STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA

THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE

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

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

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

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

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

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR’S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

<u>Opinions</u>

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Asheville, and its discretely presented component unit, as of June 30, 2018, 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.

<u>Emphasis of Matter</u>

As discussed in Note 17 to the financial statements, during the year ended June 30, 2018, The University of North Carolina at Asheville adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as amended by Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. Our opinion is not modified with respect to this matter.

<u>Other Matters – Required Supplementary Information</u>

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.

<u>Other Reporting Required by *Government Auditing Standards*</u>

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 13, 2018

Management's Discussion and Analysis

Introduction

This section of The University of North Carolina at Asheville's (University) financial report provides an overview of the financial position and activities for the year ended June 30, 2018. This discussion has been prepared by management along with the financial statements and related notes to the financial statements, which follow this section and, as such, should be read in conjunction with them. This discussion and analysis only reflects the activity of the University for the fiscal years ended June 30, 2018 and 2017 and not The University of North Carolina at Asheville Foundation, Inc. (Foundation), the University's discretely presented component unit. It is designed to focus on current activities, resulting change, and currently known facts.

These statements have been prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB) and include the *Statement of Net Position*, the *Statement of Revenues, Expenses, and Changes in Net Position*, the *Statement of Cash Flows*, and Notes to the Financial Statements. Comparative information for the prior fiscal year is also presented in the condensed financial statements in this section.

Financial Highlights

Statement of Net Position

The *Statement of Net Position* presents assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (the difference between assets and deferred outflows of resources from liabilities and deferred inflows of resources) as of the date of the fiscal year end (June 30). This statement assists in the determination of the financial condition of the University. Effective for fiscal year 2018, GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. As part of the implementation of this statement, a net other postemployment benefits (OPEB) asset, a deferred outflow of resources for OPEB, a net OPEB liability, and a deferred inflow of resources for OPEB have been recorded. Prior year amounts in the *Statement of Net Position* have been restated to reflect this change in accounting standards. See Note 18 to the financial statements for details on this restatement. Also see Note 10 to the financial statements for details on the impact of this statement on net position. Comparative, condensed versions for fiscal year 2018 and fiscal year 2017 are as follows:

Condensed Statement of Net Position

	Fiscal Year 2018	Fiscal Year 2017 (as Restated)	$ Change	% Change
Current Assets	$ 22,761,859.99	$ 23,517,062.28	$ (755,202.29)	-3.21%
Capital Assets, Net	222,320,785.08	192,570,931.48	29,749,853.60	15.45%
Other Noncurrent Assets	39,074,352.37	61,531,510.56	(22,457,158.19)	-36.50%
Total Assets	284,156,997.44	277,619,504.32	6,537,493.12	2.35%
Deferred Loss on Refunding	287,152.67	338,876.60	(51,723.93)	-15.26%
Deferred Outflows Related to Pensions	5,787,315.48	7,816,091.19	(2,028,775.71)	-25.96%
Deferred Outflows Related to Other Postemployment Benefits	2,696,737.44	2,589,351.00	107,386.44	4.15%
Total Deferred Outflows of Resources	8,771,205.59	10,744,318.79	(1,973,113.20)	-18.36%
Current Liabilities	12,811,533.72	7,786,269.02	5,025,264.70	64.54%
Long-Term Liabilities, Net	176,348,670.98	213,020,966.57	(36,672,295.59)	-17.22%
Other Noncurrent Liabilities	990,623.28	1,361,597.82	(370,974.54)	-27.25%
Total Liabilities	190,150,827.98	222,168,833.41	(32,018,005.43)	-14.41%
Deferred Gain on Refunding	112,291.03	124,884.42	(12,593.39)	-10.08%
Deferred Inflows Related to Pensions	326,989.00	516,740.00	(189,751.00)	-36.72%
Deferred Inflows Related to Other Postemployment Benefits	33,227,753.00		33,227,753.00	100.00%
Total Deferred Inflows of Resources	33,667,033.03	641,624.42	33,025,408.61	5147.16%
Net Investment in Capital Assets	144,460,163.76	145,288,644.68	(828,480.92)	-0.57%
Restricted - Nonexpendable	10,754,487.61	8,331,861.77	2,422,625.84	29.08%
Restricted - Expendable	13,368,170.70	10,611,870.39	2,756,300.31	25.97%
Unrestricted	(99,472,480.05)	(98,679,011.56)	(793,468.49)	0.80%
Total Net Position	$ 69,110,342.02	$ 65,553,365.28	$ 3,556,976.74	5.43%

General Discussion of Changes in Statement of Net Position

The University's total assets increased this year by almost $6.54 million or 2.35%. Current assets declined by $0.75 million, capital assets increased by nearly $29.75 million, and other noncurrent assets declined by almost $22.46 million.

Current assets are comprised of current unrestricted and restricted cash and investments, accounts receivable, inventories, notes receivable, and other assets. The primary reason for the $0.75 million decrease is due to the spending of restricted cash and cash equivalents from grant funds received in the prior year of approximately $0.64 million.

The nearly $29.75 million net increase in capital assets is primarily due to the additional accumulated costs recognized in fiscal year 2018 of $24.61 million related to the construction of The Woods residence halls and $7.79 million related to the expansion and updates to Highsmith Student Union included in construction in progress. The total amounts capitalized as of June 30, 2018 for these two projects of $37.46 million comprised 97.22% of the nearly $38.53 million in construction in progress. Additional increases to construction in progress totaled $2.41 million and related primarily to renovation projects. Other building improvements and equipment purchases totaled nearly 0.34 million. These additions were offset by the recording of annual depreciation expense equal to $5.40 million.

Other noncurrent assets declined by almost $22.46 million from fiscal year 2017. This category consists primarily of restricted cash, restricted due from university component unit, endowment investments, and net (OPEB) asset. The primary reason for the overall decrease is due to $28.28 million in restricted bond funds disbursed for the construction of The Woods residence halls and the expansion and renovation of the Highsmith Student Center. Offsetting this decline was a $2.37 million donation received by the University Endowment Fund for scholarship spending. The University Endowment investment portfolio experienced a net increase of approximately $1.13 million due to returns of 12% offset by annual spending on related programs. Lastly, nearly an additional $0.56 million and $0.47 million were collected in interest on bond funds invested in the State Treasurer's Investment Fund (STIF) and in student debt service fees, respectively.

Deferred outflows of resources related to pensions decreased almost $2.03 million over the prior fiscal year due to differences between actual and projected earnings on investments and actuarial assumptions. Approximately $2.00 million of this deferred outflow will reduce the net pension liability for the year ending June 30, 2019.

Total liabilities decreased approximately $32.02 million or 14.41% overall due to the increase in current liabilities of nearly $5.03 million, a net decrease in long-term liabilities of $36.67 million, and a decrease in other noncurrent liabilities of $0.37 million.

The nearly $5.03 million increase in current liabilities is due to construction and retainage payables of $5.38 million primarily related to The Woods residence halls and expansion and renovation of Highsmith Student Center.

The $36.67 net decrease in long-term liabilities is primarily due to a change in actuarial assumptions for the net OPEB liability. The 2017 fiscal year restated amount for the net OPEB liability was $110.96 million and decreased by almost $33.01 million ending the fiscal year at $77.95 million. This net liability results from the implementation of GASB Statement No. 75, discussed further below.

