

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



NORTH CAROLINA STATE UNIVERSITY

RALEIGH, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2017

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



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STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of North Carolina State University for the year ended June 30, 2017, 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, CPA
State Auditor

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



INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina State University
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the NC State Investment Fund, Inc., which represent 22 percent, 34 percent, and 9 percent, respectively, of the assets, net position, and revenues of the University; nor the financial statements of the North Carolina State University Foundation, Inc., the NC State Student Aid Association, Inc., or The North Carolina Agricultural Foundation, Inc., the University's discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the North Carolina State University Foundation, Inc., the NC State Student Aid Association, Inc., and The North Carolina

Agricultural Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Carolina State University, and its discretely presented component units, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 31, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's Discussion and Analysis of the financial report provides an overview of the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes from the prior year. The overview also includes information on currently known facts, decisions, or conditions affecting the financial affairs of the University.

Financial Highlights

NC State University's net position increased by \$58.9 million to \$2.05 billion in fiscal year 2017. Net position represents the University's equity. It is the residual of all the other elements of the statement of financial position, the assets and deferred outflows of resources less liabilities and deferred inflows of resources. Restricted expendable net position increased \$53.3 million, driven by the increase in capital projects net position funded by capital appropriations, a new debt issuance, and an increase in endowed professorships due to professorships reaching their minimum endowment level which allows spending to commence. Restricted nonexpendable net position increased \$9.6 million, and unrestricted net position decreased by \$4.0 million.

Revenues increased by \$86.4 million or 5.8%, to \$1.59 billion in fiscal year 2017. Revenues represent amounts received or accrued that are either operating or nonoperating on the accompanying financial statements. Increases in tuition and fees, investment income, federal appropriations, sales and services and research contracts and grants were major factors in the revenue growth.

Expenses grew 7.1% in 2017, up \$100.9 million over fiscal year 2016 expenses. Expenses represent amounts paid or accrued for operating or nonoperating purposes. Instruction, research, auxiliary enterprises, public service, institutional support and depreciation showed the largest increases, while other functional categories had small increases or decreases.

Using the Financial Statements

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

North Carolina State 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*. NC State blends two component units as if they were part of the University, and three entities are reported as discretely presented component units based on the nature and significance of their relationship to the University. Note 1A provides detailed information on the University's financial reporting entity.

The University's three financial statements are used to evaluate financial position as of June 30th and the results of operations for the fiscal year then ended. The *Statement of Net Position* provides information relative to the evaluation of financial position. The *Statement of*

Revenues, Expenses, and Changes in Net Position provides information relative to the evaluation of the results of operations. Its ending net position agrees to the total net position on the *Statement of Net Position*. The University's three financial statements are used to evaluate financial position as of June 30th and the results of operations for the fiscal year then ended. The *Statement of Net Position* provides information relative to the evaluation of financial position. The *Statement of Revenues, Expenses, and Changes in Net Position* provides information relative to the evaluation of the results of operations. Its ending net position agrees to the total net position on the *Statement of Net Position*.

The financial statements also include a *Statement of Cash Flows*. This statement is used to identify the University's sources and uses of cash. The ending cash on the *Statement of Cash Flows* agrees to the total cash reported on the *Statement of Net Position*. Also, this statement reconciles the net operating loss reported in the *Statement of Revenues, Expenses, and Changes in Net Position* to the net cash used by operating activities.

In using the financial statements, the *Notes to the Financial Statements* accompanying the financial statements should be read in conjunction with the financial statements. The notes provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on long-term liabilities, detailed information on accounts receivable, accounts payable, revenues and expenses, required information on pension plans and other postemployment benefits, insurance against losses, commitments and contingencies, and accounting changes. If necessary, the disclosures include a discussion of adjustments to prior periods and events subsequent to the University's financial statement period. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

Comparative Condensed Financial Statement Information

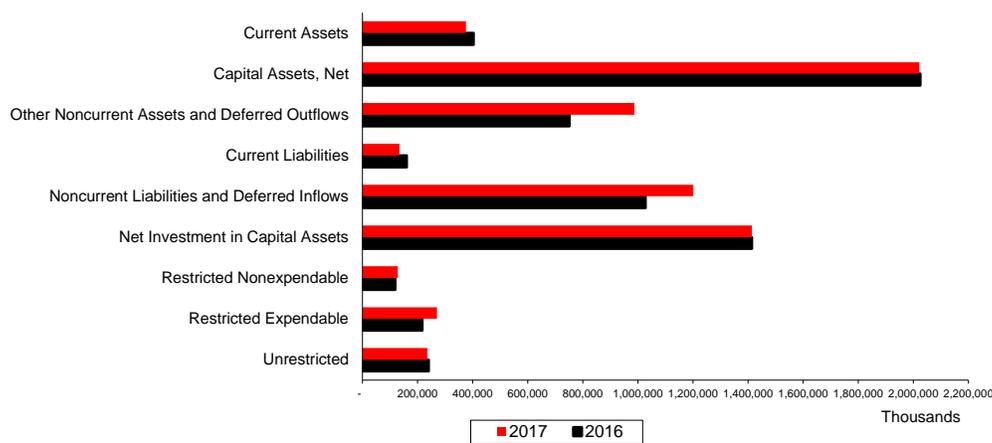
Statement of Net Position

The *Statement of Net Position* provides information regarding the University's assets, deferred outflows and inflows of resources, liabilities, and net position as of June 30, 2017. Asset and liability balances are classified as either current or noncurrent. Assets classified as current are those that are available to pay for current liabilities or current year expenditures. Liabilities classified as current are those that are due and payable in the next fiscal year. The net position balances are classified as either net investment in capital assets, restricted or unrestricted. In addition, net position balances classified as restricted are classified as either nonexpendable or expendable. Overall, the *Statement of Net Position* provides information to evaluate the financial strength of the University and its ability to meet current and long-term obligations.

Following is a comparative analysis on the condensed balances reported in the *Statement of Net Position* as of June 30, 2017 and June 30, 2016.

	2017	2016	Increase/ (Decrease)
Assets			
Current Assets	\$ 376,169,813	\$ 403,005,557	\$ (26,835,744)
Capital Assets, Net	2,021,663,820	2,025,328,291	(3,664,471)
Other Noncurrent Assets	838,973,862	706,572,216	132,401,646
Total Assets	3,236,807,495	3,134,906,064	101,901,431
Deferred Outflows of Resources			
Accumulated Decrease in Fair Value of Hedging Derivatives	9,026,065	13,837,267	(4,811,202)
Deferred Outflows Related to Pensions	139,036,517	31,284,957	107,751,560
Total Deferred Outflows of Resources	148,062,582	45,122,224	102,940,358
Liabilities			
Current Liabilities	133,674,526	161,035,104	(27,360,578)
Noncurrent Liabilities:			
Long-Term Liabilities	839,048,134	682,735,164	156,312,970
Other Noncurrent Liabilities	352,404,788	327,500,337	24,904,451
Total Liabilities	1,325,127,448	1,171,270,605	153,856,843
Deferred Inflows of Resources			
Deferred Inflows Related to Pensions	9,565,156	17,506,004	(7,940,848)
Net Position			
Net Investment in Capital Assets	1,413,679,229	1,413,824,172	(144,943)
Restricted			
Nonexpendable	128,956,654	119,263,539	9,693,115
Expendable	271,092,872	217,731,322	53,361,550
Unrestricted	236,448,718	240,432,645	(3,983,927)
Total Net Position	\$ 2,050,177,473	\$ 1,991,251,678	\$ 58,925,795

The following graph illustrates the assets, deferred outflows, liabilities and net position of the University as of June 30, 2017, as compared to restated June 30, 2016 balances.



Assets totaled \$3.24 billion, an increase of \$101.9 million over the prior year. This change in assets includes a decrease in current assets of \$26.8 million, an overall decrease in net capital assets of \$3.7 million and an increase in other noncurrent assets of \$132.4 million.

Current assets decreased by \$26.8 million in fiscal year 2017. This decrease was primarily the result of a \$42.5 million decrease in cash and cash equivalents, driven by the management flexibility carryforward change from 5% to 2.5% and the reinvestment of a \$32.6 million Intermediate Term Fund investment liquidated in the prior year. Current restricted cash and cash equivalents increased \$16.3 million as a result of increases in contract and grants projects, gift income, capital improvement and debt funds. Other current assets increased or decreased by small amounts.

The decrease in net capital assets of \$3.7 million is due largely to a combination of a decrease in spending on construction projects and an increase in accumulated depreciation in fiscal year 2017 as compared to fiscal year 2016. Capital appropriations resources and capital gifts and grants decreased from the prior year.

The \$132.4 million increase in other noncurrent assets is made up of increases in endowment investments, restricted investments and other investments which was offset with a decrease in restricted cash. Noncurrent investments increased \$175.8 million due to increases in unrealized and realized gains due to market fluctuations, increases in participant contributions and the reinvestment of an intermediate term fund liquidated in the prior year. Noncurrent restricted cash and cash equivalents decreased \$43.5 million in fiscal year 2017. This large decrease was caused by the investment of \$57.7 million from the Hofmann timber deed proceeds received in prior year which was offset by capital allotment increases of \$16.8 million. The remaining difference was made up of numerous smaller items.

The deferred outflows of resources for the University's swap agreements and the deferred outflows for pensions are shown in a separate section of the financial statements. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was implemented in fiscal year 2013, established deferred sections of the financial statements. The deferred outflows for pensions account reflects the University's allocated portion of deferred outflows for the TSERS cost-sharing pension plan. Amounts in this account are amortized over time as pension expense. Deferred outflows of resources increased \$102.9 million in current year. The \$107.7 million increase in the deferred outflows for pensions is due to changes in the pension contributions and the University's proportionate share of contributions to the plan. The accumulated decrease in the fair value of hedging derivatives account decreased \$4.8 million due to market fluctuations which positively affected the fair value.

Liabilities totaled \$1.33 billion, an increase of \$153.9 million over the prior year. The increase in liabilities is attributable to an increase in noncurrent liabilities of \$181.2 million, offset by a decrease in current liabilities of \$27.3 million.

Current liabilities totaled \$133.7 million. These liabilities include accounts payable and accrued liabilities, payables to other entities, unearned revenue, and the current portion of University debt. The current liabilities decrease of \$27.3 million was primarily caused by a decrease in short-term debt. The University issued General Revenue Bond series 2017 and refunded \$40.0 million in outstanding commercial paper in fiscal year 2017 and then issued an additional \$5.0 million in commercial paper in same year. This was offset by increases in unearned revenue of \$3.2 million, with the largest increase being in contract and grant unearned revenues. The current portion of long term liabilities relating to bonds payable increased \$5.3 million due to the new bond issuance. The remaining difference is made up of multiple smaller items.

Noncurrent liabilities totaled \$1.19 billion, and include deposits payable, funds held for other entities, funds held in trust in the investment pool, unearned revenue, long-term liabilities and the hedging derivative liability. The primary factors in the \$181.2 million increase in noncurrent liabilities was funds held in trust for pool participants and long-term liabilities. Long-term liabilities increased \$156.3 million, with the pension liability being the major reason for the increase. The net pension liability rose \$123.5 million due to differences in the expected and actual earnings in the Teachers' and State Employees' Retirement System (TSERS) pension plan. Long term liabilities also increased \$35.0 million in bonds payable relating to the 2017 bond issuance and \$4.8 million in pollution remediation liability due to pollution remediation for Lot 86. Still within long-term liabilities, the pension liability increase was partially offset by a \$3.0 million decrease in notes payables due to paying off the Carol Johnson Poole Clubhouse note and small decreases in the other accounts. Funds held for others and funds held in trust for pool participants increased by a total of \$32.2 million, driven by increases in deposits by foundations. The hedging derivative liability rises and falls based on market values and showed a \$4.8 million decrease in fiscal year 2017. Other noncurrent liabilities increased or decreased by small amounts.

Deferred inflows for pensions, required by the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This \$9.57 million deferred inflows of resources is another allocation of TSER's cost-sharing pension plan balances. The \$7.9 million drop in deferred inflows is driven by the higher pension liability related to the difference between projected and actual investment earnings. These deferred inflows for pensions are amortized over time as pension expense.

Net position totaled \$2.05 billion, an increase of \$58.9 million over the prior year. Restricted expendable net position increased \$53.3 million, driven by the increase in expendable net position for capital projects funded by capital appropriations and new debt issuance as well as the increase in endowed professorships due to professorships reaching their minimum endowment level which allows spending to commence. Restricted nonexpendable net position increased \$9.6 million and unrestricted net position decreased by \$4.0 million.

