing and Related Financing Activities	4,775,206	(10,761,999)	15,537,205	144%
Investing Activities	(812,935)	255,950	(1,068,885)	-418%
Cash, Beginning of Year	18,415,226	20,352,050	(1,936,824)	-10%
Increase (Decrease) in Cash	14,551,459	(1,936,824)	16,488,283	851%
Cash, End of Year	$ 32,966,685	$ 18,415,226	$ 14,551,459	79%

Cash inflows (outflows) from operating activities and noncapital financing activities are fairly consistent with prior year.

The $10 million capital appropriation received during the current year for the West Hall renovations is the primary contributor to the $15.54 million increase in cash sourced from capital financing and related financing activities in addition to less resources being used for debt prepayments and construction of capital assets. Cash provided for investing activities reflects the overall increase in investments during the year as the University invested more money. Overall, the University's cash balance increased by $14.55 million from the prior year.

Capital Assets and Debt Administration

During fiscal year 2018, machinery and equipment increased by $4.15 million. The majority of this increase related to a major server upgrade for the University, upgrades to wireless services for students, and an air handling unit for the University Center.

Construction in progress was $719 thousand at June 30, 2018. The majority of this balance pertains to the future construction of the new school of business complex and the West Hall renovations. For further information regarding capital assets, see Note 6 – Capital Assets, in the Notes to the Financial Statements.

North Carolina citizens approved the North Carolina Connect Bond referendum in March 2016. This bond referendum contained funding for many capital projects in the University of North Carolina system. The University will receive $23 million from NC Connect Bonds and $6 million from the state legislature in FY 2019. The University has also raised $8.9 million for construction of the new school of business complex and received $10 million to renovate West Hall.

During 2018, the North Carolina state legislature approved the University to issue $4.4 million in debt for the construction of a campus recreation and athletic complex. The total project is projected to cost $5.6 million and the University will raise the additional $1.2 million.

At June 30, 2018, outstanding commitments on construction contracts were $1.48 million.

At June 30, 2018, the University had outstanding bond indebtedness in the amount of $42.8 million of which $1.6 million is due within the next year, and notes payable of $8.7 million of which $993 thousand is due within the next year.

Standard and Poor's maintained the University's issuer credit rating at an "A-" with a stable outlook. For more detailed information about outstanding debt, see Note 9 – Long-Term Liabilities, in the Notes to the Financial Statements.

Economic Factors Affecting Future Operations

The University expects to build upon its healthy financial position in fiscal year 2019. Beginning Fall 2018, the University will be one of three University of North Carolina constituent institutions that will be included in the NC Promise Tuition Plan. This program will offer discounted annual resident and non-residence tuition of $1,000 and $5,000, respectively. Management anticipates that this program will allow the University to strategically grow its enrollment, and consequently increase the University's financial resources to use in furthering its mission. Demand for a University of North Carolina at Pembroke education has already increased as the Fall 2018 headcount was 7,137 students, up 14% from the Fall 2017 headcount. Fee revenues are still predicted to rise as rates for fees will increase by 3%, beginning Fall 2018.

Demand remains extremely strong for campus housing, even as housing rates increased on average by 3%. For Fall 2018, the dormitory system is at 99% of capacity. This will have positive downstream effects for our dining system, bookstore, and other auxiliary enterprises. These factors should contribute to a record high level of operating revenues for the upcoming operating period.

Based on currently known facts about the University's financial performance early in the Fall 2018 semester, management is confident that its sound financial position be strengthened throughout the next operating period. University administration will continue to effectively manage the financial resources of the University to serve the state of North Carolina and to provide the highest quality educational experience to our students.

FINANCIAL STATEMENTS

The University of North Carolina at Pembroke
Statement of Net Position
June 30, 2018

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 13,592,465.41
Restricted Cash and Cash Equivalents	4,111,849.51
Restricted Short-Term Investments	2,746,949.00
Receivables, Net (Note 5)	2,369,573.39
Inventories	46,247.51
Notes Receivable, Net (Note 5)	35,287.33
Total Current Assets	22,902,372.15
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	15,262,369.93
Receivables, Net (Note 5)	654,759.04
Endowment Investments	24,028,445.26
Restricted Investments	2,520,558.09
Cash Surrender of Life Insurance Policies	57,129.10
Notes Receivable, Net (Note 5)	368,659.57
Net Other Postemployment Benefit Asset	188,335.00
Capital Assets - Nondepreciable (Note 6)	4,995,417.72
Capital Assets - Depreciable, Net (Note 6)	162,349,674.12
Total Noncurrent Assets	210,425,347.83
Total Assets	233,327,719.98
DEFERRED OUTFLOWS OF RESOURCES	
Accumulated Decrease in Fair Value of Hedging Derivatives	1,102,118.00
Deferred Outflows Related to Pensions	8,413,702.00
Deferred Outflows Related to Other Postemployment Benefits (Note 16)	3,259,062.00
Total Deferred Outflows of Resources	12,774,882.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	1,876,655.08
Deposits Payable	2,759.00
Unearned Revenue	2,007,540.93
Interest Payable	699,365.63
Long-Term Liabilities - Current Portion (Note 9)	3,866,010.82
Total Current Liabilities	8,452,331.46
Noncurrent Liabilities:	
Deposits Payable	319,681.73
Funds Held for Others	344,899.77
U. S. Government Grants Refundable	574,205.12
Hedging Derivative Liability	1,102,118.00
Long-Term Liabilities, Net (Note 9)	162,579,037.01
Total Noncurrent Liabilities	164,919,941.63
Total Liabilities	173,372,273.09
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	517,520.00
Deferred Inflows Related to Other Post-Employment Benefits (Note 16)	49,335,054.00
Total Deferred Inflows of Resources	49,852,574.00

NET POSITION		
Net Investment in Capital Assets		112,998,226.37
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		9,039,009.71
Endowed Professorships		8,556,937.66
Departmental Uses		197,356.34
Expendable:		
Scholarships and Fellowships		2,798,669.40
Endowed Professorships		3,395,743.43
Departmental Uses		1,579,149.79
Operations and Maintenance		2,250,497.45
Capital Projects		15,856,386.70
Debt Service		1,104,580.99
Other		911,112.99
Unrestricted		(135,809,915.94)
Total Net Position	$	22,877,754.89

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

The University of North Carolina at Pembroke
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 13)	$ 25,644,013.46
Federal Grants and Contracts	404,457.01
State and Local Grants and Contracts	63,030.72
Nongovernmental Grants and Contracts	63,419.69
Sales and Services, Net (Note 13)	16,360,638.30
Interest Earnings on Loans	11,311.36
Other Operating Revenues	786,052.03
Total Operating Revenues	43,332,922.57
EXPENSES	
Operating Expenses:	
Salaries and Benefits	72,941,793.77
Supplies and Materials	6,791,951.59
Services	21,991,593.30
Scholarships and Fellowships	9,107,502.28
Utilities	3,335,313.36
Depreciation	6,348,465.20
Total Operating Expenses	120,516,619.50
Operating Loss	(77,183,696.93)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	55,613,953.62
Noncapital Grants - Student Financial Aid	19,596,600.01
Noncapital Grants	3,957,827.00
Noncapital Gifts, Net (Note 13)	1,032,939.70
Investment Income (Net of Investment Expense of $182,217.76)	1,816,407.41
Interest and Fees on Debt	(2,668,332.10)
Federal Interest Subsidy on Debt	371,487.05
Other Nonoperating Revenues	523,079.87
Net Nonoperating Revenues	80,243,962.56
Income Before Other Revenues	3,060,265.63
Capital Appropriations	11,219,716.60
Capital Grants	30,500.00
Capital Gifts	1,387,592.53
Additions to Endowments	549,897.82
Increase in Net Position	16,247,972.58
NET POSITION	
Net Position - July 1, 2017, as Restated (Note 21)	6,629,782.31
Net Position - June 30, 2018	$ 22,877,754.89