Other changes to long-term liabilities result from scheduled bond and note principal retirements of $2.80 million and a nearly $0.94 million decline in the University's proportionate share of the Teachers' and State Employees' Retirement System (TSERS) pension liability.

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

The scope of GASB 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This GASB statement establishes standards for recognizing and measuring assets, liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB.

The University implemented GASB 75 as of June 30, 2018. According to GASB's website, "The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency."

The University provides OPEB for its employees through two OPEB plans administered by the State which are cost sharing, multiple-employer, defined benefit plans. As such, these plans would either have unfunded obligations or funds in excess of obligations. The plan with an unfunded obligation is the State's Retiree Health Benefit Fund (RHBF). The other plan is the Disability Income Plan of North Carolina (DIPNC), which currently has funds in excess of obligations. Amounts recorded for this plan are insignificant. The net OPEB liability and its related deferred outflows of resources and inflows of resources represent the University's proportionate share of the collective OPEB liability less the fiduciary net position of the RHBF. Detailed information regarding the State of North Carolina's plans, governed by this GASB, along with the assumptions used to determine the liability are found in Note 14 as well as in the Required Supplementary Information schedules.

Actuarial determined OPEB components as of a measurement date generally will be a year behind the reporting by the University. As with the pension adjustments, this delay is caused by the need for the actuary to determine the proportionate share amounts and for those amounts to be audited before being reported at the employer level.

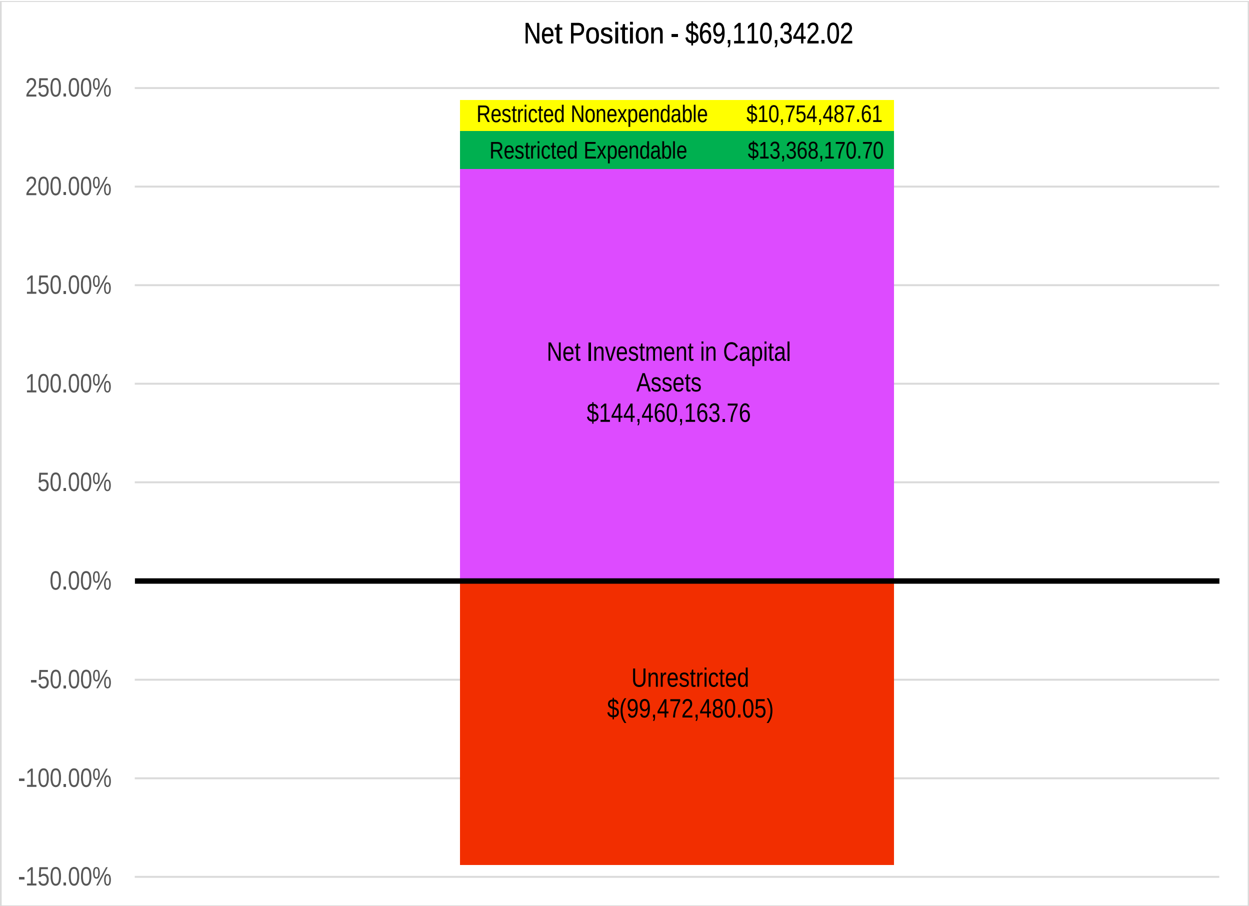
The nearly $33.01 million decline in the net OPEB liability resulted primarily from a change in actuarial assumptions used to determine the liability and a difference between the expected and actual experience of the RHBF plan. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. In addition, the assumed rates of retirement and rates of termination from active employment were reduced to more closely reflect actual experience.

While the net OPEB liability declined, in accordance with GASB 75, deferred inflows for these differences and changes to assumptions for the RHBF were also recorded and will be amortized into OPEB expense as shown in Note 14. Hence, the change in the net impact on the University's net position is minimal in the current year for this reduction of liability. At the plan level, the change in the actuarial assumptions and experiences of the RHBF plan from those used in determining the 2016 net OPEB liability resulted in a $10.72 billion reduction of the plan's net OPEB liability at June 30, 2017 (measurement date for fiscal year 2018 reporting).

In accordance with GASB 75, the University was required to restate its fiscal year 2017 net position based on its proportionate share of the net OPEB asset, liability, and related deferred outflows of resources and deferred inflows of resources. The impact on the fiscal year 2017 net position was a decline of $108.22 million as disclosed in Note 18.

General Discussion of University's Net Position

The components of net position are shown in the graph below.



Net position represents residual interest in the University's assets and deferred outflows of resources after deduction of all liabilities and deferred inflows of resources. For reporting purposes, net position is divided into three major components as discussed below.

"Net Investment in Capital Assets" represents the University's investment in capital assets such as land, construction in progress, buildings, machinery and equipment, and general infrastructure, net of accumulated depreciation, deferred outflows of resources and deferred inflows of resources, and outstanding principal balances of liabilities attributable to the acquisition, construction, or improvement of those assets. At June 30, 2018, approximately $144.46 million was attributable to the University's net investment in capital assets as compared to approximately $145.29 million for fiscal year 2017. This approximate $0.83 million decrease over the prior year is primarily due to the combination of large asset additions discussed above which are offset by depreciation of capital assets and the principal payments of all capital-associated University debt.