The University's current assets are more than sufficient to cover current liabilities, with a ratio of 2.8 times compared to 2.5 times in the prior year. The University's total assets are significantly more than the University's liabilities with a ratio of 2.4 times as compared to 2.7 times in the prior year. These financial ratios are indicators of NC State's financial strength and its ability to meet current and long-term obligations.

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* provides information regarding the University's activities for the year ending June 30, 2017. The activity balances are classified as operating, nonoperating, or other revenues, expense, gains or losses. Activities classified as operating include all revenues of the University except those considered nonoperating, or those associated with funds received to enhance capital assets or permanent endowments. Operating expenses are all expenses except those related to interest expense on financing activities, loss on disposal of capital assets, and investment expenses (shown as net against investment income). Activities classified as nonoperating include state appropriations, noncapital gifts and grants revenue, investment income (net of investment expenses), and gains or losses on disposal of capital assets. Activities classified as other include capital gifts or grants and additions to permanent endowments. Overall, the

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Revenues, Expenses, and Changes in Net Position provides information to evaluate the University's management of operations and maintenance of financial strength.

Following is a comparative analysis on the condensed balances reported in the *Statement of Revenues, Expenses, and Changes in Net Position* for the fiscal years ended June 30, 2017, and June 30, 2016.

	2017	2016	Increase/ (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	\$ 307,439,091	\$ 291,175,319	\$ 16,263,772
Federal Appropriations	22,562,648	13,847,694	8,714,954
Grants and Contracts	288,284,295	278,330,058	9,954,237
Sales and Services, Net	253,461,699	238,447,749	15,013,950
Other	16,198,009	14,551,643	1,646,366
Total Operating Revenues	<u>887,945,742</u>	<u>836,352,463</u>	<u>51,593,279</u>
Operating Expenses			
Salaries and Benefits	932,152,864	857,250,567	74,902,297
Supplies and Materials	125,589,349	127,911,047	(2,321,698)
Services	263,000,838	251,765,902	11,234,936
Scholarships and Fellowships	43,760,379	43,820,372	(59,993)
Utilities	34,128,182	32,028,497	2,099,685
Depreciation/Amortization	95,642,657	88,721,461	6,921,196
Total Operating Expenses	<u>1,494,274,269</u>	<u>1,401,497,846</u>	<u>92,776,423</u>
Net Operating Loss	<u>(606,328,527)</u>	<u>(565,145,383)</u>	<u>41,183,144</u>
Nonoperating Revenues (Expenses)			
State Appropriations	506,418,963	502,533,982	3,884,981
Noncapital Grants - Student Financial	44,532,489	44,705,577	(173,088)
Other Noncapital Grants and Gifts	78,490,487	72,024,499	6,465,988
Investment Income	35,265,691	1,569,316	33,696,375
Other	(23,697,523)	(14,855,864)	8,841,659
Net Nonoperating Revenues	<u>641,010,107</u>	<u>605,977,510</u>	<u>35,032,597</u>
Gain Before Other Revenues	34,681,580	40,832,127	(6,150,547)
Capital Appropriations, Gifts, and Grants	14,598,596	18,483,657	(3,885,061)
Additions to Permanent Endowments	9,645,619	14,039,031	(4,393,412)
Increase in Net Position	<u>58,925,795</u>	<u>73,354,815</u>	<u>(14,429,020)</u>
Beginning Net Position	<u>1,991,251,678</u>	<u>1,917,896,863</u>	<u>73,354,815</u>
Ending Net Position	<u>\$ 2,050,177,473</u>	<u>\$ 1,991,251,678</u>	<u>\$ 58,925,795</u>

Fiscal year 2016-2017 total revenues are \$1,578,036,517 and total expenses are \$1,519,110,722.

Fiscal year 2015-2016 total revenues are \$1,491,595,178 and total expenses are \$1,418,240,363.

Operating and Nonoperating Activities

The following illustrates the relationships of operating and nonoperating revenue sources and expense functions to total revenue/expenses for the fiscal year 2017 and 2016, and the consistency of relationships between the two years.

Operating and Nonoperating Revenues

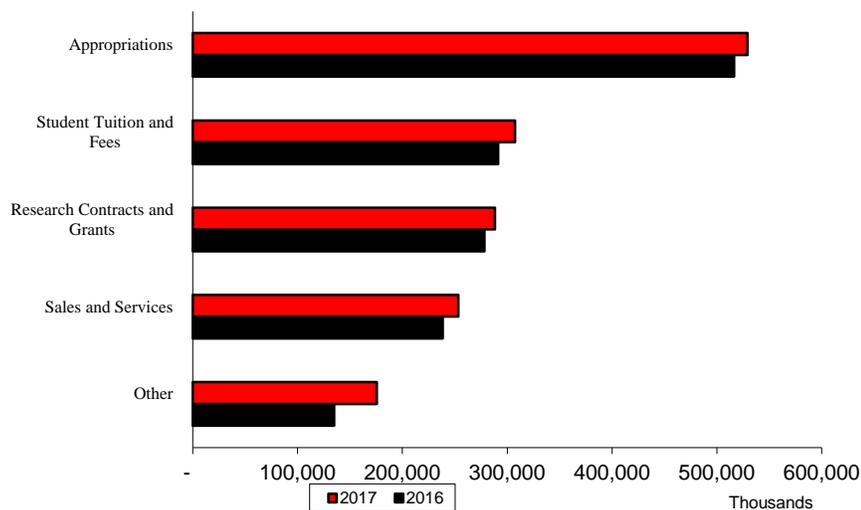
Title	% to Total 2017	% to Total 2016
State Appropriations	33%	35%
Research Contracts and Grants	19%	19%
Student Tuition and Fees	20%	20%
Sales and Services	16%	16%
Noncapital Grants and Gifts	8%	8%
Federal Appropriations	1%	1%
Other	3%	1%
Total	100%	100%

Operating and Nonoperating Expenses

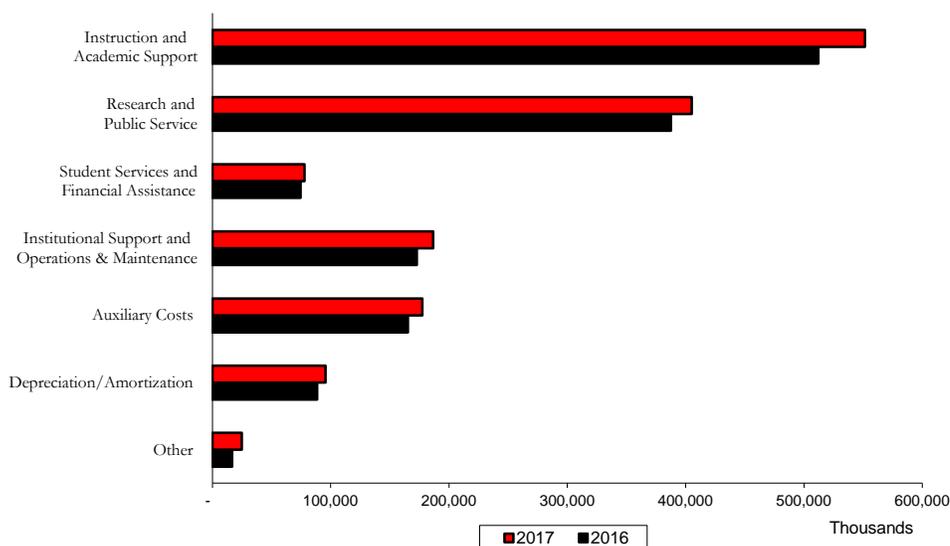
Title	% to Total 2017	% to Total 2016
Instruction	30%	30%
Research	18%	19%
Public Service	8%	8%
Auxiliary Enterprises	12%	12%
Operations & Maintenance of Plant	6%	6%
Academic Support	6%	6%
Institutional Support	7%	7%
Depreciation/Amortization	6%	6%
Student Financial Aid	3%	3%
Student Services	2%	2%
Other	2%	1%
Total	100%	100%

The following graphs illustrate the University's operating and nonoperating revenues/expenses by source/function (*in thousands*).

Operating and Nonoperating Revenues



Operating and Nonoperating Expenses



Total revenues (operating, nonoperating, and other) increased \$86.4 million or 5.8% compared to the prior year. Student tuition and fees increased \$16.3 million, as rates increased in 2017 for resident and nonresident students. The biggest tuition change was a 6% increase for nonresident undergraduates. Sales and services revenues grew \$15.0 million or 6.3%. Athletics grew \$6.0 million and there were smaller increases in various services including veterinary services, housing and bookstore. Research contracts and grants rose by \$10.0 million, mostly in federal contracts and grants. Federal appropriations increased \$8.7 million due to timing in the federal drawdown in current year versus prior year. Noncapital gifts were up \$6.7 million or 9.4% and state appropriations increased \$3.9 million. Investment income increased \$33.7 million due to gains in a positive market. The remaining difference is made up of numerous small items.

Total expenses (operating and nonoperating) increased \$100.9 million or 7.1% compared to the prior year. Salaries and benefits increased \$74.9 million or 8.7% in 2017. The largest salary increases were in instruction, \$31.7 million, and institutional support, \$10.0 million. The largest increase of \$31.9 million is due to pension expense relating to GASB 68. There was a 1.5% legislative raise in fiscal year 2017 as well as a \$450 or \$750 merit bonus and other salary increases and the related benefits also contributed to the salaries growth. The next largest increase in expenses was services. Services grew \$11.2 million, driven by increases in repairs, maintenance agreements and communications. Auxiliary and academic support showed the largest increases in services. As capital assets rose, the related depreciation/amortization expense also increased by \$6.9 million or 7.8%. With fewer active construction projects, less interest was capitalized during 2017 so interest and fees on debt rose \$4.6 million. Other nonoperating expenses increased \$4.2 million due to pollution remediation for Lot 86. Utilities increased \$2.1 million due to an increase in electricity spending. Partially offsetting these expense increases, supplies and materials dropped \$2.3 million due to a drop in overall construction activity from prior year. The remaining difference is made up of numerous small items.

Other Activity

Other activity totaled \$24.2 million, down \$8.3 million from the prior year. The University received \$2.9 million less from the state in capital appropriations. Capital gifts fell \$2.6 million, due to receiving fewer gifts from foundations. Capital grants showed a small increase of \$1.6 million but additions to permanent endowment were down \$4.4 million.

Capital Assets and Long-Term Debt Activities

Capital Assets

The University capitalizes assets that have a value or cost equal to or greater than \$5,000 at the date of acquisition and an expected useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater. Repairs and renovations that do not extend the life of the building beyond the expected useful life at acquisition, or increase the future service potential of the building are expensed and not capitalized.

Machinery and equipment are depreciated over their estimated useful lives, generally 4 to 22 years beginning in the year of acquisition. Buildings and general infrastructure are depreciated over their estimated useful lives, generally 10 to 50 years for buildings and 15 to 75 years for general infrastructure beginning in the year that the construction is completed or, if purchased after construction, when acquired. Computer software is amortized over a useful life of 2 to 15 years. Land, construction in progress, and computer software in development are nondepreciable capital assets. When a construction project is completed, the capital project costs are moved from the construction in progress account to either buildings or general infrastructure as appropriate.

As shown in the following table, the University decreased its net capital assets by \$3.7 million during fiscal year 2017.

	2017	2016	Increase/ (Decrease)
Land	\$ 65,562,092	\$ 62,457,494	\$ 3,104,598
Construction in Progress	39,116,700	61,591,561	(22,474,861)
Computer Software in Development	889,234	323,600	565,634
Buildings	2,302,604,237	2,228,388,315	74,215,922
Machinery and Equipment	382,078,385	359,435,354	22,643,031
General Infrastructure	208,278,633	207,764,589	514,044
Computer Software	25,606,749	20,544,306	5,062,443
Total Capital Assets	3,024,136,030	2,940,505,219	83,630,811
Accumulated Depreciation/Amortization	(1,002,472,210)	(915,176,928)	87,295,282
Capital Assets, Net	<u>\$ 2,021,663,820</u>	<u>\$ 2,025,328,291</u>	<u>\$ (3,664,471)</u>

In addition to costs incurred, the University had \$50.6 million in outstanding commitments for construction as of June 30, 2017.

During fiscal year 2017 NC State continued construction on new facilities and work on renovations to modernize the campus. Funding for these improvements came from funds provided by University debt financing and NC bonds and certificates of participation.