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 42,082,872.22
Payments to Employees and Fringe Benefits	(73,414,279.27)
Payments to Vendors and Suppliers	(30,765,125.98)
Payments for Scholarships and Fellowships	(9,107,502.28)
Loans Issued	(1,272.00)
Collection of Loans	30,265.06
Interest Earned on Loans	927.53
Other Receipts	786,052.03
Net Cash Used by Operating Activities	(70,388,062.69)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	55,613,953.62
Noncapital Grants - Student Financial Aid	19,596,600.01
Noncapital Grants	4,870,921.57
Noncapital Gifts	522,492.87
Additions to Endowments	549,897.82
William D. Ford Direct Lending Receipts	40,409,554.00
William D. Ford Direct Lending Disbursements	(40,428,515.00)
Related Activity Agency Disbursements	(157,655.18)
Net Cash Provided by Noncapital Financing Activities	80,977,249.71
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	455,989.61
Capital Appropriations	11,219,716.60
Capital Grants	30,500.00
Capital Gifts	1,383,305.29
Proceeds from Sale of Capital Assets	73,917.77
Acquisition and Construction of Capital Assets	(2,947,015.43)
Principal Paid on Capital Debt and Leases	(3,665,623.86)
Interest and Fees Paid on Capital Debt and Leases	(2,622,304.13)
Federal Interest Subsidy on Debt Received	371,487.05
Other Receipts	475,233.38
Net Cash Provided by Capital Financing and Related Financing Activities	4,775,206.28
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	11,519,740.79
Investment Income	368,020.47
Purchase of Investments and Related Fees	(12,700,695.68)
Net Cash Used by Investing Activities	(812,934.42)
Net Increase in Cash and Cash Equivalents	14,551,458.88
Cash and Cash Equivalents - July 1, 2017	18,415,225.97
Cash and Cash Equivalents - June 30, 2018	$ 32,966,684.85

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

Operating Loss	$	(77,183,696.93)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		6,348,465.20
Allowances and Write-Offs		6,169.60
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(433,227.79)
Inventories		1,584,090.83
Notes Receivable, Net		28,993.06
Net Other Postemployment Benefits Asset		2,964.00
Deferred Outflows Related to Pensions		3,028,063.00
Deferred Outflows Related to Other Postemployment Benefits		(167,946.00)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(197,235.07)
Net Pension Liability		(1,537,824.00)
Net Other Postemployment Benefits Liability		(50,968,694.00)
Compensated Absences		129,573.41
Deposits Payable		(29,843.00)
Deferred Inflows Related to Pensions		(332,969.00)
Deferred Inflows Related to Other Postemployment Benefits		49,335,054.00
Net Cash Used by Operating Activities	$	(70,388,062.69)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	13,592,465.41
Restricted Cash and Cash Equivalents		4,111,849.51
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		15,262,369.93
Total Cash and Cash Equivalents - June 30, 2018	$	32,966,684.85

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	2,419,570.21
Change in Fair Value of Investments		1,448,386.94
Gain on Disposal of Capital Assets		47,846.49
Amortization of Bond Premiums		(3,106.10)
Decrease in Receivables Related to Nonoperating Income		(615,156.03)

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Pembroke (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 unit. 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 unit is blended in the University's financial statements. See below for further discussion of the University's component unit. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Blended Component Unit - Although legally separate, The University of North Carolina at Pembroke Foundation Inc. (Foundation), a component unit of the University, is reported as if it was part of the University.

The Foundation is a not-for-profit organization established to foster public understanding of, and support for the University and to solicit and promote donations of any kind for the exclusive benefit of the University. Because the Foundation's operations are so intertwined with the University, its financial statements have been included with those of the University.

Separate financial statements for the Foundation may be obtained from the University Controller's Office, P.O. Box 1510, Pembroke, NC 28372, or by calling (910) 521-6471.

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

The transactions which are significant between the University and the blended component unit are the operating and capital lease payments for student housing complexes.

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.

Commercial paper and fixed income ETF's are reported at cost. Real assets limited partnerships, private equity limited partnerships, and hedge funds are reported at Net Asset Value (NAV).

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

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost. Merchandise for resale in The Museum of the Southeast American Indian is valued at cost using the last invoice method.

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

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

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

Asset Class	Estimated Useful Life
Buildings	10-50 years
Machinery and Equipment	2-30 years
General Infrastructure	10-50 years

Displays in the Museum of the Southeast American Indian and portrait 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. Long-term debt includes: revenue bonds payable, limited obligation bonds, notes payable, and capital leases payable. Other long-term liabilities include: compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

Revenue bonds payable and special indebtedness 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 gains and losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are aggregated as deferred outflows of resources or deferred inflows of resources on the Statement of Net Position. Issuance costs are expensed in the reporting period in which they are incurred.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2017 *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 15 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 2017 *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 16 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: the accumulated decrease in fair value of hedging derivatives, 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 12 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 dining, residential life, physical plant, motor pool, and the print shop. 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, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes $32,252,973.88, 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 1.4 years as of June 30, 2018. 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, 2018 was $13,300.25. The carrying amount of the University's deposits not with the State Treasurer was $700,410.72, and the bank balance was $803,039.50. 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, 2018, the amount of the University's bank balance that was exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was $390,460.19.

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

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

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

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

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

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

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

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

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit value method. Under this method, each participating fund's investment balance is determined on its pro-rata share of the principal value, undisputed value, and undistributed earnings. The investment strategy, including the selection of investment managers, is based on the directives of the Joint Investment Committee.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2018, for the Long-Term Investment Pool.

Long-Term Investment Pool

		Investment Maturities (in Years)			
	Amount	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 161,846.35	$ 0.00	$ 79,482.09	$ 0.00	$ 82,364.26
U.S. Agencies	93,077.06		24,050.25		69,026.81
Debt Mutual Funds	1,737,373.85		1,737,373.85		
Money Market Mutual Funds	1,230,416.90	1,230,416.90			
Domestic Corporate Bonds	500,888.68		441,424.88	59,463.80	
Fixed Income ETFs	600,930.96		600,930.96		
Total Debt Securities	4,324,533.80	$ 1,230,416.90	$ 2,883,262.03	$ 59,463.80	$ 151,391.07
Other Securities					
Equity Mutual Funds	402,161.07				
Investments in Real Estate	938,110.36				
Hedge Funds	357,871.08				
Private Equity Limited Partnerships	1,969,107.28				
Other Limited Partnerships	184,731.56				
Domestic Stocks	8,476,148.52				
Foreign Stocks	4,808,886.41				
Emerging Market Equities	2,135,143.85				
Other	431,751.33				
Total Long-Term Investment Pool	$ 24,028,445.26				

At June 30, 2018, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	Unrated
U.S. Agencies	$ 93,077.06	$ 93,077.06	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Debt Mutual Funds	1,737,373.85					1,737,373.85
Money Market Mutual Funds	1,230,416.90	1,230,416.90				
Domestic Corporate Bonds	500,888.68	57,844.83	20,720.04	110,926.49	311,397.32	
Fixed Income ETFs	600,930.96	600,930.96				
Totals	$ 4,162,687.45	$ 1,982,269.75	$ 20,720.04	$ 110,926.49	$ 311,397.32	$ 1,737,373.85

Rating Agency: Standard & Poor's

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2018, for the University's non-pooled investments.