Restricted net position is subject to externally imposed restrictions governing use and is further divided into two categories: nonexpendable and expendable. "Restricted - Nonexpendable" net position primarily includes the University's permanent endowment funds received from donors for the purpose of creating present and future income. These funds, according to donor restrictions, must be held in perpetuity or for a specified period of time. These funds saw a net increase of approximately $2.42 million from fiscal year 2017 primarily due to a single donor scholarship contribution of $2.37 million. "Restricted - Expendable" net position is income from endowed funds, grants from others, gifts with specific restrictions on spending, and funds restricted for capital projects. Also, beginning with fiscal year 2017, as restated, and including fiscal year 2018, this component of net position contains the $0.31 million and $0.28 million net OPEB asset and related deferred outflows of resources and deferred inflows of resources for the University's participation in DIPNC. This component saw an increase of nearly $2.75 million due to an increase in funds for capital projects related primarily to The Woods residence halls construction, the Highsmith Student Union expansion and renovations, and other renovation projects, as well as investment performance on endowment funds.

"Unrestricted" net position is not subject to externally imposed restrictions. Substantially all of the University's unrestricted net position has been designated for various programs and initiatives. Unrestricted net position has seen a significant decline due to the implementations of GASB 68 for pensions and GASB 75 for OPEB, both requiring the recognition of significant liabilities, deferred outflows of resources, and deferred inflows of resources required for financial reporting. These components are allocations of the State of North Carolina's components and are not within the University management's control. In fiscal year 2018, unrestricted net position had a deficit of $99.47 million compared to a deficit of $98.68 million for fiscal year 2017, as restated. Given the magnitude of its share of the RHBF's unfunded net OPEB liability component, it appears that the University's unrestricted net position will remain in a deficit from this point forward until the funding status of RHBF changes dramatically.

The nearly $113.15 million impact on unrestricted net position from both the net OPEB liability components and the net pension liability components from the two aforementioned GASB standards, is disclosed in Note 10. The University's remaining unrestricted net position for fiscal year 2018 reflected a slight increase of $0.16 million or 1.24% over adjusted fiscal year 2017, as restated, and is shown below.

Unrestricted Net Position Adjusted for the Impact of Pension and OPEB Related Items

	Fiscal 2018	Fiscal 2017	$ Change	% Change
Total Unrestricted Net Postion	$ (99,472,480.05)	$ (98,679,011.56)	$ (793,468.49)	0.80%
Effect of GASB 68 - Pensions	4,534,688.52	3,634,301.81	900,386.71	24.77%
Effect of GASB 75 - OPEB	108,613,930.46	108,553,838.00	60,092.46	0.06%
Remaining Unrestricted Net Position	$ 13,676,138.93	$ 13,509,128.25	$ 167,010.68	1.24%

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. Given a public university's dependency on revenues such as state appropriations, grants, gifts, and investment income, which are prescribed by the GASB as nonoperating revenues, operating expenses will exceed operating revenues, resulting in an operating loss. Therefore, nonoperating revenues and expenses are integral components in determining the increase or decrease in net position and in analyzing the core performance of the University as a whole. The following table is a condensed, comparative review of the Statement of Revenues, Expenses, and Changes in Net Position:

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

	2018 Fiscal Year	2017 Fiscal Year *	$ Change	% Change
Student Tuition and Fees, Net	$ 23,846,302.43	$ 24,457,326.09	$ (611,023.66)	-2.50%
Sales and Services, Net	11,604,173.08	11,719,957.18	(115,784.10)	-0.99%
Grants and Contracts	3,854,639.96	3,347,154.32	507,485.64	15.16%
Other Operating Revenues	1,808,258.51	1,899,866.04	(91,607.53)	-4.82%
Total Operating Revenues	41,113,373.98	41,424,303.63	(310,929.65)	-0.75%
Salaries and Benefits	62,933,744.03	61,910,895.00	1,022,849.03	1.65%
Supplies and Materials	4,745,226.90	4,963,139.71	(217,912.81)	-4.39%
Services	15,034,495.81	13,762,756.50	1,271,739.31	9.24%
Scholarships and Fellowships	4,610,510.22	5,388,873.76	(778,363.54)	-14.44%
Utilities	2,475,065.43	2,486,201.39	(11,135.96)	-0.45%
Depreciation	5,404,062.30	5,341,277.43	62,784.87	1.18%
Total Operating Expenses	95,203,104.69	93,853,143.79	1,349,960.90	1.44%
Operating Loss	(54,089,730.71)	(52,428,840.16)	(1,660,890.55)	3.17%
State Appropriations	40,128,446.32	39,864,859.65	263,586.67	0.66%
Noncapital Grants	9,424,930.90	9,262,754.12	162,176.78	1.75%
Noncapital Gifts	2,646,197.52	2,866,944.18	(220,746.66)	-7.70%
Investment Income, Net	2,379,864.77	1,818,084.17	561,780.60	30.90%
Interest and Fees on Debt	(2,404,551.25)	(2,514,912.12)	110,360.87	-4.39%
Federal Interest Subsidy on Debt	516,083.42	519,379.37	(3,295.95)	-0.63%
Other Nonoperating Expenses	(37,190.16)	(362,153.60)	324,963.44	-89.73%
Net Nonoperating Revenues	52,653,781.52	51,454,955.77	1,198,825.75	2.33%
Loss Before Other Revenues	(1,435,949.19)	(973,884.39)	(462,064.80)	47.45%
Capital Contributions	2,617,925.93	2,418,004.59	199,921.34	8.27%
Additions to Endowments	2,375,000.00	107,529.45	2,267,470.55	2,108.70%
Increase in Net Position	3,556,976.74	1,551,649.65	2,005,327.09	129.24%
Beginning Net Position, Prior to Restatement	65,553,365.28	172,224,507.63	(106,671,142.35)	-61.94%
GASB 75 Restatement (Note 18)		(108,222,792.00)	108,222,792.00	-100.00%
Ending Net Position, as Restated	$ 69,110,342.02	$ 65,553,365.28	$ 3,556,976.74	5.43%
Reconciliation of Change in Net Position				
Total Revenues	$ 101,201,822.84	$ 98,281,859.16	$ 2,919,963.68	2.97%
Less: Total Expenses	97,644,846.10	96,730,209.51	914,636.59	0.95%
Increase in Net Position	$ 3,556,976.74	$ 1,551,649.65	$ 2,005,327.09	129.24%

* Note: The year ended June 30, 2017 column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 75 do not provide sufficient information to restate these amounts.

General Discussion of Changes in Statement of Revenues, Expenses, and Changes in Net Position

Total operating revenues declined $0.31 million, essentially flat compared to fiscal year 2017. However, components within this category reported significant variances. One such variance was an approximate $0.73 million combined decrease in net tuition and fees and sales and services revenues due primarily to a change in the methodology used to determine tuition discounts from the methodology used in fiscal year 2017. This change in methodology resulted in a $0.74 million additional tuition discount and a corresponding decrease in the related revenues. It also resulted in a similar impact on scholarships and fellowships expenses as mentioned below.

Gross tuition revenues in fiscal year 2018 were $32.06 million versus nearly $31.63 million for fiscal year 2017 or an increase of $0.43 million and 1.36%. The University implemented *North Carolina General Statutes* 116-143.9 and 116-143.10 in fiscal year 2017. These statutes limit tuition and fee rate increases for all UNC System universities. In accordance with these statutes, tuition rates were flat for freshman or transfer undergraduate students who were continuously enrolled from fiscal year 2017 to fiscal year 2018. New and nonresident students saw a 2% increase in tuition from fiscal year 2017 to fiscal year 2018. In addition, student fees were increased 3%, the limit per academic year per G.S. 116-143.10. Sales and services gross revenues were almost $15.50 million for fiscal year 2018, a nearly $0.40 million or 2.65% increase over the $15.10 million reported in fiscal year 2017. These increases were primarily due to increased housing and dining revenues over the prior year.