The multi-year renovation of Reynolds Coliseum was completed in the current fiscal year. The \$35 million project's Grand Re-Opening in September showcased one of the legacy buildings of NC State's campus. Originally opening in 1949, Reynolds was completely renovated and now serves as the home to all services of ROTC and several Wolfpack Athletic teams, including women's basketball, women's volleyball, women's gymnastics and men's wrestling. The 186,000 square foot structure also received certification as a LEED Silver building due to its new sustainability. Reynolds is designated as one of the University's "Hallowed Spaces" and because of this extraordinary care to preserve its special nature, the exterior was largely preserved as it was prior to the renovation.

Reynold's new sustainability features include water efficient landscaping and water use reduction, and enhanced energy performance by installing an energy-efficient HVAC that services the entire building. To aid the HVAC system, external windows were completely replaced with new double glazed, thermally-improved units. Since this was a renovation, the size of the arena was reduced, the circulation area was improved and a Grand Hall was created as a new public space on campus using the same existing materials and structures to reduce waste.

Construction was completed on the new Gregg Museum of Art & Design near the University's iconic Belltower. The renovation of the historic chancellor's residence and grounds, and the addition of a new 15,000 square-wing for galleries and collections space opened in fiscal year 2017. The facility represents an exciting public-private collaboration. Partners including NC State students and alumni, faculty and staff, Wake County, and the City of Raleigh have joined with the University to make the project possible. In addition to their significant investment in the building itself, donors continue to establish endowments to support programs, exhibitions, acquisitions and other needs at the new facility, which is poised to broaden experiences for NC State students, faculty and staff, as well as the wider community.

Renovation of the CVM Main Building Research Lab module 3B was completed to accommodate discipline clustering in a more open and flexible layout. Renovations include wet lab renovation and write-up computational support areas with finish, building system, and casework upgrades. This project renovates approximately 8,000 square feet of the existing CVM Main Building. Among the renovated areas are an open lab, bioinformatics space, conference room, equipment alcoves, and lab support spaces.

Long-Term Debt Activities

The University incurs long-term debt to finance construction projects, to purchase equipment using lease arrangements and to provide for accumulated unused vacation benefits for employees. As shown in the following chart, the University increased its long-term debt during fiscal year 2017.

	2017	2016	Increase/ (Decrease)
Bonds Payable	\$ 519,386,497	\$ 484,255,411	\$ 35,131,086
Net Pension Liability	202,388,385	78,841,126	123,547,259
Notes Payable	68,783,161	71,817,697	(3,034,536)
Capital Leases Payable	730,815	541,177	189,638
Compensated Absences	68,832,460	67,831,331	1,001,129
Pollution Remediation Payable	4,787,228		4,787,228
Total Long-term Liabilities	<u>\$ 864,908,546</u>	<u>\$ 703,286,742</u>	<u>\$ 161,621,804</u>

Long-term liabilities grew by \$161.6 million, mainly due to the increase in the University's share of the net pension liability for the Teachers' and State Employees' Retirement System (TSERS) plan. The primary cause of the \$123.5 million increase in the net pension liability was the difference between the projected and actual investment earnings in the TSERS plan. Principal payments of notes and bonds partially offset the increase in liability resulting from pension liability increase. The final payments for the General Revenue Bonds, Series 2005A and the Carol Johnson Poole Clubhouse Note were made in fiscal year 2016 which decreased bonds payable and notes payable principal amounts. Bonds payable had a net increase due to the University issuing \$50,438,952 in North Carolina State University at Raleigh General Revenue Bonds, Series 2017. The bonds were issued for a current refunding of \$50,000,000 in commercial paper and to have funds available for Case Commons. Pollution Remediation Payable was new this year due to pollution remediation for Lot 86.

Economic Factors That Will Affect the Future

The State of North Carolina continues to experience steady economic growth. Employment growth is improving as employment markets continue to stabilize. The State's economic growth is projected to keep pace with that of the nation as a whole. The State's unemployment rate decreased to 4.2% as of June 2017. The main drivers of revenue, employment and personal income, remain stable. Employment gains continue to improve prospects for better income growth over the next few years.

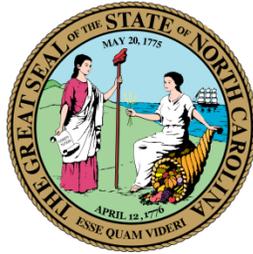
The North Carolina General Assembly passed and the Governor signed a 2017-19 Appropriation Bill that adjusted NC State University's state appropriated funds as follows. For the first time in over 10 years the University did not receive a reduction in state appropriated operating funds. However, the University is anticipating a reduction in enrollment change funding of \$6.7 million for FY 17-18, but plans to rebound in FY 18-19 with a \$6.9 million increase in state appropriated funding. The University continues to plan for only very gradual enrollment change that is focused on graduate students. The University received \$9.2 million for repairs and renovations for facilities and infrastructure, \$10.5 million for salary increases and associated benefits for eligible employees, and \$9 million in additional tuition receipts from increases approved by the UNC Board of Governors in February, 2017.

The University is proceeding with two large capital improvement projects partially funded by the Connect NC Bonds. The Engineering Building Oval Project should begin construction in the spring of 2018 with a total project cost of \$154 million of which \$75 million will come from

the Connect NC Bond. The Plant Sciences Initiatives project should begin construction in the spring of 2019 with a total project cost of \$160.2 million of which \$85 million will also come from the Connect NC Bond.

The University's projected enrollment growth through 2025 flattens and somewhat stabilizes undergraduate and master's degree enrollment with a focus on growing doctoral enrollment, especially in the STEM (Science, Technology, Engineering, Mathematics) disciplines. The quality of the undergraduate student body continues to increase. Retention and graduation rates continue to improve with graduating student debt at a very modest level among major public research universities. The University continues to be rated as one of the country's best values in higher education.

The University will be implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* in the 2018 fiscal year. The University expects this implementation to have a significant negative impact on its net position from a financial reporting perspective.



FINANCIAL STATEMENTS

North Carolina State University
Statement of Net Position
June 30, 2017

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 167,212,568
Restricted Cash and Cash Equivalents	118,122,221
Receivables, Net (Note 5)	71,545,288
Due from Primary Government	7,528,701
Due from State of North Carolina Component Units	2,976,590
Due from University Component Units	450,000
Inventories	5,187,115
Notes Receivable, Net (Note 5)	3,147,330
	<hr/>
Total Current Assets	376,169,813

Noncurrent Assets:

Restricted Cash and Cash Equivalents	132,571,357
Endowment Investments	311,538,011
Restricted Investments	221,036,351
Other Investments	165,849,541
Notes Receivable, Net (Note 5)	7,978,602
Capital Assets - Nondepreciable (Note 6)	105,568,026
Capital Assets - Depreciable, Net (Note 6)	1,916,095,794
	<hr/>
Total Noncurrent Assets	2,860,637,682
	<hr/>
Total Assets	3,236,807,495

DEFERRED OUTFLOWS OF RESOURCES

Accumulated Decrease in Fair Value of Hedging Derivatives	9,026,065
Deferred Outflows Related to Pensions	139,036,517
	<hr/>
Total Deferred Outflows of Resources	148,062,582

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	43,570,047
Due to Primary Government	8,549,951
Due to State of North Carolina Component Units	445,849
Unearned Revenue	45,474,047
Interest Payable	4,629,220
Short-Term Debt (Note 8)	5,145,000
Long-Term Liabilities - Current Portion (Note 9)	25,860,412
	<hr/>
Total Current Liabilities	133,674,526

Noncurrent Liabilities:

Deposits Payable	3,210,132
Funds Held for Others	36,869,345
Unearned Revenue	73,897,092
U. S. Government Grants Refundable	3,674,151
Funds Held in Trust for Pool Participants	225,728,003
Hedging Derivative Liability (Note 10)	9,026,065
Long-Term Liabilities, Net (Note 9)	839,048,134
	<hr/>
Total Noncurrent Liabilities	1,191,452,922
	<hr/>
Total Liabilities	1,325,127,448

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	9,565,156
	<hr/>

North Carolina State University
Statement of Net Position
June 30, 2017

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	1,413,679,229
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	11,819,357
Endowed Professorships	100,717,339
Departmental Uses	8,123,590
Loans	8,296,368
Expendable:	
Scholarships and Fellowships	31,546,395
Research	15,922,867
Endowed Professorships	79,541,478
Departmental Uses	40,861,641
Loans	1,102,670
Capital Projects	84,923,854
Debt Service	17,193,967
Unrestricted	<u>236,448,718</u>
Total Net Position	<u>\$ 2,050,177,473</u>

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

North Carolina State University
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2017

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 12)	\$ 307,439,091
Federal Appropriations	22,562,648
Federal Grants and Contracts	164,494,966
State and Local Grants and Contracts	38,715,311
Nongovernmental Grants and Contracts	85,074,018
Sales and Services, Net (Note 12)	253,461,699
Interest Earnings on Loans	264,392
Other Operating Revenues, Net (Note 12)	<u>15,933,617</u>
Total Operating Revenues	<u>887,945,742</u>

EXPENSES

Operating Expenses:	
Salaries and Benefits	932,152,864
Supplies and Materials	125,589,349
Services	263,000,838
Scholarships and Fellowships	43,760,379
Utilities	34,128,182
Depreciation / Amortization	<u>95,642,657</u>
Total Operating Expenses	<u>1,494,274,269</u>
Operating Loss	<u>(606,328,527)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	506,418,963
Noncapital Grants - Student Financial Aid	44,532,489
Noncapital Grants	530,255
Noncapital Gifts	77,960,232
Investment Income (Net of Investment Expense of \$1,232,417)	35,265,691
Interest and Fees on Debt	(21,378,848)
Federal Interest Subsidy on Debt	1,138,930
Other Nonoperating Expenses	<u>(3,457,605)</u>
Net Nonoperating Revenues	<u>641,010,107</u>
Income Before Other Revenues	34,681,580

Capital Appropriations	6,079,067
Capital Grants	4,138,812
Capital Gifts	4,380,717
Additions to Endowments	<u>9,645,619</u>
Increase in Net Position	58,925,795

NET POSITION

Net Position - July 1, 2016	<u>1,991,251,678</u>
Net Position - June 30, 2017	<u>\$ 2,050,177,473</u>

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

North Carolina State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 874,296,553
Payments to Employees and Fringe Benefits	(926,443,261)
Payments to Vendors and Suppliers	(415,820,009)
Payments for Scholarships and Fellowships	(43,760,379)
Loans Issued	(2,058,752)
Collection of Loans	1,989,771
Interest Earned on Loans	266,060
Other Receipts	15,897,070
	<hr/>
Net Cash Used by Operating Activities	(495,632,947)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	506,418,963
Noncapital Grants - Student Financial Aid	44,532,489
Noncapital Grants	(821,882)
Noncapital Gifts	77,510,232
Additions to Endowments	9,645,619
Proceeds from Hofmann Forest Timber Deed	128
William D. Ford Direct Lending Receipts	114,678,102
William D. Ford Direct Lending Disbursements	(111,197,222)
Related Activity Agency Receipts	55,620,428
Related Activity Agency Disbursements	(49,624,783)
External Participation in Investment Fund Receipts	42,213,000
External Participation in Investment Fund Disbursements	(16,441,134)
Other Payments	(1,629,358)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	670,904,582

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	275,623,952
Capital Appropriations	6,079,067
Capital Grants	3,777,093
Capital Gifts	3,420,786
Proceeds from Sale of Capital Assets	499,950
Acquisition and Construction of Capital Assets	(96,295,640)
Principal Paid on Capital Debt and Leases	(277,334,382)
Interest and Fees Paid on Capital Debt and Leases	(21,099,815)
Federal Interest Subsidy on Debt Received	1,138,930
Other Payments	(646,930)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(104,836,989)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	8,359,488
Investment Income	4,255,697
Purchase of Investments and Related Fees	(152,730,288)
	<hr/>
Net Cash Used by Investing Activities	(140,115,103)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(69,680,457)
Cash and Cash Equivalents - July 1, 2016	487,586,603
	<hr/>
Cash and Cash Equivalents - June 30, 2017	\$ 417,906,146