Non-Pooled Investments

	Amount	Investment Maturities (in Years) Less Than 1	1 to 5
Investment Type			
Debt Securities			
U.S. Treasuries	$ 2,115,987.50	$ 0.00	$ 2,115,987.50
U.S. Agencies	293,458.80		293,458.80
Commercial Paper	76,455.56		76,455.56
Debt Mutual Funds	2,193,152.10	2,158,495.87	34,656.23
Money Market Mutual Funds	588,453.13	588,453.13	
Total Non-Pooled Securities	$ 5,267,507.09	$ 2,746,949.00	$ 2,520,558.09

At June 30, 2018, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	Unrated
U.S. Agencies	$ 293,458.80	$ 293,458.80	$ 0.00
Commercial Paper	76,455.56		76,455.56
Debt Mutual Funds	2,193,152.10		2,193,152.10
Money Market Mutual Funds	588,453.13		588,453.13
Totals	$ 3,151,519.59	$ 293,458.80	$ 2,858,060.79

Rating Agency: Moody's

Total Investments - The following table presents the total investments at June 30, 2018:

	Amount
Investment Type	
Debt Securities	
U.S. Treasuries	$ 2,277,833.85
U.S. Agencies	386,535.86
Commercial Paper	76,455.56
Debt Mutual Funds	3,930,525.95
Money Market Mutual Funds	1,818,870.03
Domestic Corporate Bonds	500,888.68
Fixed Income ETFs	600,930.96
Other Securities	
Equity Mutual Funds	402,161.07
Investments in Real Estate	938,110.36
Hedge Funds	357,871.08
Private Equity Limited Partnerships	1,969,107.28
Other Limited Partnerships	184,731.56
Domestic Stocks	8,476,148.52
Foreign Stocks	4,808,886.41
Emerging Market Equities	2,135,143.85
Other	431,751.33
Total Investments	$ 29,295,952.35

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2018, is as follows:

Cash on Hand	$ 13,300.25
Amount of Deposits with Private Financial Institutions	700,410.72
Deposits in the Short-Term Investment Fund	32,252,973.88
Long-Term Investment Pool	24,028,445.26
Non-Pooled Investments	5,267,507.09
Total Deposits and Investments	$ 62,262,637.20
Deposits	
Current:	
Cash and Cash Equivalents	$ 13,592,465.41
Restricted Cash and Cash Equivalents	4,111,849.51
Noncurrent:	
Restricted Cash and Cash Equivalents	15,262,369.93
Total Deposits	32,966,684.85
Investments	
Current:	
Restricted Short-Term Investments	2,746,949.00
Noncurrent:	
Endowment Investments	24,028,445.26
Restricted Investments	2,520,558.09
Total Investments	29,295,952.35
Total Deposits and Investments	$ 62,262,637.20

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments and derivatives are recorded at fair value as of June 30, 2018. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

Level 1 — Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs for an asset or liability and may require a degree of professional judgment.

The following table summarizes the University's investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2018:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	$ 2,277,833.85	$ 0.00	$ 2,277,833.85	$ 0.00
U.S. Agencies	386,535.86		386,535.56	
Debt Mutual Funds	3,930,525.95	3,930,525.95		
Money Market Mutual Funds	1,818,870.03	1,818,870.03		
Domestic Corporate Bonds	500,888.68		500,888.68	
Total Debt Securities	8,914,654.37	5,749,395.98	3,165,258.09	
Other Securities				
Equity Mutual Funds	402,161.07	402,161.07		
Investments in Real Estate	342,533.17			342,533.17
Domestic Stocks	8,476,148.52	8,476,148.52		
Foreign Stocks	4,808,886.41	4,808,886.41		
Other Limited Partnerships	184,731.56	184,731.56		
Emerging Market Equities	2,135,143.85	2,135,143.85		
Total Investments by Fair Value Level	25,264,258.95	$ 21,756,467.39	$ 3,165,258.09	$ 342,533.17
Investments Measured at the Net Asset Value (NAV)				
Credit Long/Short Hedge Funds	209,998.90			
Multi-Strategy Hedge Funds	103,344.68			
Private Equity Limited Partnerships	1,969,107.28			
Real Assets Limited Partnerships	595,577.24			
Total Investments Measured at the NAV	2,878,028.10			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	32,252,973.88			
Total Investments Measured at Fair Value	$ 60,395,260.93			
Derivative Instruments				
Hedging Derivative Instruments				
Pay-Fixed, Receive Variable Interest Rate Swap	$ (1,102,118.00)	$ 0.00	$ (1,102,118.00)	$ 0.00

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

Debt and Equity Securities - Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Derivative Instruments - The derivative instrument classified in Level 2 of the fair value hierarchy is valued using an income approach that considers future anticipated cash flows and discounts them to achieve a single current amount.

The following table presents the valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) at June 30, 2018.

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Multi-Strategy Hedge Funds[A]	$ 103,344.68	$ 0.00	Quarterly	65-125 days
Credit Long/Short Hedge Funds[B]	209,988.90		Quarterly	95 days
Private Equity Limited Partnerships[C]	1,969,107.28	1,070,907.13	Quarterly	30 days
Real Assets Limited Partnerships[D]	595,577.24	62,500.00	Not Allowed	
Total Investments Measured at the NAV	$ 2,878,018.10			

A. **Multi-Strategy Hedge Funds -** This type invests in three hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The fair value of the investments in this type have been determined using the NAV per share of its investments.

B. **Credit Long/Short Hedge Funds -** This type invests in three hedge funds that seek to generate capital appreciation through the successful selection of credit securities while reducing the effects of market-wide or sector-wide price movements. The fair value of the investments in this type have been determined using the NAV per share of its investments.

C. **Private Equity Limited Partnerships** - This type includes ten private equity funds that invest in a variety of strategies, but they primarily invest in event driven and opportunistic strategies. Event driven strategies seek to earn excess return through the purchase and sale of securities based upon anticipated outcomes of company-specific or transaction-specific situations. Similarly, opportunistic strategies seek to earn an excess return through exploiting perceived inefficiencies across varying markets. Nine of these investments cannot be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the funds would be liquidated over one to ten years. The fair value of the investment in this type has been determined using the NAV per share of its investments.

D. **Real Assets Limited Partnerships** - This type includes investments that seek long-term capital appreciation through acquiring secondary interests in private equity real estate funds and direct real-estate assets. These investments cannot be redeemed with the fund. Instead, the nature of the investments in this type is that distributions are received through liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the funds would be liquidated over ten to eleven years.