Grants and contracts revenues increased nearly $0.51 million due primarily to an additional $0.30 million in research grants provided to the University's National Environmental Modeling and Analysis Center. The remaining $0.19 million increase relates to additional receipts for multiple academic, athletic, and program related activities.

Operating expenses saw an approximate $1.35 million or 1.44% increase overall. Various components contributed to this increase.

Salaries and benefits increased $1.02 million or 1.65% primarily due to increases authorized by the state legislature, offset by unfilled vacant positions, resulting in an additional $0.68 million expense. Additionally, net benefits expenses recognized due to the implementation of GASB 75 for OPEB resulted in an additional $0.34 million.

Services increased $1.27 million or 9.24% due to various one-time costs associated with software purchases, consulting services, and repairs and maintenance costs. Significant expenditures during fiscal year 2018 in this category included the following:

- $0.22 million for sponsorship of the Black Mountain Legacy Fellow and work with the Center for Craft, Creativity, and Design,
- $0.17 million for increased food service agreement costs,
- $0.11 million for software purchases related to institutional effectiveness and academic programs, and
- $0.11 million for consulting services related to a financial aid data optimization project.

Scholarships and fellowships expenses represent the portion of refunded financial aid received from Pell grants, State grants, and other resources not used to satisfy students' tuition, fees, and services. This expense declined by nearly $0.78 million or 14.44% primarily due to the change in methodology for tuition discounting discussed above that resulted in $0.74 million less resources allocated for student refunds over the prior year.

Net nonoperating revenues increased approximately $1.20 million or 2.33% overall. A significant portion of this increase is attributable to a $0.56 million or 30.90% increase in net investment income compared to the prior fiscal year. The University's endowment funds, largely invested with the UNC Investment Fund, returned 12.0% in fiscal year 2018, slightly higher than the fiscal year 2017 return of 11.79%.

Other than the net investment income, nonoperating revenues increased almost $0.64 million. The largest component of nonoperating revenues is state appropriations that were almost $40.13 million and $39.86 million in fiscal years 2018 and 2017, respectively. This represents a net increase of $0.26 million or 0.66%. In fiscal year 2018, additional state appropriations of $1.03 million provided for legislative increases in salaries, merit bonuses, and increased employer contributions to pension plans. These additional appropriations were offset by a reduction of $0.61 million in enrollment growth funding due to a change in the State's enrollment funding methodology from prior years. In prior years, enrollment growth funding was calculated in the UNC System on projected student enrollment. In fiscal 2018, the North Carolina General Assembly revised the methodology whereby enrollment growth funding was based on the actual student enrollment. This reduction is one-time and will not recur in future years unless the funding model is altered. Other offsetting reductions related to University programming.

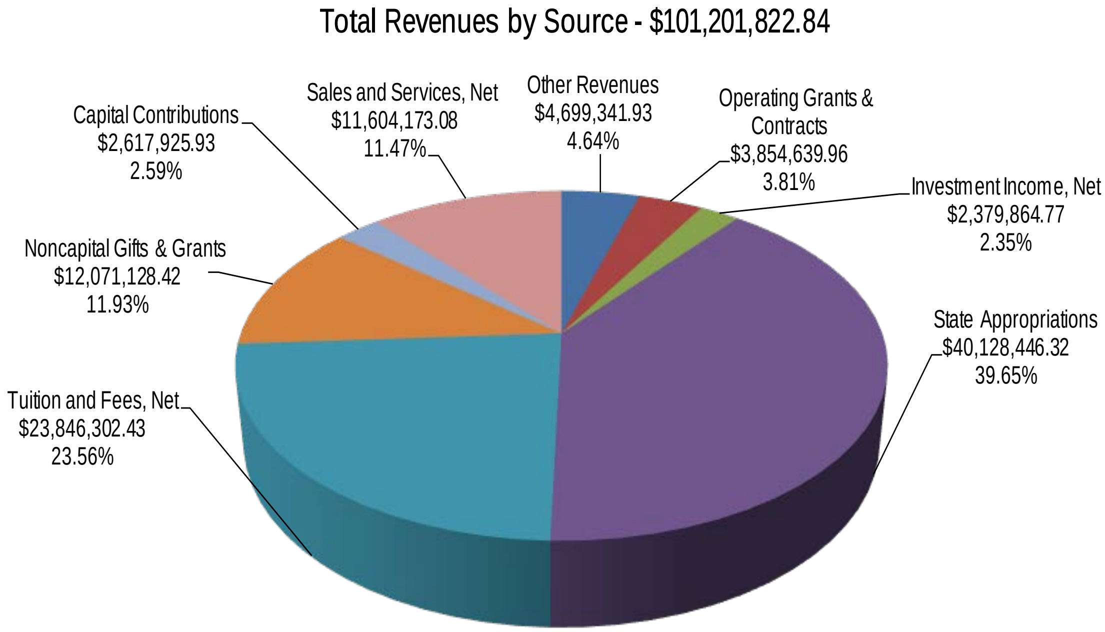
Noncapital grants and gifts are primarily student financial aid from both public and private sources including $5.89 million from Federal Pell Grants, $2.67 million from The North Carolina State Education Assistance Authority, and $1.05 million from the Foundation. These amounts are similar to fiscal year 2017.

Other nonoperating expenses declined by $0.32 million due to a scheduled decline in expenses incurred from the prior year associated with a three year, $0.72 million grant from the Windgate Foundation to support a collaborative programming effort with the Asheville-based Center for Craft Creativity and Design. Interest and fees on debt decreased by $0.11 million due to the fees and issuance costs related to the prior year's issuance of the Series 2017 Bonds.