North Carolina State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (606,328,527)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/ Amortization Expense	95,642,657
Allowances, Write-Offs, and Amortizations	(167,410)
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	1,513,001
Due from Primary Government	(645,283)
Inventories	740,565
Notes Receivable, Net	(31,050)
Deferred Outflows for Pensions	(107,751,560)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	1,921,957
Due to Primary Government	878,280
Due to State of North Carolina Component Units	(68,204)
Unearned Revenue	1,679,082
Net Pension Liability	123,547,259
Compensated Absences	1,001,129
Deposits Payable	376,005
Deferred Inflows for Pensions	(7,940,848)
Net Cash Used by Operating Activities	<u>\$ (495,632,947)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 167,212,568
Restricted Cash and Cash Equivalents	118,122,221
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>132,571,357</u>
Total Cash and Cash Equivalents - June 30, 2017	<u>\$ 417,906,146</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 364,484
Assets Acquired through a Gift	959,931
Change in Fair Value of Investments	25,924,943
Loss on Disposal of Capital Assets	(546,239)
Amortization of Bond Premiums/Discounts	(1,322,866)

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

North Carolina State University Foundations
Statement of Financial Position
June 30, 2017

Exhibit B-1

	North Carolina State University Foundation, Inc.	NC State Student Aid Association, Inc.	The North Carolina Agricultural Foundation, Inc.
ASSETS			
Cash and Cash Equivalents	\$ 17,936,203	\$ 4,975,902	\$ 19,969,970
Current Investments		7,890,229	
Intermediate Investments	7,082,930		19,014,469
Long-Term Investments	283,498,211	26,175,834	88,471,468
Closely Held Stock			4,890
Cash Surrender Value of Life Insurance		134,885	
Assets Held in Charitable Trusts and Annuities	22,863,844	1,280,725	
Donated Property and Land	1,586,350		34,685,980
Land and Property Held for Others	1,000,000		
Receivables, Net	101,306	88,845	179,035
Pledges Receivable/Promises	63,756,360	20,289,933	5,504,040
Land Held for Investment		7,348,929	
Prepaid Expenses		53,576	
Cash Restricted for Long-Term Purposes		8,801,835	
Property and Equipment, Net	6,711,993	28,856,560	54,384
Other Assets	292,683		10,828
Total Assets	<u>\$ 404,829,880</u>	<u>\$ 105,897,253</u>	<u>\$ 167,895,064</u>
LIABILITIES			
Accounts Payable and Accrued Expenses	\$ 630,109	\$ 606,962	\$ 329,038
Due to University		450,000	
Due to Others	1,289,635	1,524,277	105,173
Life Income Funds Payable	19,284,816		5,818,663
Deferred Revenue	8,545	2,714,900	42,987
Funds Held for Others	828,862		
Long-Term Debt		19,465,000	
Total Liabilities	<u>22,041,967</u>	<u>24,761,139</u>	<u>6,295,861</u>
NET ASSETS			
Unrestricted	13,808,426	24,876,419	3,121,752
Temporarily Restricted	119,109,772	19,554,973	75,972,516
Permanently Restricted	249,869,715	36,704,722	82,504,935
Total Net Assets	<u>382,787,913</u>	<u>81,136,114</u>	<u>161,599,203</u>
Total Liabilities and Net Assets	<u>\$ 404,829,880</u>	<u>\$ 105,897,253</u>	<u>\$ 167,895,064</u>

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

North Carolina State University Foundations
Statement of Financial Position
June 30, 2017

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Total Assets	\$ 404,829,880	\$ 105,897,253	\$ 167,895,064
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Deferred Revenue	8,545	2,714,900	42,987
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Long-Term Debt		19,465,000	
Total Liabilities	22,041,967	24,761,139	6,295,861
NET ASSETS			
Unrestricted	13,808,426	24,876,419	3,121,752
Temporarily Restricted	119,109,772	19,554,973	75,972,516
Permanently Restricted	249,869,715	36,704,722	82,504,935
Total Net Assets	382,787,913	81,136,114	161,599,203
Total Liabilities and Net Assets	\$ 404,829,880	\$ 105,897,253	\$ 167,895,064

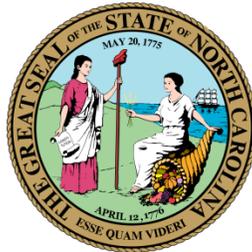
The accompanying notes to the financial statements are an integral part of this statement.

**North Carolina State University Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2017**

Exhibit B-2

	North Carolina State University Foundation, Inc.	NC State Student Aid Association, Inc.	The North Carolina Agricultural Foundation, Inc.
CHANGES IN UNRESTRICTED NET ASSETS			
Revenues and Gains:			
Contributions	\$ 8,963	\$ 12,459,041	\$ 1,736,028
Clubs Income		177,530	
Donated Services and Salaries	1,609,000		1,444,000
Leasehold Improvements	219,029		
Net Investment Income	1,629,471	3,280,713	132,811
Advertising Income		803,786	
Special Events		174,927	
Interest and Dividends	273,678		431,763
Disposal of Other Assets			(29,271)
Other Income	1,801,099	69,771	140,826
Net Assets Released from Restrictions: Program or Time Restrictions	20,872,238		12,894,138
Net Assets Released from Restrictions: Facility Improvements		6,165,959	
Total Unrestricted Revenues, Gains, and Other Support	<u>26,413,478</u>	<u>23,131,727</u>	<u>16,750,295</u>
Expenses and Losses:			
Scholarships and Fellowships	6,706,287		3,988,496
University Support	6,013,049	12,519,814	7,480,651
University Facilities Support	3,231,483	7,974,451	201,157
Other Contracted Services	1,335,855		
Other Current Services	632,237		2,182,958
Administrative	704,053	1,271,710	382,000
Fund Raising	4,481,287	2,410,621	2,477,991
Other	1,848,646		
Total Expenses	<u>24,952,897</u>	<u>24,176,596</u>	<u>16,713,253</u>
Loss on Sale of Asset		5,000	
Total Expenses and Losses	<u>24,952,897</u>	<u>24,181,596</u>	<u>16,713,253</u>
Increase (Decrease) in Unrestricted Net Assets	<u>1,460,581</u>	<u>(1,049,869)</u>	<u>37,042</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Contributions	12,693,554	3,336,378	9,482,523
Grant Revenue			625,784
Change in Pledges Receivable	202,021		220,103
Donated Property			2,080,000
Disposal of Other Assets			(3,788,601)
Vaughn Towers		3,500,177	
Net Investment Income	26,929,754	7,091	7,931,641
Royalties			315,644
Interest and Dividends	87,563		223,828
Other Income	2,426,517		990,130
Net Assets Released from Restrictions: Program or Time Restrictions	(20,872,238)		(12,894,138)
Net Assets Released from Restrictions: Facility Improvements		(6,165,959)	
Increase in Temporarily Restricted Net Assets	<u>21,467,171</u>	<u>677,687</u>	<u>5,186,914</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Contributions	27,014,002	589,324	3,911,215
Change in Pledges Receivable	(383,112)		(1,838,993)
Donated Property	490,000		298,557
Net Investment Income	1,907,773		535,851
Change in Value of Split Interest Agreements and Trusts	(4,733,732)	71,412	(1,359,024)
Interest and Dividends	141,028		94,579
Other Income	516,212		667,560
Increase in Permanently Restricted Net Assets	<u>24,952,171</u>	<u>660,736</u>	<u>2,309,745</u>
Increase in Net Assets	47,879,923	288,554	7,533,701
Net Assets at Beginning of Year	334,907,990	80,847,560	154,065,502
Net Assets at End of Year	<u>\$ 382,787,913</u>	<u>\$ 81,136,114</u>	<u>\$ 161,599,203</u>

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

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

Blended Component Units - Although legally separate, the NC State Investment Fund, Inc. (Investment Fund) and the NC State University Partnership Corporation (Corporation), component units of the University, are reported as if they were part of the University.

The Investment Fund is governed by a board consisting of six ex officio directors and five elected directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. Because the elected directors of the Investment Fund are appointed by the members of the North Carolina State University Board of Trustees and the Investment Fund's primary purpose is to benefit North Carolina State University, its financial statements have been blended with those of the University.

The Corporation is governed by a five member Board of Directors appointed based on their positions held with North Carolina State University. Additional members of the board may be appointed by the Chancellor of North Carolina State University. The Corporation's purpose is to support and benefit the University with the aims of creating new knowledge and improving the lives of the people of North Carolina. The Corporation formed NC State University Centennial Development, LLC on January 25, 2002 to construct, own and operate a golf course located

on the North Carolina State University Centennial Campus. In addition, the Corporation formed NC State Upfit, LLC on October 27, 2006 to develop, construct, own, finance, manage and otherwise upfit facilities and other infrastructure on Centennial Campus. Also, the Corporation formed NC State CBC Land I, LLC on June 1, 2007 to acquire, develop, own, lease, hold, manage, sell, and otherwise exercise all right of ownership of land and flex lab facilities on Centennial Biomedical Campus. Additionally, the Corporation formed NC State American Home, LLC on August 8, 2007 and changed its name to Bell Tower Holdings LLC on December 14, 2009. The purposes of Bell Tower Holdings LLC are to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all right of ownership of real property and enter into any related agreements for assisting with the acquisition, development, financing, construction, management and operation of real property. On March 31, 2008 the Corporation formed NC State CC Holdings I, LLC to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all right of ownership of land and facilities on Centennial Campus. Leaders in Innovation and Nonwovens Commercialization, LLC (LINC), was established on July 9, 2012 to foster economic development and creation of new knowledge by facilitating commercialization of technologies developed at the Nonwovens Institute at NC State University. On September 27, 2016 the Corporation established the Wolfpack Investor Network, LLC (WIN) to connect the NC State alumni network with the NC State entrepreneurial community to create an angel investing platform. Because the Corporation's Board consists of University employees and members appointed by the Chancellor and its sole purpose is to support and benefit the University, the Corporation and the LLCs are considered part of the University for financial reporting purposes.

Separate financial statements for the Investment Fund and for the Corporation and the LLCs may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149. Other related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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

Discretely Presented Component Units - The North Carolina State University Foundation, Inc. (Foundation), NC State Student Aid Association, Inc. (Athletic Club) and The North Carolina Agricultural Foundation, Inc. (Agricultural Foundation) are legally separate nonprofit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Foundation, Athletic Club, and Agricultural Foundation are legally separate, tax-exempt component units of the University. These entities act primarily as fundraising organizations to supplement the resources

that are available to the University in support of its programs. Separate Boards of Directors govern these entities independent of the University's Board of Trustees. Although the University does not control the timing or amount of receipts from these entities, the majority of resources, or income thereon that these entities hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by these entities can only be used by, or for the benefit of the University, these entities are considered component units of the University and are reported in separate financial statements because of the difference in their reporting model, as described below.

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

During the year ended June 30, 2017, the Foundation distributed \$19,345,471 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

During the year ended June 30, 2017, the Athletic Club distributed \$14,918,696 to the University for both restricted and unrestricted purposes. Complete financial statements for the Athletic Club can be obtained from the NC State Student Aid Association, P.O. Box 37100, Raleigh, NC 27627, or by calling (919) 865-1500.

During the year ended June 30, 2017, the Agricultural Foundation distributed \$14,136,869 to the University for both restricted and unrestricted purposes. Complete financial statements for the Agricultural Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

- 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, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

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

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

Restricted investments include funds of affiliated entities that are neither part of the University's reporting entity nor reported discretely but invested through the Investment Fund.

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

- G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out method. Exceptions are the bookstore, which uses the retail inventory method, and physical plant, which uses the moving weighted average method.
- H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-50 years
Machinery and Equipment	4-22 years
General Infrastructure	15-75 years
Computer Software	2-15 years

The University does not capitalize its Arts and Design or Historic collections. These collections adhere to the University's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and requires proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. **Funds Held in Trust for Pool Participants** - Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.

- K. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, net pension liability, notes payable, capital lease obligations, compensated absences, and pollution remediation payable that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Losses on refunding and issuance costs on bonds payable are not material to the accompanying financial statements and are expensed in the year 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 2016 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 14 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

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

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

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

- M. Deferred Outflows/Inflows of Resources** – In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an

outflow of resources (expense) until then. The University has the following items that qualify for reporting in this category: the accumulated decrease in fair value of hedging derivatives and deferred outflows related to pensions.

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 deferred inflows related to pensions that qualify for reporting in this category.

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

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

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

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

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

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.

- O. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- P. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.
- Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.
- Q. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as Central Stores, the Creamery, Telecommunications, Physical Plant, and Motor Pool. In addition, the University has other miscellaneous sales and service units that operate 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.