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 5.5% of the "average market value" of the endowment funds. The "average market value" is defined as an average of the market values on December 31 of the previous five years. The actual spending may be less than the 5.5% maximum rate due to the economic environment. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2018, net appreciation of $6,246,406.84 was available to be spent, of which $3,395,743.43 was classified in net position as a component of restricted: expendable: endowed professorships; $2,561,548.18 was classified in net position as restricted: expendable: scholarships and fellowships; and $166,744.44 was classified in net position as a component of restricted: expendable: departmental uses.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2018 the amount of investment losses reported against the nonexpendable endowment balances was $3,883.31.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 989,645.81	$ 575,830.79	$ 413,815.02
Accounts	894,586.49	270,537.85	624,048.64
Intergovernmental	766,299.68		766,299.68
Pledges	458,459.98	45,846.01	412,613.97
Interest on Loans	24,257.59		24,257.59
Federal Interest Subsidy on Debt	128,538.49		128,538.49
Total Current Receivables	$ 3,261,788.04	$ 892,214.65	$ 2,369,573.39
Noncurrent Receivables:			
Pledges	$ 727,510.06	$ 72,751.02	$ 654,759.04
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 74,630.37	$ 39,343.04	$ 35,287.33
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 752,673.68	$ 384,014.11	$ 368,659.57

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 3,918,579.40	$ 178,936.05	$ 0.00	$ 4,097,515.45
Art, Literature, and Artifacts	173,729.87	5,000.00		178,729.87
Construction in Progress	498,618.69	838,759.21	618,205.50	719,172.40
Total Capital Assets, Nondepreciable	4,590,927.96	1,022,695.26	618,205.50	4,995,417.72
Capital Assets, Depreciable:				
Buildings	194,392,015.80	603,255.50		194,995,271.30
Machinery and Equipment	22,776,424.01	4,146,773.70	48,274.94	26,874,922.77
General Infrastructure	24,629,665.00	14,950.00		24,644,615.00
Total Capital Assets, Depreciable	241,798,104.81	4,764,979.20	48,274.94	246,514,809.07
Less Accumulated Depreciation for:				
Buildings	57,050,831.43	4,147,776.99		61,198,608.42
Machinery and Equipment	12,571,599.89	1,701,685.88	22,203.66	14,251,082.11
General Infrastructure	8,216,442.09	499,002.33		8,715,444.42
Total Accumulated Depreciation	77,838,873.41	6,348,465.20	22,203.66	84,165,134.95
Total Capital Assets, Depreciable, Net	163,959,231.40	(1,583,486.00)	26,071.28	162,349,674.12
Capital Assets, Net	$ 168,550,159.36	$ (560,790.74)	$ 644,276.78	$ 167,345,091.84

During the year ended June 30, 2018, the University incurred $2,189,674.03 in interest costs related to the acquisition and construction of capital assets.

The University has pledged machinery and equipment with a carrying value of $3,668,091.03 as security for Siemens Public Energy Service Agreement Note. Additional information regarding the note can be found in Note 9.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (agreement) dated September 1, 2014. The value of the energy savings improvement assets associated with the agreement is $1,179,888.82 and is subject to security provisions in the agreement to ensure timely debt service payments. Additional information regarding the agreement can be found in Note 9.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2018, were as follows:

	Amount
Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 1,457,374.48
Accrued Payroll	369,559.83
Contract Retainage	10,111.45
Other	39,609.32
Total Accounts Payable and Accrued Liabilities	$ 1,876,655.08

NOTE 8 - SHORT-TERM DEBT - LETTER OF CREDIT

In connection with the long-term debt, the University has a letter of credit in the amount of $8,289,720.00 with Wells Fargo Bank, National Association. The letter of credit serves as a credit enhancement to the bonds and expires July 1, 2019.

Short-term debt activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Draws	Repayments	Balance June 30, 2018
Line of Credit	$ 0.00	$ 455,989.61	$ 455,989.61	$ 0.00

NOTE 9 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 10,995,000.00	$ 0.00	$ 980,000.00	$ 10,015,000.00	$ 455,000.00
Limited Obligation Bonds	33,910,000.00		1,160,000.00	32,750,000.00	1,150,000.00
Plus: Unamortized Premium	77,652.55		3,106.10	74,546.45	
Total Revenue Bonds Payable and Limited Obligation Bonds, Net	44,982,652.55		2,143,106.10	42,839,546.45	1,605,000.00
Notes Payable	9,677,194.78		964,877.76	8,712,317.02	992,923.74
Capital Leases Payable	554,734.73	2,419,570.21	104,756.49	2,869,548.45	590,043.33
Total Long-Term Debt	55,214,582.06	2,419,570.21	3,212,740.35	54,421,411.92	3,187,967.07
Other Long-Term Liabilities					
Compensated Absences	3,688,240.50	2,837,392.00	2,707,818.59	3,817,813.91	678,043.75
Net Pension Liability	16,233,202.00		1,537,824.00	14,695,378.00	
Net Other Postemployment Benefits Liability	144,479,138.00		50,968,694.00	93,510,444.00	
Total Other Long-Term Liabilities	164,400,580.50	2,837,392.00	55,214,336.59	112,023,635.91	678,043.75
Total Long-Term Liabilities, Net	$ 219,615,162.56	$ 5,256,962.21	$ 58,427,076.94	$ 166,445,047.83	$ 3,866,010.82

Additional information regarding capital lease obligations is included in Note 11.
Additional information regarding the net pension liability is included in Note 15.
Additional information regarding the net other postemployment benefits liability is included in Note 16.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018	See Table Below
Revenue Bonds Payable							
Dormitory System							
Student Housing - Courtyard Apartments	2001A	4.04%*	07/01/2031	$ 11,385,000.00	$ 3,225,000.00	$ 8,160,000.00	(1)
Auxiliaries							
Recreational Facilities	2006B	3.75-4.13%	09/25/2020	816,940.00	681,940.00	135,000.00	
University Center Expansion Supplement	2006B	3.75-4.13%	09/25/2026	1,965,000.00	1,810,000.00	155,000.00	
University Center Renovations	2003B	4.30%	03/10/2018	3,100,000.00	3,100,000.00		
Recreational Facilities	2003B	4.30%	03/10/2018	620,000.00	620,000.00		
Multipurpose Facility Athletic Field House	2008A	4.00-5.00%	10/01/2033	2,055,000.00	490,000.00	1,565,000.00	
Total Auxiliaries				8,556,940.00	6,701,940.00	1,855,000.00	
Limited Obligation Bonds							
University Village Apartments and Oak Hall Project	2017	3.62%	03/01/2036	15,475,000.00	700,000.00	14,775,000.00	(2)
Cypress Hall Project	2010B	4.525-6.623%**	03/01/2042	18,435,000.00	460,000.00	17,975,000.00	(2)
Total Limited Obligation Bonds				33,910,000.00	1,160,000.00	32,750,000.00	
Total Revenue Bonds Payable and Limited Obligation Bonds (principal only)				$ 53,851,940.00	$ 11,086,940.00	42,765,000.00	
Plus: Unamortized Premium						74,546.45	
Total Revenue Bonds Payable and Limited Obligation Bonds, Net						$ 42,839,546.45	

* For variable rate debt, interest rates in effect at June 30, 2018 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

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

The University has pledged future revenues, net of specific operating expenses, to repay revenue bonds and limited obligation bonds as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal	Current Year Interest	Estimate of % of Revenues Pledged
(1)	Courtyard Lease Revenues	$ 10,961,797.71	$ 807,665.56	$ 365,000.00	$ 329,822.73	32%
(2)	Oak, Village and Cypress Hall Lease Revenues	54,539,237.08	1,959,076.34	1,160,000.00	1,698,485.99	38%

C. **Demand Bonds** - Included in bonds payable is a variable rate demand bond issue. Demand bonds are securities that contain a "put" feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the University's remarketing or paying agents.