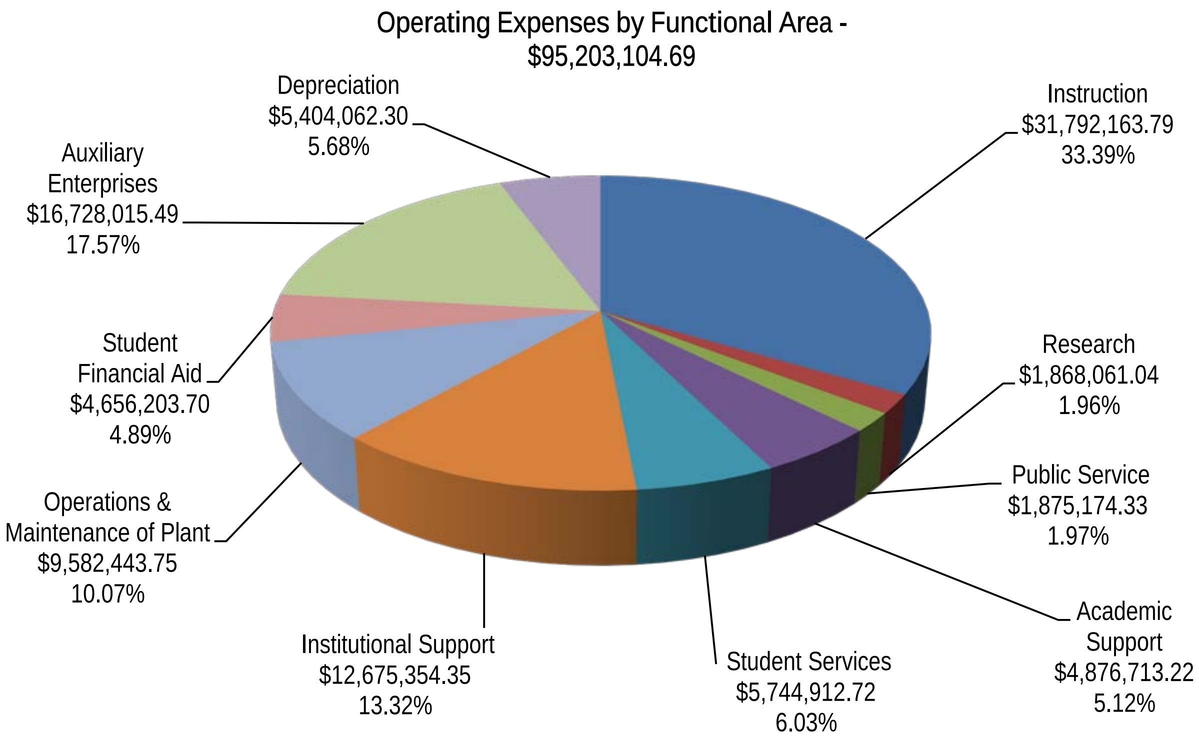
Capital appropriations, grants, gifts, and additions to endowments are considered neither operating nor nonoperating revenues and are reported after "Loss Before Other Revenues." In fiscal year 2018, just under $2.06 million was received in capital appropriations for a variety of capital projects, repairs, and improvements to the University's buildings and infrastructure. This represented a 0.88% increase over fiscal year 2017. Additions to endowments increased nearly $2.27 million due primarily to the receipt of the Sally Birge Scholarship.

Additional Summary Information

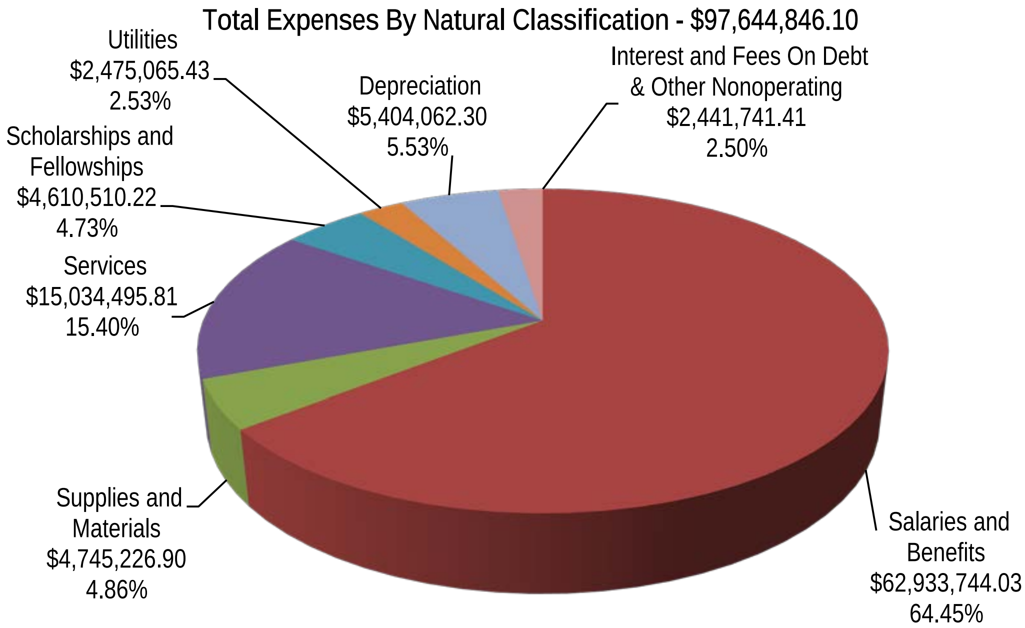
A summary of the University's fiscal year 2018 total of all revenues by source is as follows:



Operating expenses by functional area for fiscal year 2018 are shown in the graph below:



The total of all expenses by natural classification for fiscal year 2018 is shown below:



Debt Administration, Major Capital Projects in Progress, and Debt Rating

The University issued 30-year General Revenue Bonds in fiscal year 2017 with a par value of $46.29 million. The Series 2017 Bonds carried average coupon rates ranging from 4.00% - 5.00% with an all-in total interest cost of 3.99%. A summary of the sources and uses of proceeds from the transaction is as follows:

UNC Asheville Series 2017 General Revenue Bonds Sources & Uses Funds (Final Pricing Numbers)		
Sources:		
Par Amount	$	46,290,000.00
Net Premium		2,657,553.75
Total Sources	$	48,947,553.75
Uses:		
Issuance Costs	$	320,069.45
Capitalized Interest Fund		2,402,484.30
New Residence Hall		33,795,000.00
Highsmith Hall Renovations		12,430,000.00
Total Uses	$	48,947,553.75

The funds are being used to construct The Woods residence halls and to expand and renovate the Highsmith Student Center at costs not to exceed $33.80 million and $12.43 million, respectively. Capitalized costs for The Woods residence halls and the Highsmith Student Center projects, respectively, as of June 30, 2018, were nearly $28.66 million and nearly $8.63 million. The interest due on the bonds through and including the June 1, 2018 payment were paid from the capitalized interest fund, which was fully utilized as of June 30, 2018. Debt service fees and net housing rental income will service annual bond debt payments.

On Thursday, August 16, 2018, the North Carolina Department of Insurance ordered closing of The Woods residence halls, and issued a press release stating the buildings posed life safety concerns to students. This action was one day after the University received beneficial occupancy from the North Carolina State Construction Office, the state agency which, by statute, has the authority to supervise the administration and enforcement of all sections of the North Carolina State Building Code pertaining to the construction of buildings. According to that office, the buildings met applicable fire and building codes.

After the shutdown, and in consultation with the UNC System Office, the University signed an August 17, 2018 agreement with the North Carolina Department of Insurance which called for the implementation of safety improvements in The Woods residence halls. Per the North Carolina Department of Administration and the State Construction Office, these requested improvements are not required by applicable fire and building codes, and, in fact, exceed them. Per the agreement, until some specific safety improvements are finished, which should be in mid-October, the University will maintain a fire watch in the affected buildings. This is despite a fire watch having previously been deemed unnecessary by a respected professional engineer with the endorsement of both the building designer and State Construction Office. As a result of the agreement, students were able to move back into the residence halls the day the agreement was signed, and are living in the residence halls while the safety improvements are in process.

No students canceled their housing contracts. The costs of the safety improvements and the fire watch are currently estimated to be $0.76 million. The University is working with the UNC System Office and the North Carolina General Assembly for financial recovery related to this matter.