Cash on hand at June 30, 2017 was \$448,885. The carrying amount of the University's deposits not with the State Treasurer reported as cash on the Statement of Net Position was \$6,204,432, and the bank balance was \$6,307,408. 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 follows the Cash Management Plan (Plan) approved by the North Carolina Office of the State Controller. As provided by the Plan, imprest checking accounts are established with outside banks when considered effective in meeting management objectives. All imprest checking accounts are authorized by the University Treasurer and are limited to the minimum amount needed for sanctioned purposes. In addition, pursuant to G.S. 116-36(e), the University invests certain endowment funds with outside bank accounts. The University does not have a deposit policy for custodial credit risk. As of June 30, 2017, the University's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$5,453,566.

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

Additionally, the University has also been delegated authority by the President of the University of North Carolina pursuant to G.S. 116-36.1 and Section 600.2.4.1 of the Policy Manual of the University of North Carolina to invest its trust funds in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase

agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

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

Investments of the Endowment Fund, including those invested in the Investment Fund, a University component unit, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

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

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

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

Short-Term Investment Fund - At June 30, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$411,252,829, 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 1.6 years as of June 30, 2017. 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.

Investment Fund - The Investment Fund began operations in April 1999 and is classified as a non-rated 2a7-like governmental external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Endowment Fund of North Carolina State University, The North Carolina Agricultural Foundation, Inc. and the North Carolina State University Foundation, Inc. represent the Investment Fund's internal participants. The North Carolina Agricultural Foundation, Inc. and the North Carolina State University Foundation, Inc. are discretely presented component units in the accompanying financial statements. Other affiliated organizations not included in the University's reporting entity represent the Investment Pool's external participants. The external portion of the Investment Pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants." The Investment Fund includes the Long-Term Investment Pool (LTIP) and the Intermediate Term Fund (ITF) which was established on July 3, 2014 for the collective investment of the participants' excess operating funds.

The Investment Fund is not subject to any formal oversight other than that provided by the Investment Fund Members Board or its Board of Directors. The Members Board is responsible for adopting investment objectives and policies and for monitoring policy implementation and investment performance. The Members Board has chosen not to make individual security selection decisions. The Board of Directors has the responsibility to oversee the allocation of the Investment Fund's portfolio among the asset classes, investment vehicles, and investment managers. Authority to manage the ITF in accordance with the investment policy has been granted jointly to the University's Vice Chancellor and Associate Vice Chancellor for Finance and Administration.

Bank of New York Mellon is the custodian for the Investment Fund and provides the University with quarterly statements defining income and fair value information, which is then allocated among the fund's participants. Each participant holds Master Trust Units of the Investment Fund. The unit price fluctuates based on the investment experience of the investment pool. There are no involuntary participants in the Investment Fund. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Investment Fund's investments. The annual financial report for the Investment Fund

may be obtained from the Foundations Accounting and Investment Office, Campus Box 7207, Raleigh, NC 27695 or by calling (919) 513-7149 or at <http://foundationsaccounting.ofa.ncsu.edu/investment-fund>.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2017, for the Investment Fund.

Investment Fund

Investment Type	Amount	Investment Maturities (in Years)	
		Less Than 1	1 to 5
Debt Securities			
Collective Investment Funds	\$ 72,249,983	\$ 72,249,983	\$ 0
Debt Mutual Funds	188,615,727		188,615,727
Total Debt Securities	260,865,710	\$ 72,249,983	\$ 188,615,727
Other Securities			
UNC Investment Fund	774,716,927		
Private Equity Limited Partnerships	19,146,385		
Total Investment Fund	\$ 1,054,729,022		

At June 30, 2017, investments in the Investment Fund had the following credit quality distribution for securities with credit exposure (based on S&P ratings):

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Collective Investment Funds	\$ 72,249,983	\$ 7,572,889	\$ 10,950,476	\$ 0	\$ 0	\$ 1,284,179	\$ 52,442,439
Debt Mutual Funds	188,615,727			27,608,252	94,314,829	27,821,509	38,871,137
Totals	\$ 260,865,710	\$ 7,572,889	\$ 10,950,476	\$ 27,608,252	\$ 94,314,829	\$ 29,105,688	\$ 91,313,576

UNC Investment Fund, LLC - At June 30, 2017, the University's investments include \$774,716,927 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2017, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Amount	Investment Maturities (in Years)
		Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 10,603	\$ 10,603
Other Securities		
Domestic Stocks	100,587	
Collections and Mineral Rights	65,134	
Total Non-Pooled Investments	\$ 176,324	

At June 30, 2017, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure (based on Moody's and S&P ratings):

	Amount	AAA Aaa
Money Market Mutual Funds	\$ 10,603	\$ 10,603

Total Investments - The following table presents the total investments at June 30, 2017:

Investment Type	Amount
Debt Securities	
Collective Investment Funds	\$ 72,249,983
Debt Mutual Funds	188,615,727
Money Market Mutual Funds	10,603
Other Securities	
UNC Investment Fund	774,716,927
Private Equity Limited Partnerships	19,146,385
Domestic Stocks	100,587
Collection and Mineral Rights	65,134
Total Investments	\$ 1,054,905,346

Total investments include \$356,481,443 held in the Investment Fund for the North Carolina State University Foundation, Inc. and The North Carolina Agricultural Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments and derivatives are recorded at fair value as of June 30, 2017. 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 and hedging derivatives, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2017:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Collective Investment Funds	\$ 72,249,983	\$ 72,249,983	\$ 0	\$ 0
Debt Mutual Funds	188,615,727	188,615,727		
Money Market Mutual Funds	10,603	10,603		
Total Debt Securities	260,876,313	260,876,313		
Other Securities				
Short-Term Investment Fund	411,252,829		411,252,829	
UNC Investment Fund	774,716,927			774,716,927
Domestic Stocks	100,587			100,587
Total Investments by Fair Value Level	1,446,946,656	\$ 260,876,313	\$ 411,252,829	\$ 774,817,514
Investments Measured at the Net Asset Value (NAV)				
Private Equity Limited Partnerships	19,146,385			
Collections and Mineral Rights	65,134			
Total Investments Measured at the NAV	19,211,519			
Total Investments Measured at Fair Value	\$ 1,466,158,175			
Derivative Instruments				
Hedging Derivative Instruments				
Interest Rate Swaps	\$ 9,026,065	\$ 0	\$ 9,026,065	\$ 0

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.

UNC Investment Fund - Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund's operating procedures.

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.

Domestic Stock – Domestic stock classified as Level 3 of the fair value hierarchy are valued at book value. There is no readily determinable fair value.

Derivative Instruments – Derivative instruments classified as Level 2 of the fair value hierarchy are valued at present value using discounted cash flows.

The valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) is presented on the following table.

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity Limited Partnerships	\$ 19,146,385	\$ 5,146,973	N/A	N/A
Collections and Mineral Rights	65,134	N/A	N/A	N/A
Total Investments Measured at the NAV	<u>\$ 19,211,519</u>			

A. Private Equity Limited Partnerships - Private equities include venture capital partnerships, buy-outs, and international funds. The valuation of the underlying private companies requires significant judgment and interpretation by the general partners of the underlying investment partnerships due to the absence of quoted market values, inherent lack of liquidity and the long-term nature of such investments. Private companies are initially valued based upon transaction price, with subsequent adjustments to values which reflect the consideration of available market data, including primarily observations of the trading multiples of public companies considered comparable to the private companies being valued. Valuations are also adjusted to give consideration to the financial condition and operating results specific to the issuer, the lack of liquidity inherent in a non-public investment, credit markets, and the fact that comparable public companies are not identical to the companies being valued.

B. Art Collection: The Kamphoefner art collection, with an estimated value of \$27,300, was gifted to the Endowment Fund in 1979. This collection is to be held for the use of the D. H. Hill Library at NC State University.

Mineral Rights: Virginia Rock and Mineral rights were gifted to the Endowment Fund in 1987. This was a gift for the use of the NC State Geology Department. There have been three sales of these mineral rights since the original receipt of the gift. The most recent sale from July 2016 was used to adjust the value per acre.

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, or applicable State of North Carolina law. 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 pooled endowment funds are determined by applying 4% (the Board approved spending rate) to the average market value of the long term investment pool (for a twenty quarter period), divided by the number of investment units in the pool to determine the "average spending amount" per unit of investment. The individual endowment fund payout or spending budget is then determined by applying the "average spending amount" to the number of investment units held by the individual endowment fund. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted and unrestricted, expendable net position endowment balances to make up the difference. At June 30, 2017, net appreciation of \$143,452,290 was available to be spent, of which \$134,798,915 was classified in net position as Restricted, Expendable: Scholarships and Fellowships, Restricted Expendable: Endowed Professorships, and Restricted Expendable: Departmental Uses, as it is restricted to specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,807,991	\$ 1,253,773	\$ 554,218
Student Sponsors	2,864,411		2,864,411
Accounts	28,371,732	1,649,384	26,722,348
Intergovernmental	41,051,768		41,051,768
Interest on Loans	505,087	458,215	46,872
Federal Interest Subsidy on Debt	305,671		305,671
	<u>\$ 74,906,660</u>	<u>\$ 3,361,372</u>	<u>\$ 71,545,288</u>
Total Current Receivables			
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 2,762,577	\$ 10,544	\$ 2,752,032
Institutional Student Loan Programs	397,557	2,260	395,298
	<u>\$ 3,160,134</u>	<u>\$ 12,804</u>	<u>\$ 3,147,330</u>
Total Notes Receivable - Current			
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 8,520,316	\$ 701,425	\$ 7,818,891
Institutional Student Loan Programs	306,331	146,620	159,710
	<u>\$ 8,826,647</u>	<u>\$ 848,045</u>	<u>\$ 7,978,602</u>
Total Notes Receivable - Noncurrent			

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	\$ 62,457,494	\$ 3,104,598	\$ 0	\$ 65,562,092
Construction in Progress	61,591,561	17,467,418	39,942,279	39,116,700
Computer Software in Development	323,600	4,878,082	4,312,448	889,234
Total Capital Assets, Nondepreciable	124,372,655	25,450,098	44,254,727	105,568,026
Capital Assets, Depreciable:				
Buildings	2,228,388,315	75,334,907	1,118,985	2,302,604,237
Machinery and Equipment	359,435,354	30,917,605	8,274,574	382,078,385
General Infrastructure	207,764,589	514,044		208,278,633
Computer Software	20,544,306	5,062,448	5	25,606,749
Total Capital Assets, Depreciable	2,816,132,564	111,829,004	9,393,564	2,918,568,004
Less Accumulated Depreciation/Amortization for:				
Buildings	626,225,799	64,865,501	1,093,700	689,997,600
Machinery and Equipment	214,375,842	21,620,327	7,194,420	228,801,749
General Infrastructure	63,549,795	5,212,345	59,255	68,702,885
Computer Software	11,025,492	3,944,484		14,969,976
Total Accumulated Depreciation/Amortization	915,176,928	95,642,657	8,347,375	1,002,472,210
Total Capital Assets, Depreciable, Net	1,900,955,636	16,186,347	1,046,189	1,916,095,794
Capital Assets, Net	\$ 2,025,328,291	\$ 41,636,445	\$ 45,300,916	\$ 2,021,663,820

During the year ended June 30, 2017, the University incurred \$21,978,337 in interest costs related to the acquisition and construction of capital assets. Of this total, \$21,954,121 was charged in interest expense, and \$24,216 was capitalized.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 21,734,521
Accounts Payable - Capital	8,605,144
Accrued Payroll	6,011,453
Contract Retainage	1,589,010
Other	5,629,919
Total Current Accounts Payable and Accrued Liabilities	\$ 43,570,047

NOTE 8 - SHORT-TERM DEBT – COMMERCIAL PAPER PROGRAM AND LINE OF CREDIT

The University has available Commercial Paper Program financing for short-term debt credit up to \$100,000,000 to finance capital construction projects. The University's available funds are pledged to the Commercial Paper

Program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2017, \$5,000,000 in Taxable Commercial Paper was outstanding.

The NC State University Partnership Corporation, through the NC State University Centennial Development LLC has available a Line of Credit, from SunTrust Bank, up to \$250,000 for operations at the Lonnie Poole Golf Course. The line is unsecured and must maintain a zero balance for at least 30 consecutive days during each twelve months. As of June 30, 2017, \$145,000 was outstanding.