With regards to the following demand bond, the University has entered into a take-out agreement, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

The UNCP Foundation Project, Series 2001A: On January 1, 2001 the University issued tax-exempt adjustable demand bonds in the amount of $11,385,000.00 that have a final maturity date of July 1, 2031. The bonds are subject to mandatory sinking fund redemption that began on July 1, 2003. The proceeds of this issuance were used for the construction of the Courtyard Apartment student housing complex. The bonds are subject to purchase on demand with seven days' notice and delivery to the University's remarketing agent, Wells Fargo Bank, National Association.

Under an irrevocable letter of credit issued by Wells Fargo Bank, National Association, the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The University is required to pay an annual commitment fee for the letter of credit of 1.3% of the amount of bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wells Fargo Bank, National Association in which it has agreed, upon termination of the letter of credit or upon a bond tender event, to repay all amounts that are drawn under the letter of credit. Interest at the adjustable interest rate equal to the greater of the bank's prime lending rate plus 1.0%, the federal funds rate plus 2.0% or 7.0% for the first 90 days will be incurred. At June 30, 2018, no outstanding drawings had been made under the letter of credit.

If the remarketing agent is unable to resell any bonds that are "put" within 90 days of the "put" date, the University has a take-out agreement with Wells Fargo Bank, National Association to convert the amount of bonds "put" to an installment loan payable over a two-year period, bearing an adjustable interest rate equal to the greater of the bank's prime lending rate plus 3.0%, the federal funds rate plus 4.0% or 9.0%. The take-out agreement expires on the letter of credit expiration date. Per the take-out agreement, the structure of the installment loan cannot allow the bond principal to be retired faster than originally prescribed in the bond indenture amortization schedule.

If the take-out agreement were to be exercised because the entire issue of $8,160,000.00 of demand bonds were "put" and not resold, the University would be required to pay the amounts in the table below assuming a 9.00% interest rate.

	Potential Annual Requirements	
	Installment Loan Payable @ 9.00%	
Fiscal Year	Principal	Interest
2019	$ 385,000.00	$ 734,400.00
2020	410,000.00	699,750.00
2021	435,000.00	662,850.00
2022	460,000.00	623,700.00
2023	490,000.00	582,300.00
2024-2028	2,930,000.00	2,194,200.00
2029-2032	3,050,000.00	706,500.00
Total Requirements	$ 8,160,000.00	$ 6,203,700.00

The letter of credit bank must give 180 days advance cancellation notice. As of June 30, 2018 the letter of credit expires on July 1, 2019.

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2018, are as follows:

	Annual Requirements						
	Revenue Bonds Payable			Limited Obligation Bonds		Notes Payable	
Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2019	$ 455,000.00	$ 207,728.50	$ 208,463.52	$ 1,150,000.00	$ 1,657,987.36	$ 992,923.74	$ 275,221.93
2020	650,000.00	195,365.00	198,627.93	1,190,000.00	1,611,638.56	783,843.36	245,257.65
2021	630,000.00	180,352.13	188,153.66	1,230,000.00	1,563,206.16	819,789.62	221,877.02
2022	535,000.00	168,168.01	177,040.71	1,270,000.00	1,512,160.16	856,837.85	197,347.90
2023	570,000.00	157,628.26	165,289.09	1,320,000.00	1,456,638.05	842,991.59	171,631.66
2024-2028	3,400,000.00	604,259.90	622,835.86	7,350,000.00	6,345,373.95	3,857,765.04	413,398.59
2029-2033	3,640,000.00	229,153.75	200,543.95	8,770,000.00	4,473,701.44	558,165.82	16,522.74
2034-2038	135,000.00	3,375.00		6,140,000.00	2,438,257.38		
2039-2043				4,330,000.00	730,274.02		
Total Requirements	$ 10,015,000.00	$ 1,746,030.55	$ 1,760,954.72	$ 32,750,000.00	$ 21,789,237.08	$ 8,712,317.02	$ 1,541,257.49

Interest on the variable rate 2001A revenue bonds is calculated at 1.51% at June 30, 2018.
Interest rates are reset weekly by the remarketing agent based upon the LLC's credit rating and market conditions.

This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 10 Derivative Instruments.

E. **Notes Payable** - The University was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Iterest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Energy Service Agreement	Siemens Public Inc.	3.91%	08/01/2029	$ 4,500,000.00	$ 728,156.34	$ 3,771,843.66
Refunding Series 1998B Bonds	BB&T Bank	3.19%	10/01/2018	1,470,000.00	1,230,000.00	240,000.00
Energy Savings Improvement	U.S. Bank National Assoc.	1.84%	02/14/2023	1,377,960.56	402,487.20	975,473.36
Construction of Student Health Bldg.	PNC	2.87%	04/01/2025	4,610,000.00	885,000.00	3,725,000.00
Total Notes Payable				$ 11,957,960.56	$ 3,245,643.54	$ 8,712,317.02

NOTE 10 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2018 are as follows:

		Change in Value		Value at June 30, 2018	
Type	Notional Amount	Classification	Decrease	Classification	(Liability)
Hedging Derivative Instruments					
Cash Flow Hedge					
Pay-Fixed, Receive Variable Interest Rate Swap for 2001A Bonds	$ 8,160,000.00	Deferred Outflow of Resources	$ 405,850.00	Hedging Derivative Liability	$ (1,102,118.00)

The hedging derivative instrument held at June 30, 2018 is as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed, Receive Variable Interest Rate	Hedge Cash Flows for 2001A Bonds	$ 8,160,000.00	11/1/2001	7/1/2031	Pay 3.955%, Receive 67% 1-month USD-LIBOR-BBA

The fair value of the pay-fixed, receive-variable interest rate swap was estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Hedging Derivative Risks

Interest Rate Risk: The University is exposed to interest rate risk on the interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. As the London Interbank Offered Rate (LIBOR) increases, the University's net payment on the swap increases.

Basis Risk: The University is exposed to basis risk because the variable-rate payments received by the University on the hedging derivative are based on a different rate than the University pays on its 2001A Series variable rate debt. As of June 30, 2018, the interest rate on the University's pay-fixed interest rate swap is benchmarked to 67% of 1-month LIBOR, which is 1.40%. The variable-interest rate paid on the University's 2001A Series variable rate debt is not benchmarked to a reference rate. It is reset weekly by the remarketing agent based upon market conditions and the University's credit rating. At June 30, 2018, the interest rate on the demand bond was 1.51%.