In March 2016, North Carolina voters approved the $2.00 billion Connect NC Bond general obligation bond issuance. As part of this bond issuance, the University will receive a $21.10 million allocation for the repair and renovation of Owen Hall and Carmichael Hall. Capitalized pre-construction costs related to these projects were approximately $0.72 million as of June 30, 2018. For additional information concerning capital assets and debt administration see Notes 6 and 8, respectively.

Prior to the issuance of the Series 2017 Bonds, Moody's Investors Service affirmed the University's A1 debt rating with a stable outlook on March 1, 2017.

Economic Outlook

Management believes that the University is well positioned to continue its level of excellence of service to students, the community, and governmental agencies. As the only designated liberal arts university in the University of North Carolina System, the University stimulates learning by offering students an intellectually rigorous education that builds critical thinking and workforce skills to last a lifetime. Small class sizes, award-winning faculty, and a nationally acclaimed undergraduate research program foster innovation as well as recognition.

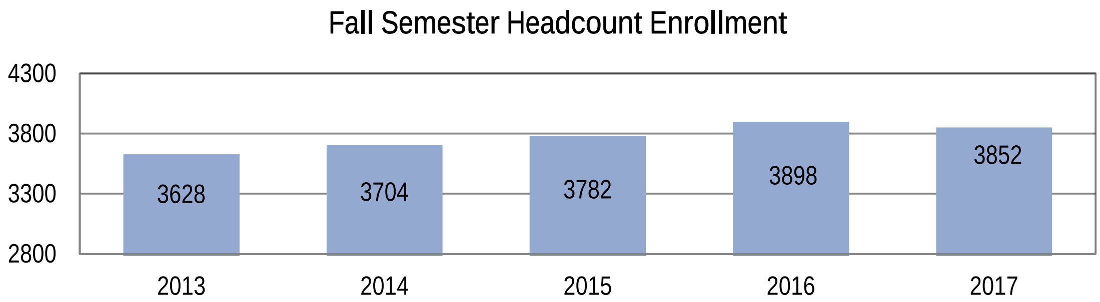
The University is committed to living the core values of diversity and inclusion, innovation, and sustainability, and ensuring that they permeate everything that the University does. Meeting these commitments requires an openness to change, creative and innovative approaches to programmatic growth, and a sustained focus on education including diverse ideas, as well as sufficient operating resources and support systems, incentives, and accountability measures.

The University's ongoing efforts toward maximizing the State's resources with efficiency and effectiveness measures should enable it to provide the necessary resources to support this level of excellence.

Enrollment Trends

The University maintains strong admission standards for incoming freshman as the institution continues to enhance its national profile. The overall enrollment stability reflects a strong demand for the University's nationally recognized public liberal arts program.

The following table compares fall semester total headcount of students for the previous five years.



Current Year University Recognitions

The University is consistently recognized for academic quality, excellent teaching, quality of life, and great value. Highlights from recent rankings and distinctions include:

- U.S. News & World Report - The University ranks seventh in the nation among public liberal arts colleges. This publication also listed the University's Undergraduate Research/Creative Projects Program and the University's Department of Management & Accountancy as among the nation's best. The University also is included in the U.S. News "A+ Schools for B Students" list, which recognizes schools that seek and admit a broad and engaged student body, and where spirit and hard work, individuality, and seriousness of purpose are valued by the admissions office. – U.S. News & World Report's "2018 Best Colleges" (September 2017)
- Kiplinger - The University is among the top 100 best values in public colleges, ranking ninth nationally in lowest total cost of attending for in-state students. – Kiplinger's Best College Values (online, December 2017)
- The Princeton Review - The University is ranked in the top two nationally on the "Best Schools for Making an Impact" list No. 2 in 2018). – The Princeton Review guidebook, Colleges That Pay You Back: The 200 Best Value Colleges and What It Takes to Get In – 2016 & '18 Editions (January 2018)
- The Fiske Guide to Colleges, 2018 Edition - The University was named a "Best Buy," along with UNC-Chapel Hill and N.C. State University - the only North Carolina public universities to earn a place on this international ranking list reflecting academic quality

and affordability. For 14 consecutive years, the University's Environmental Studies Program has been included on the list of pre-professional programs with unusual strength in preparing students for careers. (July 2017)

- The University was designated a 2017 Military Friendly® School by Victory Media, a service-disabled, veteran-owned business. "UNC Asheville is an excellent choice for military members because it provides an exceptional Liberal Arts education at a public institution price. It also is home to a veteran student organization, the Veterans Alliance, and proactively seeks to support Veterans in their transition into Higher Education."– 2017 Military Friendly® Schools and Employers (November, 2016)

Conclusion

Looking ahead, a crucial element to the University's future will continue to be the level of state funding as well as managing tuition and fees while staying competitive and providing an outstanding college education for its students.

The University will strategically seek alternative funding sources through contract and grant funding as well as private fundraising. The University will continue to employ its investment strategy to maximize total returns, at an appropriate level of risk in accordance with our strategic plan, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility. The University will also continue to control its spending to be in accordance with available revenue sources.

While it is not possible to predict the ultimate results, management believes that with continued prudent strategic efficiency measures, the support of the State of North Carolina, and faithful donors, the University's financial condition is strong enough to weather future economic uncertainties.

FINANCIAL STATEMENTS

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

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	18,663,076.73
Restricted Cash and Cash Equivalents		1,825,030.04
Receivables, Net (Note 5)		1,328,953.56
Inventories		233,738.62
Notes Receivable, Net (Note 5)		505,750.04
Other Assets		205,311.00
Total Current Assets		22,761,859.99
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		21,436,071.58
Restricted Due from University Component Unit		2,042,299.40
Endowment Investments		15,055,486.83
Notes Receivable, Net (Note 5)		380,390.56
Net Other Postemployment Benefits Asset		160,104.00
Capital Assets - Nondepreciable (Note 6)		47,770,892.01
Capital Assets - Depreciable, Net (Note 6)		174,549,893.07
Total Noncurrent Assets		261,395,137.45
Total Assets		284,156,997.44
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding		287,152.67
Deferred Outflows Related to Pensions		5,787,315.48
Deferred Outflows Related to Other Postemployment Benefits (Note 14)		2,696,737.44
Total Deferred Outflows of Resources		8,771,205.59
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		7,417,457.80
U. S. Government Grants Refundable		113,209.00
Funds Held for Others		4,559.60
Unearned Revenue		1,786,930.76
Interest Payable		377,500.10
Long-Term Liabilities - Current Portion (Note 8)		3,111,876.46
Total Current Liabilities		12,811,533.72
Noncurrent Liabilities:		
Deposits Payable		86,676.31
Funds Held for Others		91,961.61
U. S. Government Grants Refundable		811,985.36
Long-Term Liabilities, Net (Note 8)		176,348,670.98
Total Noncurrent Liabilities		177,339,294.26
Total Liabilities		190,150,827.98
DEFERRED INFLOWS OF RESOURCES		
Deferred Gain on Refunding		112,291.03
Deferred Inflows Related to Pensions		326,989.00
Deferred Inflows Related to Other Postemployment Benefits (Note 14)		33,227,753.00
Total Deferred Inflows of Resources		33,667,033.03

NET POSITION

Net Investment in Capital Assets		144,460,163.76
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		3,174,127.78
Endowed Professorships		7,336,500.00
Departmental Uses		10,061.93
Loans		233,797.90
Expendable:		
Scholarships and Fellowships		2,132,384.69
Research		351,305.90
Endowed Professorships		4,399,363.31
Departmental Uses		95,680.30
Capital Projects		5,178,039.11
Other		1,211,397.39
Unrestricted		(99,472,480.05)
Total Net Position	$	69,110,342.02