Short-term debt activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2017	Draws	Repayments	Balance June 30, 2017
Commercial Paper Program	\$ 40,000,000	\$ 225,000,000	\$ 260,000,000	\$ 5,000,000
Partnership Corporation - Line of Credit	100,000	185,000	140,000	145,000
Total Short-Term Debt	\$ 40,100,000	\$ 225,185,000	\$ 260,140,000	\$ 5,145,000

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, 2017, is presented as follows:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Revenue Bonds Payable	\$ 462,090,000	\$ 50,438,952	\$ 13,985,000	\$ 498,543,952	\$ 18,605,636
Plus: Unamortized Premium	22,165,411		1,322,866	20,842,545	
Total Revenue Bonds Payable, Net	484,255,411	50,438,952	15,307,866	519,386,497	18,605,636
Net Pension Liability	78,841,126	123,547,259		202,388,385	
Notes Payable	71,817,697		3,034,536	68,783,161	3,558,786
Capital Leases Payable	541,177	364,484	174,846	730,815	203,728
Compensated Absences	67,831,331	41,684,604	40,683,475	68,832,460	3,390,290
Pollution Remediation Payable		4,787,228		4,787,228	101,972
Total Long-Term Liabilities	\$ 703,286,742	\$ 220,822,527	\$ 59,200,723	\$ 864,908,546	\$ 25,860,412

Additional information regarding capital leases obligations is included in Note 11.

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

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

NOTES TO THE FINANCIAL STATEMENTS

Purpose	Series	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017
GENERAL REVENUE						
Housing System Projects/Doak Field Projects	2003B	3.54% swap*	10/1/2027	\$ 45,660,000	\$ 3,455,000	\$ 42,205,000
Various Construction Projects	2008B	4% - 4.25%	10/1/2020	26,955,000	25,755,000	1,200,000
Various Construction Projects	2010A	5%	10/1/2022	18,065,000	8,195,000	9,870,000
Various Construction Projects	2010B	5.079% - 6.027%**	10/1/2035	59,565,000		59,565,000
Advance Refund Series 2003A	2012	4% - 5%	10/1/2018	16,265,000	9,315,000	6,950,000
Adv Refund 2005A / Wolf Ridge Housing	2013A	2% - 5%	10/1/2042	132,440,000	2,275,000	130,165,000
Adv Refund 2005A / Talley Student Union	2013B	1.164% - 4%	10/1/2041	141,650,000	4,320,000	137,330,000
Refund 2008A	2015	3.86% swap*	10/1/2028	64,455,000	3,635,000	60,820,000
Various Construction Projects	2017	2.58%	10/1/2031	50,438,952		50,438,952
Total Revenue Bonds Payable (principal only)				\$ 555,493,952	\$ 56,950,000	498,543,952
Plus: Unamortized Premium						20,842,545
Total Revenue Bonds Payable, Net						\$ 519,386,497

* For variable rate debt, interest rates in effect at June 30, 2017 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.

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

North Carolina State University at Raleigh Variable Rate General Revenue Bonds, Series 2003B

On June 20, 2003, the University issued tax-exempt variable rate revenue demand bonds in the amount of \$45,660,000 that have a final maturity date of October 1, 2027. The bonds are subject to mandatory sinking fund redemption that began on October 1, 2004. The University's proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2003B bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the paying agent, U.S. Bank National Association. Upon notice from the paying agent, the Remarketing Agent, Wells Fargo Bank, N.A., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Wells Fargo Bank, N.A., a Liquidity Facility has been established for the Trustee

(U.S. Bank National Association) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.36% of the available commitment, payable quarterly in arrears, beginning on February 1, 2016, and on each May 1, August 1, November 1, and February 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Base rate (the greater of the bank prime commercial lending rate plus 1.00%, the federal funds rate plus 2.0%, and 7%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each quarter in which Liquidity Provider Bonds are outstanding. At June 30, 2017, there were no Liquidity Provider Bonds held by the Liquidity Facility. The Liquidity Facility is scheduled to expire on November 18, 2020, unless otherwise extended based on the terms of the Agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in 6 semi-annual installments, beginning 181 days from the date of the last draw at the Term Loan Rate (Base Rate + 1.00%). In the event the outstanding \$42,205,000 of demand bonds was "put" and not resold, the University would be required to pay \$16.1 million a year for three years under this agreement assuming an 8.00% interest rate.

- D. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2017, are as follows:

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2018	\$ 18,605,636	\$ 17,686,030	\$ 1,888,219	\$ 3,558,786	\$ 2,602,284
2019	18,401,019	17,084,084	1,769,150	4,012,877	2,458,647
2020	19,053,469	16,623,254	1,645,233	4,505,104	2,296,412
2021	19,541,318	16,195,234	1,516,469	4,987,707	2,114,936
2022	20,278,612	15,718,684	1,382,553	5,500,029	1,913,907
2023 - 2027	107,129,058	70,991,795	3,537,103	35,997,427	5,791,599
2028 - 2032	115,064,840	51,933,885	34,743	10,221,231	246,102
2033 - 2037	71,635,000	31,271,951			
2038 - 2042	88,755,000	14,163,425			
2043 - 2047	20,080,000	502,000			
Total Requirements	\$ 498,543,952	\$ 252,170,342	\$ 11,773,470	\$ 68,783,161	\$ 17,423,887

Interest on the variable rate 2003B general revenue bonds is calculated at 0.89% at June 30, 2017.

Interest rates are reset each week by the remarketing agent based upon University credit ratings and market conditions.

Interest on the variable rate 2015 general revenue bonds is calculated at 1.3197% at June 30, 2017.

Interest rate is reset each month based upon 1 month LIBOR.

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	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Compounded Interest	Principal Outstanding June 30, 2017
Energy Conservation Loan	BB&T	3.245%	9/1/2028	\$ 19,700,703	\$ 3,587,272	\$ 707,470	\$ 16,820,901
Energy Conservation Loan	Bank of America	4.07%	8/17/2028	56,060,010	7,620,688	3,522,938	51,962,260
Total Notes Payable				\$ 75,760,713	\$ 11,207,960	\$ 4,230,408	\$ 68,783,161

F. Pollution Remediation Payable - The University has recognized a pollution remediation liability for remediation of Lot 86 which the University used as a burial site for hazardous chemical and low level radioactive waste generated in the University's laboratories. The amount of the estimated liability is \$4,787,228. This estimate was calculated at its expected amount using the expected cash flow technique. This liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

NOTE 10 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2017 are as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2017	
		Classification	Increase (Decrease)	Classification	Asset (Liability)
<i>Hedging Derivative Instruments</i>					
<i>Cash Flow Hedges</i>					
Pay-Fixed Interest Rate Swap 2003B Bonds	\$ 24,655,000	Deferred Outflow of Resources	\$ 1,955,132	Hedging Derivative Liability	\$ (3,674,256)
Pay-Fixed Interest Rate Swap 2015 Bonds	\$ 44,765,000	Deferred Outflow of Resources	2,856,070	Hedging Derivative Liability	(5,351,809)
Total Derivative Instruments			\$ 4,811,202		\$ (9,026,065)

Hedging derivative instruments held at June 30, 2017 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed Interest Rate Swap	Hedge changes in cash flows on General Revenue 2003B Series Bonds	\$ 24,655,000	06/20/03	10/1/2027	Pay 3.54% fixed, Receive 75% 1 mo LIBOR
Pay-Fixed Interest Rate Swap	Hedge changes in cash flows on General Revenue 2015 Series Bonds	\$ 44,765,000	09/01/08	10/1/2026	Pay 3.862% fixed, Receive 68% 1 mo LIBOR

As of June 30, 2017, the synthetic interest rates on the swapped portion of the 2003B and 2015 bonds were 3.51% and 4.35%, respectively. The fair value of the pay-fixed interest rate swaps was estimated using the discounted cash flows method adjusted for credit risk. This method calculates the fair market value of the instruments.

Hedging Derivative Risks

Credit Risk: As of June 30, 2017, the University was not exposed to credit risk on its interest rate swaps because the swaps had negative fair values. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's positive fair value. The swap agreements require termination should the University's or the counterparty's credit rating fall below either Baa2 as issued by Moody's or BBB as issued by S&P or Fitch. Also, under the terms of the swap agreements, should one party become insolvent or otherwise default on its obligations, provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions. To mitigate the

potential for credit risk, if the counterparty's credit quality falls below A3 as determined by Moody's or A- as determined by S&P, the swap will be collateralized by the counterparty with cash, U.S. government or agency securities. If the counterparty is required to collateralize, then the collateral will be posted with a third party custodian or secured party. The swap agreements entered into by the University are held with separate counterparties. All the counterparties are rated A1/A+ or better.

Interest Rate Risk: The University is exposed to interest rate risk on its interest rate swaps. The fair values of these instruments are highly sensitive to interest rate changes. Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2017. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values are the market values as of June 30, 2017. Both of the swaps outstanding have termination dates between 9 and 10 years. As the yield curve rises, the value of the swaps will increase and as rates fall, the value of the swaps will decrease.

Basis Risk: The University is exposed to basis risk on the swaps when the variable payment received is based on an index other than Securities Industry and Financial Markets Association (SIFMA). Should the relationship between the London Interbank Offering Rate (LIBOR) and SIFMA move to convergence, the expected cost savings may not be realized. The current outstanding swaps and the related variable rate demand bonds reset rates weekly and pay monthly. As of June 30, 2017, the SIFMA rate was 0.89%, whereas 68% of LIBOR was 0.83% and 75% of LIBOR was 0.92%.

Termination Risk: The University or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for that amount.

Rollover Risk: By definition, the University is exposed to rollover risk because the swap related to the 2015 bonds terminates October 1, 2026, two years before the related bonds mature on October 1, 2028. It is not the intent of the University at this time to re-hedge the bonds.

NOTE 11 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to 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, 2017:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 243,460
2019	234,970
2020	210,478
2021	121,621
2022	<u>8,899</u>
Total Minimum Lease Payments	819,428
Amount Representing Interest (9.28% Rate of Interest)	<u>88,613</u>
Present Value of Future Lease Payments	<u><u>\$ 730,815</u></u>

Machinery and equipment acquired under capital lease amounted to \$980,991 at June 30, 2017.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$284,114 at June 30, 2017.

- B. Operating Lease Obligations** - The University entered into operating leases for equipment and property rental. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2017:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 11,751,740
2019	9,160,364
2020	8,553,255
2021	8,053,313
2022	7,813,122
2023-2027	31,717,173
2028-2032	<u>3,781,269</u>
Total Minimum Lease Payments	<u><u>\$ 80,830,236</u></u>

Rental expense for all operating leases during the year was \$10,237,130.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - 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	\$ 404,929,666	\$ 519,943	\$ 96,480,921	\$ 489,711	\$ 307,439,091
Sales and Services, Net	\$ 348,718,036	\$ 74,852,329	\$ 20,205,652	\$ 198,356	\$ 253,461,699
Other Operating Revenue, Net	\$ 20,440,866	\$ 4,408,142	\$ 0	\$ 99,107	\$ 15,933,617

NOTE 13 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 393,601,333	\$ 25,431,016	\$ 43,041,818	\$ 0	\$ 4,028	\$ 0	\$ 462,078,195
Research	178,233,220	21,585,221	76,311,311		1,020,051		277,149,803
Public Service	85,250,578	11,597,288	30,613,101		448,486		127,909,453
Academic Support	48,987,205	17,438,631	23,109,148		14,446		89,549,430
Student Services	20,740,758	1,806,361	8,141,918		352,220		31,041,257
Institutional Support	79,182,912	5,662,322	18,876,068		1,754		103,723,056
Operations and Maintenance of Plant	38,522,971	7,267,313	11,722,949		25,432,301		82,945,534
Student Financial Aid	1,393,415	105,717	1,674,641	43,760,379			46,934,152
Auxiliary Enterprises	86,240,472	34,695,480	49,509,884		6,854,896		177,300,732
Depreciation/ Amortization						95,642,657	95,642,657
Total Operating Expenses	\$ 932,152,864	\$ 125,589,349	\$ 263,000,838	\$ 43,760,379	\$ 34,128,182	\$ 95,642,657	\$ 1,494,274,269

NOTE 14 - PENSION PLANS

A. Defined Benefit Plan

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

General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. 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, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were \$19,478,073, and the University's contributions were \$32,398,529 for the year ended June 30, 2017.

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 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://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 Investment Pool. The pension trust funds are the primary participants in the Long-Term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and External 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 pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the University reported a liability of \$202,388,385 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. 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, 2016, the University's proportion was 2.20202%, which was an increase of 0.06262 from its proportion measured as of June 30, 2015.