Termination Risk: The University or its counterparty may terminate the pay-fixed, receive-variable interest rate swap if the other party fails to perform under the terms of the contract.

NOTE 11 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to IT equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	$ 653,045.09
2020	653,045.09
2021	653,045.09
2022	653,045.11
2023	527,711.89
Total Minimum Lease Payments	3,139,892.27
Amount Representing Interest (3.82% Rate of Interest)	270,343.82
Present Value of Future Lease Payments	$ 2,869,548.45

Machinery and equipment acquired under capital lease amounted to $3,089,570.21 at June 30, 2018.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $246,087.17 at June 30, 2018.

B. Operating Lease Obligations - The University entered into operating leases for land and office space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	$ 238,233.48
2020	19,852.79
Total Minimum Lease Payments	$ 258,086.27

Rental expense for all operating leases during the year was $238,233.48.

NOTE 12 - NET POSITION

The deficit in unrestricted net position of $135,809,915.94 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 benefit (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	$ 8,413,702.00	$ 0.00	$ 8,413,702.00
Deferred Outflows Related to OPEB		3,094,533.00	3,094,533.00
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	14,695,378.00		14,695,378.00
Net OPEB Liability		93,510,444.00	93,510,444.00
Deferred Inflows Related to Pensions	517,520.00		517,520.00
Deferred Inflows Related to OPEB		49,334,838.00	49,334,838.00
Net Effect on Unrestricted Net Position	$ (6,799,196.00)	$ (139,750,749.00)	$ (146,549,945.00)

See Notes 15 and 16 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

See Note 21 for details on the restatement.

NOTE 13 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees, Net	$ 35,812,033.86	$ 0.00	$ 9,993,043.17	$ 174,977.23	$ 25,644,013.46
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 11,046,489.27	$ 278,467.45	$ 3,043,533.94	$ 89,628.89	$ 7,634,858.99
Dining	6,011,212.60	4,550.10	1,696,637.70	30,937.18	4,279,087.62
Student Union Services	40,861.36	2,799.00		9,359.82	28,702.54
Health, Physical Education, and Recreation Services	1,786,486.08		575,479.72	16,386.49	1,194,619.87
Bookstore	801,532.07	5,278.30	6,362.42	30,360.17	759,531.18
Parking	738,404.07			291,006.25	447,397.82
Athletic	266,677.12			9,042.86	257,634.26
Motor Pool	214,716.99	205,002.67			9,714.32
Laundry	18,203.67				18,203.67
Lyceum	180,094.51				180,094.51
Physical Plant	134,293.05	108,467.05			25,826.00
Printing	471,886.27	235,795.26			236,091.01
Vending	74,127.85				74,127.85
Sales and Services of Education and Related Activities	1,257,732.81	42,984.15			1,214,748.66
Total Sales and Services, Net	$ 23,042,717.72	$ 883,343.98	$ 5,322,013.78	$ 476,721.66	$ 16,360,638.30
Nonoperating Revenues:					
Noncapital Gifts, Net	$ 1,474,914.30	$ 0.00	$ 0.00	$ 441,974.60	$ 1,032,939.70

NOTE 14 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 34,107,928.47	$ 621,065.08	$ 1,308,627.68	$ 51,690.00	$ 0.00	$ 0.00	$ 36,089,311.23
Research	532,486.27	91,556.99	57,095.15				681,138.41
Public Service	1,599,269.56	136,570.97	346,415.91	40,788.55			2,123,044.99
Academic Support	8,943,990.24	1,518,195.23	2,420,299.20	5,270.00			12,887,754.67
Student Services	4,208,697.71	212,435.80	1,403,434.04	2,000.00			5,826,567.55
Institutional Support	11,098,311.89	290,302.54	2,884,471.97				14,273,086.40
Operations and Maintenance of Plant	6,286,270.73	1,480,897.78	1,690,814.59	1,381.24	1,887,025.23		11,346,389.57
Student Financial Aid	230,410.64		13,376.08	8,994,239.49			9,238,026.21
Auxiliary Enterprises	5,934,428.26	2,440,927.20	11,867,058.68	12,133.00	1,448,288.13		21,702,835.27
Depreciation						6,348,465.20	6,348,465.20
Total Operating Expenses	$ 72,941,793.77	$ 6,791,951.59	$ 21,991,593.30	$ 9,107,502.28	$ 3,335,313.36	$ 6,348,465.20	$ 120,516,619.50

NOTE 15 - PENSION PLANS

A. Defined Benefit Plan

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2018 was 10.78% of covered payroll. Employee contributions to the pension plan were $1,693,506.30, and the University's contributions were $3,042,666.00 for the year ended June 30, 2018.

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 2017 *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. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2018, the University reported a liability of $14,695,378.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. 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, 2017, the University's proportion was 0.18521%, which was an increase of 0.00859 from its proportion measured as of June 30, 2016, which was 0.17662%.

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	12/31/2016
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.20%

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

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

The actuarial assumptions used in the December 31, 2016 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, 2017 (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, 2017 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.25% to 7.20% for the December 31, 2016 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, 2017 calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20%) or 1-percentage point higher (8.20%) than the current rate:

Net Pension Liability		
1% Decrease (6.20%)	Current Discount Rate	1% Increase (8.20%)
$ 30,249,171.00	$ 14,695,378.00	$ 1,663,282.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the University recognized pension expense of $4,197,751.00. At June 30, 2018, 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	$ 318,569.00	$ 480,763.00
Changes of Assumptions	2,321,649.00	
Net Difference Between Projected and Actual Earnings on Plan Investments	1,988,783.00	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	742,035.00	36,757.00
Contributions Subsequent to the Measurement Date	3,042,666.00	
Total	$ 8,413,702.00	$ 517,520.00

The amount of $3,042,666.00 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, 2019. 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
2019	$ 1,056,318.00
2020	3,063,790.00
2021	1,529,340.00
2022	(795,932.00)
Total	$ 4,853,516.00

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, 2018, 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 $56,205,809.56, of which $22,924,199.50 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $1,375,451.97 and $1,568,015.25, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of $69,309.00.

NOTE 16 - 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 2017 *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. The fiduciary net position of each plan was determined using the same basis as the other postemployment benefit (OPEB) plans.

Methods Used to Value Plan Investments: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *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 17. 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 University Employees' 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 General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the 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 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 General Assembly in the Appropriations Bill. The University's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The University's contributions to the RHBF were $3,094,533.00 for the year ended June 30, 2018.

2. Disability Income

Plan Administration: As discussed in Note 17, 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 University Employees' 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 University Employees' 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 University Employees' 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 General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The University's contributions to DIPNC were $71,609.00 for the year ended June 30, 2018.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2018, the University reported a liability of $93,510,444.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. 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, 2017, the University's proportion was 0.28521%, which was a decrease of 0.0469 from its proportion measured as of June 30, 2016, which was 0.33211%.

Net OPEB Asset: At June 30, 2018, the University reported an asset of $188,335.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. 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, 2017, the University's proportion was 0.30814%, which was an increase of 0.00009 from its proportion measured as of June 30, 2016, which was 0.30805%.