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

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

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 11)	$	23,846,302.43
Federal Grants and Contracts		1,400,852.78
State and Local Grants and Contracts		728,763.68
Nongovernmental Grants and Contracts		1,725,023.50
Sales and Services, Net (Note 11)		11,604,173.08
Interest Earnings on Loans		42,825.37
Other Operating Revenues		1,765,433.14
Total Operating Revenues		41,113,373.98
EXPENSES		
Operating Expenses:		
Salaries and Benefits		62,933,744.03
Supplies and Materials		4,745,226.90
Services		15,034,495.81
Scholarships and Fellowships		4,610,510.22
Utilities		2,475,065.43
Depreciation		5,404,062.30
Total Operating Expenses		95,203,104.69
Operating Loss		(54,089,730.71)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		40,128,446.32
Noncapital Grants - Student Financial Aid		8,860,679.16
Noncapital Grants		564,251.74
Noncapital Gifts		2,646,197.52
Investment Income (Net of Investment Expense of $74,183.41)		2,379,864.77
Interest and Fees on Debt		(2,404,551.25)
Federal Interest Subsidy on Debt		516,083.42
Other Nonoperating Expenses		(37,190.16)
Net Nonoperating Revenues		52,653,781.52
Loss Before Other Revenues		(1,435,949.19)
Capital Appropriations		2,056,750.75
Capital Grants		499,938.93
Capital Gifts		61,236.25
Additions to Endowments		2,375,000.00
Increase in Net Position		3,556,976.74
NET POSITION		
Net Position - July 1, 2017, as Restated (Note 18)		65,553,365.28
Net Position - June 30, 2018	$	69,110,342.02

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

The University of North Carolina at Asheville
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 40,488,746.52
Payments to Employees and Fringe Benefits	(61,795,921.39)
Payments to Vendors and Suppliers	(21,939,289.17)
Payments for Scholarships and Fellowships	(4,609,408.23)
Loans Issued	(49,170.00)
Collection of Loans	166,679.03
Interest Earned on Loans	42,825.37
Other Payments	(395,082.61)
Net Cash Used by Operating Activities	(48,090,620.48)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	40,128,446.32
Noncapital Grants - Student Financial Aid	8,860,679.16
Noncapital Grants	575,092.85
Noncapital Gifts	2,646,197.52
Additions to Endowments	2,375,000.00
William D. Ford Direct Lending Receipts	14,055,644.00
William D. Ford Direct Lending Disbursements	(14,055,644.00)
Net Cash Provided by Noncapital Financing Activities	54,585,415.85
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	2,056,750.75
Capital Grants	500,485.95
Acquisition and Construction of Capital Assets	(30,140,810.66)
Principal Paid on Capital Debt	(2,801,306.19)
Interest and Fees Paid on Capital Debt	(2,518,653.68)
Federal Interest Subsidy on Debt Received	516,083.42
Net Cash Used by Capital Financing and Related Financing Activities	(32,387,450.41)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	564,085.84
Investment Income	765,249.85
Purchase of Investments and Related Fees	(74,183.41)
Net Cash Provided by Investing Activities	1,255,152.28
Net Decrease in Cash and Cash Equivalents	(24,637,502.76)
Cash and Cash Equivalents - July 1, 2017	66,561,681.11
Cash and Cash Equivalents - June 30, 2018	$ 41,924,178.35

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

Operating Loss	$ (54,089,730.71)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,404,062.30
Allowances and Write-Offs	(22,738.23)
Nonoperating Other Income	(152,471.72)
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(137,164.14)
Inventories	(2,299.05)
Notes Receivable, Net	117,509.03
Other Assets	(205,311.00)
Net Other Postemployment Benefits Asset	(8,127.00)
Deferred Outflows Related to Pensions	2,028,775.71
Deferred Outflows Related to Other Postemployment Benefits	(107,386.44)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	440,125.42
Due to Primary Government	(14,671.15)
U.S. Government Grants Refundable	(261,789.00)
Funds Held for Others	(17,015.35)
Unearned Revenue	(284,397.49)
Net Pension Liability	(938,638.00)
Net Other Postemployment Benefits Liability	(33,009,568.00)
Compensated Absences	(4,730.00)
Deposits Payable	21,661.34
Deferred Inflows Related to Pensions	(74,470.00)
Deferred Inflows Related to Other Postemployment Benefits	33,227,753.00
Net Cash Used by Operating Activities	$ (48,090,620.48)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 18,663,076.73
Restricted Cash and Cash Equivalents	1,825,030.04
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	21,436,071.58
Total Cash and Cash Equivalents - June 30, 2018	$ 41,924,178.35

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$ 5,456,654.73
Assets Acquired through a Gift	61,236.25
Change in Fair Value of Investments	1,434,520.62
Amortization of Bond Premiums/Discounts	136,875.32

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

The University of North Carolina at Asheville Foundation, Inc.
Consolidated Statement of Financial Position
June 30, 2018 *Exhibit B-1*

CURRENT ASSETS		
Cash and Cash Equivalents	$	3,894,032.54
Sales Tax Receivable		10,085.15
Other Receivables		78,831.80
Promises to Give, Net		224,560.94
Due from Other Entities		42,299.40
Prepaid Expense		41,673.86
Total Current Assets		4,291,483.69
PROPERTY AND EQUIPMENT, NET		4,139,525.97
OTHER ASSETS		
Investments		34,978,033.29
Promises to Give, Net		192,622.73
Real Estate Held for Resale		185,000.00
Beneficial Interests		285,481.78
Prepaid Expense		5,787.50
Total Other Assets		35,646,925.30
Total Assets	$	44,077,934.96
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$	77,688.82
Accounts Payable		186,702.98
Due to University		42,299.40
Annuities Payable		75,169.72
Tenant Security Deposits		30,000.00
Total Current Liabilities		411,860.92
NONCURRENT LIABILITIES		
Annuities Payable		473,045.64
Due to University		2,000,000.00
Notes Payable		2,003,228.32
Total Noncurrent Liabilities		4,476,273.96
Total Liabilities		4,888,134.88
NET ASSETS		
Unrestricted		2,817,730.20
Temporarily Restricted		14,603,294.02
Permanently Restricted		21,768,775.86
Total Net Assets		39,189,800.08
Total Net Assets and Liabilities	$	44,077,934.96

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

The University of North Carolina at Asheville Foundation, Inc.
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2018 — *Exhibit B-2*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES AND PUBLIC SUPPORT				
Contributions	$ 278,987.08	$ 1,716,904.94	$ 1,006,390.66	$ 3,002,282.68
Contributions-Gifts in Kind	174,554.42	34,784.21		209,338.63
Investment Income	378,683.29	3,489,474.78		3,868,158.07
Loss on Beneficial Interests		(6,659.01)	(2,320.84)	(8,979.85)
Family Business Forum		43,040.00		43,040.00
Special Events		176,449.48		176,449.48
Rental and Lease Income	123,000.00	49,999.00		172,999.00
Other Income	59.57	74,680.25		74,739.82
Net Assets Released from Restriction	3,361,820.27	(3,361,820.27)		
Total Operating Revenues, Gains, and Other Support	4,317,104.63	2,216,853.38	1,004,069.82	7,538,027.83
OPERATING EXPENSES				
Program Services	3,408,519.84			3,408,519.84
Supporting Services				
Management and General	390,403.47			390,403.47
Fundraising	245,717.18			245,717.18
Total Operating Expenses	4,044,640.49			4,044,640.49
Change in Net Assets	272,464.14	2,216,853.38	1,004,069.82	3,493,387.34
Net Assets at Beginning of Year	2,545,266.06	12,386,440.64	20,764,706.04	35,696,412.74
Net Assets at End of Year	$ 2,817,730.20	$ 14,603,294.02	$ 21,768,775.86	$ 39,189,800.08

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Asheville (University) is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

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

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 25 to 36 elected directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate consolidated financial statements because of the difference in its reporting model, as described below.