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	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

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 healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment (COLA) 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, 2016 (the valuation date) are summarized in the following table:

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

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. 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 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, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 380,653,442	\$ 202,388,385	\$ 52,491,907

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the University recognized pension expense of \$40,483,773. At June 30, 2017, 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	\$ 0	\$ 9,565,156
Changes of Assumptions	29,847,368	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	72,178,186	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	4,612,434	
Contributions Subsequent to the Measurement Date	32,398,529	
Total	\$ 139,036,517	\$ 9,565,156

The amount of \$32,398,529 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts

reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred

Year Ended June 30:	Amount
2018	\$ 17,092,595
2019	17,284,362
2020	40,239,499
2021	<u>22,456,376</u>
Total	<u>\$ 97,072,832</u>

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

Participants in the ORP are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the 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. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2017, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$786,565,772, of which \$297,583,277 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$20,354,696 and \$17,854,997, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. The University had forfeitures reflected in pension expense for the current fiscal year of \$580,793.

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined

benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS) or the Optional Retirement Program (ORP). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the period July 1, 2016 through December 31, 2016, the University contributed 5.60% of the covered payroll under TSERS and ORP to the Fund, and for the period January 1, 2017 through June 30, 2017, the University contributed 6.02% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were \$36,150,856, \$33,217,050, and \$31,585,734, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS and ORP. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina

General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2017, the University made a statutory contribution of .38% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were \$2,364,428, \$2,431,963, and \$2,358,862, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 16 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

University employees and retirees 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 and employee contributions. The Plan has contracted with third parties to process claims.

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.

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. University departments, as an individual business decision, may also purchase through the Fund primary extended coverage for buildings and contents. Coverage may also be purchased through the Fund for theft, vandalism, sprinkler leakage, or all-risk perils. University departments also have the option to purchase all-risk coverage for computers and "miscellaneous equipment" on a scheduled basis. Flood insurance may also be purchased through the Fund for qualifying assets. Receipts-supported auxiliary units insure assets for additional perils coverage, as per the options noted above, in addition to the fire and lightning perils. General-funded departments and units insure for the perils of fire and lightning with the exception of certain coastal properties which are also insured for extended coverage perils and the peril of flood.

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 per occurrence 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 \$1,000,000 per occurrence. The applicable deductible is \$25,000 per occurrence.

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 and the State's Agent of Record. The types of insurance policies purchased include: medical professional liability, veterinary professional liability, fine arts property, master crime, inland marine property for musical instruments, campers accident and sickness, athletic accident, boiler and machinery, watercraft, oceanographic equipment, cyber and data breach, and nuclear energy liability.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$50,590,841 at June 30, 2017.

The University has amended the Use Agreement for the PNC Arena with the Centennial Authority (a related party) and therein agreed to make scheduled capital contributions totaling \$6,000,000 to the Authority's Building Enhancement Fund over a 15 year period. The total outstanding commitment on this agreement was \$2,700,000 as of June 30, 2017.

- B. Pending Litigation and Claims** - As previously reported, the NC School Boards Association, et. al. filed a civil action against various state officials in their official capacity seeking a judicial determination as to whether the state constitution requires certain monetary payments collected by state agencies to be paid to the local county school funds. On July 1, 2005, the NC Supreme Court held in favor of the school boards with regard to parking fines. The matter was remanded back to the trial court for disposition in accordance with the Superior Court's decision. On August 8, 2008, the Wake County Superior Court issued judgment that the estimated amounts collected from January 1, 1996, to June 30, 2005, by UNC Campuses belong and should have been paid to the public schools of the State by payment to the State's Civil Penalty

and Forfeiture Fund. The manner in which the judgment will be settled is uncertain and is to be determined by the North Carolina General Assembly. At issue for NC State University is approximately \$6,749,207 in transportation fines collected since January 1, 1996, to June 30, 2005. Of this amount, the university has transferred \$2,273,817 to the Office of State Budget and Management leaving approximately \$4,475,390 still outstanding. Since July 2005, the University has been forwarding transportation fine collections, less collection costs, to the Office of State Budget and Management on a monthly basis.

The University is a party to other 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 18 - RELATED PARTIES

FOUNDATIONS - There are 10 separately incorporated nonprofit foundations associated with the University. These foundations are The North Carolina Agricultural Foundation, Inc., North Carolina State University Foundation, Inc., North Carolina Tobacco Foundation, Inc., North Carolina State University College of Sciences Foundation, Inc., NC State Engineering Foundation, Inc., North Carolina Veterinary Medical Foundation, Inc., NC State Natural Resources Foundation, Inc., North Carolina Textile Foundation, Inc., NC State Student Aid Association, Inc., and the North Carolina State Alumni Association, Inc.

These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. As described in Note 1 to the financial statements, The North Carolina Agricultural Foundation, Inc., the North Carolina State University Foundation, Inc. and the NC State Student Aid Association, Inc. are considered component units of the University for reporting purposes and their financial statements are presented separately as part of the University's financial statements. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the other foundations, except for support from each organization to the University. This support of the foundations, excluding amounts from The North Carolina Agricultural Foundation, Inc., the North Carolina State University Foundation, Inc. and the NC State Student Aid Association, Inc. approximated \$19,821,748 for the year ended June 30, 2017.

Reynolds Coliseum - The NC State Student Aid Association has agreed to fund \$20,000,000 of the \$35,000,000 project to renovate the University's Reynolds Coliseum.

Case Commons Residence Hall - The NC State Student Aid Association has agreed to fund the construction of an athletics residence hall for the University, estimated to cost approximately \$15,000,000. The University has received \$2,000,000 from the Association as of June 30, 2017.

Payments from the Association for both Reynolds Coliseum and Case Commons Residence Hall are scheduled to begin in 2018.

Nonprofit Corporation - The Centennial Authority (Authority) was created by the 1995 General Assembly (Senate Bill 606) for the purpose of studying, designing, planning, constructing, owning, promoting, financing and operating a regional facility on land owned by the State. Prior to this act, the General Assembly authorized the construction by the University of a facility to be known as the "Entertainment and Sports Arena" (ESA). This facility serves as a regional sports entertainment center and is available for cultural performances, sporting events and other activities of the University or of other entities (the Centennial Center project). With the 1995 legislation, the Centennial Center project was transferred to the Authority.

The Authority entered into a Ground Lease with the State of North Carolina to lease land for the ESA for a period of 99 years at an annual rent of \$1. The University entered into a Use Agreement with the Authority. Both parties agreed that the University shall be the primary and preferred user of all areas of the ESA. The University is required to pay the greater of 10% of gross ticket revenues or \$52,330 for each men's and \$22,898 for each women's basketball game to compensate the Authority for facility rental and operating expenses. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the ESA and the anticipated attendance. In fiscal year 2012, the name of the ESA was changed to "PNC Arena."

In fiscal year 2008, the University entered a Capital Improvement Plan Agreement with the Authority to pay \$6,000,000 in quarterly installments over 15 years.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2017, is presented as follows:

*Condensed Statement of Net Position
June 30, 2017*

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Eliminations	Total
ASSETS					
Current Assets	\$ 364,291,515	\$ 5,207,655	\$ 6,670,643	\$ 0	\$ 376,169,813
Capital Assets	2,000,630,436		21,033,384		2,021,663,820
Other Noncurrent Assets	168,991,917	698,247,579	1	(28,265,634)	838,973,862
Primary Government Receivable from Component Units	2,785,750			(2,785,750)	
Total Assets	<u>2,536,699,618</u>	<u>703,455,234</u>	<u>27,704,027</u>	<u>(31,051,384)</u>	<u>3,236,807,495</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>148,062,582</u>				<u>148,062,582</u>
LIABILITIES					
Current Liabilities	132,035,966	505,399	1,133,161		133,674,526
Long-Term Liabilities, Net	839,048,134				839,048,134
Other Noncurrent Liabilities	380,085,895		584,527	(28,265,634)	352,404,788
Component Unit Payable to Primary Government			2,785,750	(2,785,750)	
Total Liabilities	<u>1,351,169,995</u>	<u>505,399</u>	<u>4,503,438</u>	<u>(31,051,384)</u>	<u>1,325,127,448</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>9,565,156</u>				<u>9,565,156</u>
NET POSITION					
Net Investment in Capital Assets	1,396,169,214		17,510,015		1,413,679,229
Restricted - Nonexpendable	(573,993,181)	702,949,835	2		128,956,654
Restricted - Expendable	271,029,946		62,926		271,092,872
Unrestricted	230,821,070		5,627,648		236,448,718
Total Net Position	<u>\$ 1,324,027,049</u>	<u>\$ 702,949,835</u>	<u>\$ 23,200,589</u>	<u>\$ 0</u>	<u>\$ 2,050,177,473</u>

1 Total investments in the NC State Investment Fund, Inc. audit report included \$356,481,443 held in the Investment Fund for the North Carolina State University Foundation, Inc. and The North Carolina Agricultural Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements. See Note 2. It will therefore be excluded from the Condensed Statement of Net Position and the Condensed Statement of Revenues, Expenses, and Changes in Net Position.

2 Restricted Nonexpendable assets are held in the NC State Investment Fund, Inc. while the associated liabilities are held in North Carolina State University statements resulting in a negative net position before blending.

*Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2017*

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Eliminations	Total
OPERATING REVENUES					
Operating Revenue	\$ 883,594,890	\$ 0	\$ 11,029,275	\$ (6,678,423)	\$ 887,945,742
OPERATING EXPENSES					
Operating Expenses	1,393,363,811	2,049,989	9,896,235	(6,678,423)	1,398,631,612
Depreciation / Amortization	95,163,891		478,766		95,642,657
Total Operating Expenses	1,488,527,702	2,049,989	10,375,001	(6,678,423)	1,494,274,269
Operating Income (Loss)	(604,932,812)	(2,049,989)	654,274		(606,328,527)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	506,418,963				506,418,963
Noncapital Grants	45,062,744				45,062,744
Noncapital Gifts	77,960,232				77,960,232
Investment Income	(113,965,373)	149,231,064			35,265,691
Other Nonoperating Expenses	(23,629,953)		(67,570)		(23,697,523)
Net Nonoperating Revenues (Expenses)	491,846,613	149,231,064	(67,570)		641,010,107
Capital Appropriations	6,079,067				6,079,067
Capital Grants	4,138,812				4,138,812
Capital Gifts	4,380,717				4,380,717
Additions to Endowments	9,645,619				9,645,619
Increase (Decrease) in Net Position	(88,841,984)	147,181,075	586,704		58,925,795
NET POSITION					
Net Position, July 1, 2016	1,412,869,033	555,768,760	22,613,885		1,991,251,678
Net Position, June 30, 2017	\$ 1,324,027,049	\$ 702,949,835	\$ 23,200,589	\$ 0	\$ 2,050,177,473

*Condensed Statement of Cash Flows
June 30, 2017*

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Total
Net Cash Provided (Used) by Operating Activities	\$ (496,803,743)	\$ 0	\$ 1,170,796	\$ (495,632,947)
Net Cash Provided by Noncapital Financing Activities	670,904,582			670,904,582
Net Cash Used by Capital and Related Financing Activities	(104,333,636)		(503,353)	(104,836,989)
Net Cash Used by Investing Activities	(111,097,540)	(29,017,563)		(140,115,103)
Net Increase (Decrease) in Cash and Cash Equivalents	(41,330,337)	(29,017,563)	667,443	(69,680,457)
Cash and Cash Equivalents, July 1, 2016	447,992,948	34,225,218	5,368,437	487,586,603
Cash and Cash Equivalents, June 30, 2017	\$ 406,662,611	\$ 5,207,655	\$ 6,035,880	\$ 417,906,146

The condensed combining financial statements include the elimination of a note payable between the University and the NC State University Partnership Corporation for land purchase by Bell Tower Holdings, LLC.

NOTE 20 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2017, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans

GASB Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14

GASB Statement No. 82, Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

GASB Statement No. 74 establishes new accounting and financial reporting requirements for defined benefit other postemployment benefits (OPEB) plans that replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

GASB Statement No. 78 amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE 21 - DISCRETELY PRESENTED COMPONENT UNITS

The University's discretely presented component units use the accounting and reporting standards promulgated by FASB. Selected disclosures from the discretely presented component units' audited financial statements follow:

NORTH CAROLINA STATE UNIVERSITY FOUNDATION, INC.