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2016, 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, 2017 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.20%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00% - 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, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (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, 2017 is 1.3%.

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, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.58%. 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 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

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 (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
RHBF	$ 111,552,932.00	$ 93,510,444.00	$ 79,200,706.00
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (160,113.00)	$ (188,335.00)	$ (216,622.00)

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 - 3.00 - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00 - 6.50%, Pharmacy - 5.00 - 7.25%, Med. Advantage - 4.00 - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00 - 7.50%, Pharmacy - 6.00 - 8.25%, Med. Advantage - 5.00 - 6.00%, Administrative - 4.00%)
RHBF Net OPEB Liability	$ 76,360,195.00	$ 93,510,444.00	$ 116,221,987.00
DIPNC Net OPEB Asset	N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the University recognized OPEB expense of $1,267,530.00 for RHBF and $99,990.00 for DIPNC. At June 30, 2018, 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	$ 0.00	$ 51,638.00	$ 51,638.00
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		41,282.00	41,282.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions			
Contributions Subsequent to the Measurement Date	3,094,533.00	71,609.00	3,166,142.00
Total	$ 3,094,533.00	$ 164,529.00	$ 3,259,062.00

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 6,704,871.00	$ 0.00	$ 6,704,871.00
Changes of Assumptions	25,752,349.00		25,752,349.00
Net Difference Between Projected and Actual Earnings on Plan Investments	34,753.00		34,753.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	16,842,865.00	216.00	16,843,081.00
Total	$ 49,334,838.00	$ 216.00	$ 49,335,054.00

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, 2019. 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
2019	$ (9,868,705.00)	$ 27,467.00
2020	(9,868,705.00)	27,467.00
2021	(9,868,705.00)	27,457.00
2022	(9,868,705.00)	10,313.00
2023	(9,860,018.00)	
Total	$ (49,334,838.00)	$ 92,704.00

NOTE 17 - 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 16, Other Postemployment Benefits, for additional information regarding retiree health benefits.

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 16, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. The University also purchased through the Fund all risk coverage for auxiliary 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 $10,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Examples of such coverage are workers' compensation for non-appropriated employees, student accident, student health, boiler and machinery accident and hazardous substance, internship liability, commercial inland marine for music and related equipment, biodiesel, and fine arts.

NOTE 18 - 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 $1,482,295.13 and on other purchases were $1,897,092.57 at June 30, 2018.

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.

NOTE 19 - BLENDED COMPONENT UNIT

Condensed combining information for the University's blended component unit for the year ended June 30, 2018, is presented as follows:

Condensed Statement of Net Position
June 30, 2018

	UNCP	UNCP Foundation, Inc.	Eliminations	Total
ASSETS				
Current Assets	$ 17,490,550.69	$ 5,411,821.46	$ 0.00	$ 22,902,372.15
Capital Assets, Net	156,477,038.09	10,868,053.75		167,345,091.84
Other Noncurrent Assets	34,044,937.22	9,035,318.77		43,080,255.99
Component Unit Receivable from Primary Government		33,308,816.95	(33,308,816.95)	
Primary Government Receivable from Component Unit	1,606,042.76		(1,606,042.76)	
Total Assets	209,618,568.76	58,624,010.93	(34,914,859.71)	233,327,719.98
TOTAL DEFERRED OUTFLOWS OF RESOURCES	11,672,764.00	1,102,118.00		12,774,882.00
LIABILITIES				
Current Liabilities	6,313,588.87	2,138,742.59		8,452,331.46
Long-Term Liabilities, Net	123,129,490.56	39,449,546.45		162,579,037.01
Other Noncurrent Liabilities	1,238,786.62	1,102,118.00		2,340,904.62
Primary Government Payable to Component Unit	33,308,816.95		(33,308,816.95)	
Component Unit Payable to Primary Government		1,606,042.76	(1,606,042.76)	
Total Liabilities	163,990,683.00	44,296,449.80	(34,914,859.71)	173,372,273.09
TOTAL DEFERRED INFLOWS OF RESOURCES	49,852,574.00			49,852,574.00
NET POSITION				
Net Investment in Capital Assets	110,290,172.62	2,708,053.75		112,998,226.37
Restricted - Nonexpendable	12,610,400.97	5,182,902.74		17,793,303.71
Restricted - Expendable	22,324,047.21	5,572,093.54		27,896,140.75
Unrestricted	(137,776,545.04)	1,966,629.10		(135,809,915.94)
Total Net Position	$ 7,448,075.76	$ 15,429,679.13	$ 0.00	$ 22,877,754.89

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

	UNCP	UNCP Foundation, Inc.	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 25,644,013.46	$ 0.00	$ 0.00	$ 25,644,013.46
Sales and Services, Net	16,357,765.12	4,239,888.02	(4,237,014.84)	16,360,638.30
Other Operating Revenue	1,357,684.81		(29,414.00)	1,328,270.81
Total Operating Revenues	43,359,463.39	4,239,888.02	(4,266,428.84)	43,332,922.57
OPERATING EXPENSES				
Salaries and Benefits	72,941,793.77			72,941,793.77
Supplies and Materials	6,599,116.53	197,017.91	(4,182.85)	6,791,951.59
Services	23,493,262.13	783,852.72	(2,285,521.55)	21,991,593.30
Scholarships and Fellowships	9,348,469.30	185,068.50	(426,035.52)	9,107,502.28
Utilities	3,042,594.03	292,719.33		3,335,313.36
Depreciation	5,975,717.93	372,747.27		6,348,465.20
Total Operating Expenses	121,400,953.69	1,831,405.73	(2,715,739.92)	120,516,619.50
Operating Income (Loss)	(78,041,490.30)	2,408,482.29	(1,550,688.92)	(77,183,696.93)
NONOPERATING REVENUES (EXPENSES)				
State Appropriations	55,613,953.62			55,613,953.62
Noncapital Grants - Student Financial Aid	19,596,600.01			19,596,600.01
Other Noncapital Grants	3,951,880.00		5,947.00	3,957,827.00
Noncapital Gifts	1,140,996.54	272,981.88	(381,038.72)	1,032,939.70
Investment Income, Net	1,403,014.58	413,392.83		1,816,407.41
Interest and Fees on Debt	(2,437,568.47)	(2,216,941.07)	1,986,177.44	(2,668,332.10)
Federal Interest Subsidy on Debt		371,487.05		371,487.05
Other Nonoperating Revenues (Expenses)	492,990.51	(21,507.59)	51,596.95	523,079.87
Net Nonoperating Revenues (Expenses)	79,761,866.79	(1,180,586.90)	1,662,682.67	80,243,962.56
Capital Appropriations	11,219,716.60			11,219,716.60
Capital Grants		30,500.00		30,500.00
Capital Gifts	1,386,096.26	71,496.27	(70,000.00)	1,387,592.53
Additions to Endowments	193,039.85	398,851.72	(41,993.75)	549,897.82
Increase in Net Position	14,519,229.20	1,728,743.38		16,247,972.58
NET POSITION				
Net Position, July 1, 2017, as restated	(7,071,153.44)	13,700,935.75		6,629,782.31
Net Position, June 30, 2018	$ 7,448,075.76	$ 15,429,679.13	$ 0.00	$ 22,877,754.89

Condensed Statement of Cash Flows
June 30, 2018

	UNCP	UNCP Foundation, Inc.	Total
Net Cash Provided (Used) by Operating Activities	$ (73,373,461.91)	$ 2,985,399.22	$ (70,388,062.69)
Net Cash Provided by Noncapital Financing Activities	80,345,637.29	631,612.42	80,977,249.71
Net Cash Provided (Used) by Capital and Related Financing Activities	7,066,676.97	(2,291,470.69)	4,775,206.28
Net Cash Provided (Used) by Investing Activities	678,380.38	(1,491,314.80)	(812,934.42)
Net Increase (Decrease) in Cash and Cash Equivalents	14,717,232.73	(165,773.85)	14,551,458.88
Cash and Cash Equivalents, July 1, 2017	15,743,946.98	2,671,278.99	18,415,225.97
Cash and Cash Equivalents, June 30, 2018	$ 30,461,179.71	$ 2,505,505.14	$ 32,966,684.85

NOTE 20 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2018, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

GASB Statement No. 85, *Omnibus 2017*

GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

NOTE 21 - NET POSITION RESTATEMENTS

As of July 1, 2017, net position as previously reported was restated as follows:

	Amount
July 1, 2017 Net Position as Previously Reported	$ 148,464,197.62
Restatements:	
Correction of Accounting Error - Unearned Revenue	(637,692.31)
Record the University's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	(141,196,723.00)
July 1, 2017 Net Position as Restated	$ 6,629,782.31

REQUIRED SUPPLEMENTARY INFORMATION

The University of North Carolina at Pembroke
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Five Fiscal Years **Exhibit B-1**

	2017	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.18521%	0.17662%	0.16559%	0.16521%	0.17040%
Proportionate Share of TSERS Collective Net Pension Liability	$ 14,695,378.00	$ 16,233,202.00	$ 6,102,319.00	$ 1,936,957.00	$ 10,345,016.00
Covered Payroll	$ 27,321,437.00	$ 25,493,403.69	$ 24,264,258.14	$ 23,228,361.00	$ 23,946,234.50
Net Pension Liability as a Percentage of Covered Payroll	53.79%	63.68%	25.15%	8.34%	43.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	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 University of North Carolina at Pembroke
Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years ***Exhibit B-2***

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 3,042,666.00	$ 2,726,679.00	$ 2,332,649.00	$ 2,220,179.62	$ 2,018,544.57
Contributions in Relation to the Contractually Determined Contribution	3,042,666.00	2,726,679.00	2,332,649.00	2,220,179.62	2,018,544.57
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 28,225,105.00	$ 27,321,437.00	$ 25,493,403.69	$ 24,264,258.14	$ 23,228,361.00
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 1,994,721.25	$ 1,777,703.29	$ 1,177,679.00	$ 822,852.00	$ 785,148.00
Contributions in Relation to the Contractually Determined Contribution	1,994,721.25	1,777,703.29	1,177,679.00	822,852.00	785,148.00
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 23,946,234.50	$ 23,893,861.40	$ 23,888,021.00	$ 23,049,067.00	$ 23,367,513.00
Contributions as a Percentage of Covered Payroll	8.33%	7.44%	4.93%	3.57%	3.36%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

The University of North Carolina at Pembroke
Notes to Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase

2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%

Changes of assumptions. In 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' 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 Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation.

The Board of Trustees also adopted a new asset valuation method for the Teachers' and State Employees' Retirement System. For determining plan funding requirements, these plans now use 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 2017 *Comprehensive Annual Financial Report* .

The University of North Carolina at Pembroke
Required Supplementary Information
Schedule of the Proportionate Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Two Fiscal Years — *Exhibit B-3*

	2017	2016
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	0.28521%	0.33211%
Proportionate Share of Collective Net OPEB Liability	$ 93,510,444.00	$ 144,479,138.00
Covered Payroll	$ 49,293,549.00	$ 47,954,109.00
Net OPEB Liability as a Percentage of Covered Payroll	189.70%	301.29%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%
Disability Income Plan of North Carolina		
Proportionate Share Percentage of Collective Net OPEB Asset	0.30814%	0.30805%
Proportionate Share of Collective Net OPEB Asset	$ 188,335.00	$ 191,299.00
Covered Payroll	$ 49,923,549.00	$ 47,954,108.00
Net OPEB Asset as a Percentage of Covered Payroll	0.38%	0.40%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	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* .

The University of North Carolina at Pembroke
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years ***Exhibit B-4***

Retiree Health Benefit Fund	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 3,094,533.00	$ 2,900,558.00	$ 2,685,430.00	$ 2,545,903.00	$ 2,406,033.00
Contributions in Relation to the Contractually Determined Contribution	3,094,533.00	2,900,558.00	2,685,430.00	2,545,903.00	2,406,033.00
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 51,149,303.00	$ 49,924,549.00	$ 47,954,109.00	$ 46,373,457.00	$ 44,556,163.00
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%

	2013	**2012**	**2011**	**2010**	**2009**
Contractually Required Contribution	$ 2,350,406.00	$ 2,194,918.00	$ 2,177,439.00	$ 1,932,874.00	$ 1,802,241.00
Contributions in Relation to the Contractually Determined Contribution	2,350,406.00	2,194,918.00	2,177,439.00	1,932,874.00	1,802,241.00
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 44,347,268.00	$ 43,898,352.00	$ 44,437,540.00	$ 42,952,750.00	$ 43,957,098.00
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%

Disability Income Plan of North Carolina	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 71,609.00	$ 204,687.00	$ 196,612.00	$ 190,131.00	$ 196,047.00
Contributions in Relation to the Contractually Determined Contribution	71,609.00	204,687.00	196,612.00	190,131.00	196,047.00
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 51,149,303.00	$ 49,924,549.00	$ 47,954,109.00	$ 46,373,457.00	$ 44,556,163.00
Contributions as a Percentage of Covered Payroll	0.14%	0.41%	0.41%	0.41%	0.44%

	2013	**2012**	**2011**	**2010**	**2009**
Contractually Required Contribution	$ 195,128.00	$ 228,271.00	$ 231,075.00	$ 223,354.00	$ 229,981.00
Contributions in Relation to the Contractually Determined Contribution	195,128.00	228,271.00	231,075.00	223,354.00	229,981.00
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 44,347,268.00	$ 43,898,352.00	$ 44,437,540.00	$ 42,952,750.00	$ 43,957,098.00
Contributions as a Percentage of Covered Payroll	0.44%	0.52%	0.52%	0.52%	0.52%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the OPEB RSI tables.

The University of North Carolina at Pembroke
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. 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 Retiree Health Benefit Fund. 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 Retiree Health Benefit Fund. 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 18 months following the date of the valuation results for the Disability Income Plan of North Carolina. See Note 16 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 Retiree Health Benefit Fund and the Disability Income Plan of North Carolina. 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 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the Retiree Health Benefit Fund were reduced based upon the plan's most recent experience.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report* .

INDEPENDENT AUDITOR'S REPORT

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Pembroke (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 21, 2018. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Pembroke Foundation, Inc., as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 21, 2018

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NC OSA
The Taxpayers' Watchdog

This audit required 713 hours at an approximate cost of $73,439.