Long-Term Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments at June 30, 2017 consisted of:

	<u>Cost</u>	<u>Fair Value</u>
STIF	\$ 720,656	\$ 720,656
NC State Investment Fund , Inc.		
Long-Term Investment Pool (LTIP)	189,694,045	262,073,265
SRI Fund	8,608,907	11,104,719
Life Income Funds	<u>9,257,930</u>	<u>9,599,571</u>
Total	<u>\$ 208,281,538</u>	<u>\$ 283,498,211</u>

As of June 30, 2017, approximately 88.9% of these limited partnerships were with the UNC Management Company, 2.2% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 8.3% was invested in the LPP, and 0.6% was invested in the STIF. The LTIP's net assets were valued at approximately \$870,450,000 at June 30, 2017. The Foundation's investment in the LTIP represents approximately 30.1% of the member equity of the LTIP at June 30, 2017.

The SRI Fund assets are invested in a socially responsible manner through a diversified portfolio of managers that consider environmental, social, and governance issues. As of June 30, 2017, approximately 35.2% of total assets were invested with RBC SRI Wealth Management Group (RBC), 57.8% with Generation IM Global Equity A Fund, and 7% with Goldman Sachs Private Equity Fund.

The Foundation's investments held by Life Income Funds consist of a diversified portfolio of bond and equity mutual funds.

Life Income Funds

The consolidated financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2017 have asset balances of \$9,559,571.

The liabilities for distributions to grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries, and totaled \$5,879,006 at June 30, 2017. Payments from these funds were \$658,881 during the year ended June 30, 2017. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 5% from all new CGAs established in order to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted

reserve fund to equal 5% of the total value of the Foundation’s CGA pool. As of June 30, 2017, the CGA reserve balance was \$166,249.

In addition to the above life income funds, the Foundation was named the recipient of an externally managed trust in 2011 which represents irrevocable life income funds with a market value totaling \$20,247,044 and life income funds payable of \$13,405,810 as of June 30, 2017. The Foundation is not serving as trustee for these funds. These life income funds have been reflected in the accompanying consolidated financial statements at their fair value. Estimated future distributions to the beneficiaries have been reflected in the accompanying consolidated financial statements and were computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries.

Pledges Receivable

Pledges receivable consisted of the following at June 30:

Receivable in Less Than One Year	\$ 50,180,643
Receivable in One to Five Years	14,171,423
Receivable in Greater Than Five Years	<u>1,370,001</u>
Total Gross Pledges Receivable	65,722,067
Less: Allowance for Uncollectible Pledges	687,000
Less: Unamortized Discount (Discount Rates of 1.20% to 2.01%)	<u>1,278,707</u>
Net Pledges Receivable	<u>\$ 63,756,360</u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation’s outstanding pledge balance, excluding three large pledges for which signed memorandums of understanding exist and therefore the Foundation is reasonably assured of collecting. These three large pledges represented approximately \$52.0 million of total undiscounted pledges receivable at June 30, 2017. Active past due pledges receivable are reviewed semi-annually by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

NC STATE STUDENT AID ASSOCIATION, INC.

Pledges Receivable

The Association carries its pledges receivable at cost less a discount for pledges receivable due in more than a year and less an allowance for doubtful accounts. On a periodic basis, the Association evaluates its receivables and establishes an allowance for doubtful accounts, based on history of past write-offs and current credit conditions.

Pledges receivable at June 30, 2017 are as follows:

Pledges Receivable	\$ 26,918,506
Less Allowance for Uncollectible Pledges	1,345,925
Less Discount on Pledges	<u>5,282,648</u>
	20,289,933
Less Current Portion	<u>7,004,994</u>
Pledges Due After One Year	<u><u>\$ 13,284,939</u></u>

Pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 6%.

Receivable in Less Than One Year	\$ 7,373,678
Receivable in One to Five Years	8,328,579
Receivable in More Than Five Years	<u>11,216,249</u>
	26,918,506
Less Allowance for Uncollectible Pledges	1,345,925
Less Discount on Pledges	<u>5,282,648</u>
Net Pledges Receivable	<u><u>\$ 20,289,933</u></u>

Under the Vaughn Towers Management and Use Agreement dated March 2013, Goal Line Drive and Wolfpack Pride campaign pledge revenues totaling \$7,206,915 were committed to be paid to NCSU to retire certain facility debt and other obligations related to NCSU's athletic facilities. Payments in the amount of \$1,441,383 were due annually over five years through May 2017.

Investments

The Association held the following investments at June 30, 2017:

	Historical <u>Cost</u>	Market <u>Value</u>
Marketable Equity Securities	\$ 12,339,368	\$ 14,056,778
Other Marketable Debt Securities	6,983,157	6,992,562
U.S. Government Obligations	2,735,928	2,728,703
Alternative Investments	5,794,879	6,043,183
Mutual Funds	<u>4,111,679</u>	<u>4,244,837</u>
	<u><u>\$ 31,965,011</u></u>	<u><u>\$ 34,066,063</u></u>

Investment income consists of the following:

Interest	\$	537,849
Dividends		582,264
Realized Gain on Sale of Investments		1,457,012
Unrealized Gain on Investments		978,443
Investment Expense		(267,764)
		<hr/>
Total	\$	<u>3,287,804</u>

Long-Term Debt

Bond Indentures - Vaughn Towers: In March 2013, the Association refinanced bonds originally issued in 2004 to finance the construction of the Vaughn Towers press box at Carter-Finley Stadium. The refinancing was with Branch Banking & Trust Company (BB&T) through a \$12,660,000 Series 2013 bond, issued through the North Carolina Capital Facilities Finance Agency. The bond pays interest monthly at a variable rate based on the monthly London Interbank Offered Rates (LIBOR). The variable rate was 2.0016% at June 30, 2017. Principal payments of \$1,055,000 are due annually until the bond matures in September 2024. The outstanding bond principal was \$8,440,000 at June 30, 2017.

Note Payable - Wolves Den: In June 2015, the Association entered into a note agreement in the amount of \$450,000 with BB&T in order to finance the renovation of a portion of Vaughn Towers into a new premium seating option at Carter-Finley Stadium, referred to as the Wolves Den. Annual principal payments of \$112,500 are payable beginning in January 2016 until the note matures in January 2019. Interest is payable annually at a rate equal to the One Month LIBOR (1.06033% at June 30, 2017) plus 1.15% per annum. The outstanding balance of the note payable was \$225,000 at June 30, 2017.

Notes Payable - Indoor Practice Facility: In May 2014, the Association entered into multiple note agreements with BB&T in order to finance the construction of a new Indoor Practice Facility for the football program at NCSU. The total financing available through the notes payable was \$14,000,000. The notes mature at various times through May 2026 and bear interest at fixed rates (ranging from 1.84% to 2.75%) and variable rates (One Month LIBOR plus 0.9%). The Association must maintain a debt service coverage ratio of 1.00 to 1.00, maintain unrestricted liquid assets of \$4,000,000 until such point that the credit available and outstanding total to less than \$10,000,000, and meet certain pledge targets. The notes payable are collateralized by pledges and cash received from the related capital campaign. The total outstanding balance of the notes payable was \$10,800,000 at June 30, 2017.

Long-term debt consists of the following at June 30, 2017:

Vaughn Towers Project--Series 2013 Bond	\$	8,440,000
Note Payable-- BB&T (Wolves Den)		225,000
None Payable-- BB&T (Indoor Practice Facility)		<u>10,800,000</u>
		19,465,000
Less Amount Classified as Current Liability		<u>2,367,500</u>
Amount Due After One Year	\$	<u><u>17,097,500</u></u>

Maturities of long-term debt are as follows:

Year Ending June 30		
2018	\$	2,367,500
2019		2,367,500
2020		2,255,000
2021		2,255,000
2022		2,255,000
Thereafter		<u>7,965,000</u>
Total	\$	<u><u>19,465,000</u></u>

The Association is currently in negotiations with BB&T to consolidate all the remaining debt listed above into one note. The terms of this note are still being discussed and have not been finalized as of the date of this report.

THE NORTH CAROLINA AGRICULTURAL FOUNDATION, INC.

Long-Term Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments at June 30, 2017 consisted of:

	<u>Cost</u>	<u>Fair Value</u>
STIF	\$ 218,061	\$ 218,061
NC State Investment Fund , Inc.		
Long-Term Investment Pool (LTIP)	52,801,034	78,202,741
Life Income Funds	<u>9,796,145</u>	<u>10,050,666</u>
Total	<u><u>\$ 62,815,240</u></u>	<u><u>\$ 88,471,468</u></u>

As of June 30, 2017, approximately 88.9% of the LTIP was invested with the UNC Management Company (“UNCMC”), 2.2% was committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 8.3% was invested in the LPP, and 0.6% was invested in the STIF. The LTIP’s net assets were valued at approximately \$870,450,000 at June 30, 2017. The Foundation’s investment in LTIP represents approximately 8.98% of the member’s equity of the LTIP at June 30, 2017.

The Foundation’s investments at Life Income Funds consist of a diversified portfolio of bond and equity mutual funds.

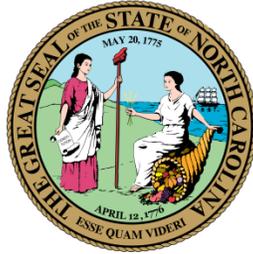
Pledges Receivable

Pledges receivable consisted of the following at June 30:

Receivable in Less Than One Year	\$ 1,678,904
Receivable in One to Five Years	4,174,950
Receivable in Greater Than Five Years	<u>173,860</u>
Total Gross Pledges Receivable	6,027,714
Less Allowance for Uncollectible Pledges	302,000
Less Unamortized Discount (Discount Rate of 1.20% to 2.01%)	<u>221,674</u>
Net Pledges Receivable	<u>\$ 5,504,040</u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation’s outstanding pledge balance. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

Four donors represent approximately \$3.40 million of total undiscounted pledges receivable at June 30, 2017.



REQUIRED SUPPLEMENTARY INFORMATION

**North Carolina State University
 Required Supplementary Information
 Schedule of the Proportionate Net Pension Liability
 Teachers' and State Employees' Retirement System
 Last Four Fiscal Years**

Exhibit C-1

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	2.20202%	2.13940%	2.14599%	2.11750%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 202,388,385	\$ 78,841,126	\$ 25,160,037	\$ 128,553,827
Covered Payroll	\$ 312,155,082	\$ 308,539,969	\$ 305,353,765	\$ 306,165,883
Net Pension Liability as a Percentage of Covered Payroll	64.84%	25.55%	8.24%	41.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

**North Carolina State University
 Required Supplementary Information
 Schedule of University Contributions
 Teachers' and State Employees' Retirement System
 Last Ten Fiscal Years**

Exhibit C-2

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 32,398,529	\$ 28,562,190	\$ 28,231,407	\$ 26,535,242	\$ 25,503,618
Contributions in Relation to the Contractually Determined Contribution	<u>32,398,529</u>	<u>28,562,190</u>	<u>28,231,407</u>	<u>26,535,242</u>	<u>25,503,618</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>				
Covered Payroll	\$ 324,634,557	\$ 312,155,082	\$ 308,539,969	\$ 305,353,765	\$ 306,165,883
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contribution	\$ 22,231,989	\$ 15,004,360	\$ 10,741,148	\$ 10,536,565	\$ 9,039,835
Contributions in Relation to the Contractually Determined Contribution	<u>22,231,989</u>	<u>15,004,360</u>	<u>10,741,148</u>	<u>10,536,565</u>	<u>9,039,835</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 298,817,058	\$ 304,348,067	\$ 300,872,483	\$ 313,588,252	\$ 296,388,035
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

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

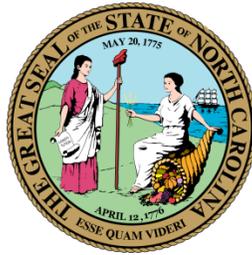
North Carolina State University
Notes to Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

<u>Cost of Living Increase</u>									
2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, 2012, and 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 Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2016 *Comprehensive Annual Financial Report*.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
North Carolina State University
Raleigh, 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 North Carolina State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 31, 2017. Our report includes a reference to other auditors who audited the financial statements of the NC State Investment Fund, Inc. and the discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the North Carolina State University Foundation, Inc., the NC State Student Aid Association, Inc., and The North Carolina Agricultural Foundation, Inc., discretely presented component units, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 31, 2017

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



This audit required 1050 hours at an approximate cost of \$108,150.