In September 2013, the Foundation formed a wholly owned subsidiary, UNC Asheville Baseball Stadium, LLC. Its purpose is to further and support the charitable and other exempt purpose of the Foundation by planning, designing, constructing, and completing the expansion and renovation of the existing baseball stadium and associated construction areas on the campus of the University, and such activities as are necessary, incidental, or appropriate in connection therewith.

In December 2013, the Foundation formed a wholly owned subsidiary, UNC Asheville Real Estate, LLC. Its purpose is to further and support the charitable, educational, and other exempt purposes of the Foundation by acquiring, owning, developing, leasing, managing, operating, and selling real property for the benefit of the University, and such activities as are necessary, incidental, or appropriate in connection therewith.

In February 2016, the Foundation formed a wholly owned subsidiary, UNC Asheville Foundation Makerspace, LLC. Its purpose is to further and support the charitable, educational, and other exempt purposes of the Foundation by acquiring, owning, developing, leasing, managing, operating, and selling real estate for the benefit of the University, and such activities as are necessary, incidental, or appropriate in connection therewith.

In March 2017, the Foundation formed a wholly owned subsidiary, UNC Asheville Foundation Riverside Property, LLC. Its purpose is to further and support the charitable, educational, and other exempt purposes of the Foundation by acquiring, owning, developing, leasing and managing, operating, and selling real estate for the benefit of the University, and such activities as are necessary, incidental, or appropriate in connection therewith.

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

During the year ended June 30, 2018, the Foundation distributed $2,255,347.83 to the University for both restricted and unrestricted purposes. Additionally, the Foundation has a $2,042,299.40 payable due to the University for land owed and other expenses. Complete consolidated financial statements for the Foundation can be obtained from the Associate Vice Chancellor of Advancement, 213 W.T. Weaver Building, CPO 3800, One University Heights, Asheville, North Carolina 28804 or by calling 828-251-6016.

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

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

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

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

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

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

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

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

G. Inventories - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.

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

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

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

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery and Equipment	2-30 years
Art, Literature, and Artifacts	10-25 years
General Infrastructure	10-75 years

The University does not capitalize the collections considered to be inexhaustible or the general collections available for use in the Ramsey Library or in other campus locations. These collections adhere to the University's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve. 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.

Certain other collections are capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. Depreciation is computed using the straight-line method over the estimated use lives of the collections, which is generally 10-25 years.

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, unspent debt proceeds, and endowment investments.

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Long-term debt includes: revenue bonds payable and a note payable. Other long-term liabilities include: compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

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

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2017 *Comprehensive Annual Financial Report.* This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 13 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

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

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

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

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

N. **Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

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

P. **Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, printing services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes $25,466,662.49, which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.4 years as of June 30, 2018. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

Cash on hand at June 30, 2018 was $7,225.00. The carrying amount of the University's deposits not with the State Treasurer, including unspent bond proceeds of $16,431,954.09 held by a fiscal agent and invested with the State Treasurer, was $16,450,290.86, and the bank balance was $16,451,127.16. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2018, the University's bank balance was not exposed to custodial credit risk.

B. Investments

University - The University is authorized by the University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and

Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

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

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

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

Investments of 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.

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit method. Under this method, each participating fund's investment balance is determined on the basis of the number of units purchased less sales multiplied by the current market value. The investment strategy, including the selection of investment managers, is based on the directives of the Board of Trustees of the Endowment Fund. At year-end, the pooled investments were all held with the UNC Investment Fund, LLC.

UNC Investment Fund, LLC - At June 30, 2018, the University's investments include $15,044,470.94, 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 - At June 30, 2018, non-pooled investments totaled $11,015.89 which were invested in equity mutual funds through a third-party financial institution.

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

	Amount
Investment Type	
Other Securities	
UNC Investment Fund	$ 15,044,470.94
Equity Mutual Funds	11,015.89
Total Investments	$ 15,055,486.83

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

The Foundation owns a membership interest in the UNC Investment Fund. The Foundation also has investments in marketable securities with fair values based upon active markets.

The Foundation's investments stated at fair value at June 30, 2018 are summarized as follows:

	2018		
Investment Type	Cost	Fair Value	Cumulative Unrealized Gains
Membership Interest in UNC Investment Fund, LLC	$ 15,336,707.94	$ 34,016,262.78	$ 18,679,554.84
Fixed Income Funds	249,832.55	247,216.89	(2,615.66)
Equities	421,375.21	485,084.26	63,709.05
Complementary Strategies	147,946.48	147,491.54	(454.94)
Real Estate Funds	80,028.34	81,977.82	1,949.48
Total Investments	$ 16,235,890.52	$ 34,978,033.29	$ 18,742,142.77

The following schedule summarizes investment return and its classification in the Consolidated Statement of Activities for the year ended June 30, 2018:

	Total
Interest and Dividends	$ 88,357.50
Realized Gains	253,863.24
Unrealized Gains	3,525,937.33
	$ 3,868,158.07

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

Cash on Hand	$ 7,225.00
Amount of Deposits with Private Financial Institutions	16,450,290.86
Deposits in the Short-Term Investment Fund	25,466,662.49
Investments in the UNC Investment Fund	15,044,470.94
Non-Pooled Investments	11,015.89
Total Deposits and Investments	$ 56,979,665.18
Deposits	
Current:	
Cash and Cash Equivalents	$ 18,663,076.73
Restricted Cash and Cash Equivalents	1,825,030.04
Noncurrent:	
Restricted Cash and Cash Equivalents	21,436,071.58
Total Deposits	41,924,178.35
Investments	
Noncurrent:	
Endowment Investments	15,055,486.83
Total Deposits and Investments	$ 56,979,665.18

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Other Securities				
Equity Mutual Funds	$ 11,015.89	$ 11,015.89	$ 0.00	$ 0.00
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	25,466,662.49			
UNC Investment Fund	15,044,470.94			
Total Investments as a Position in an External Investment Pool	40,511,133.43			
Total Investments Measured at Fair Value	$ 40,522,149.32			

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

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

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

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

The Foundation's Consolidated Statement of Financial Position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in mutual funds and equities are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.
- Short-Term Investment Fund (STIF) is considered a Level 2 asset as the ownership interest of the STIF is determined on a fair market valuation basis as of the fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.
- UNC Investment Fund is considered a Level 3 asset as the 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.
- Beneficial interest in the perpetual trust is considered a Level 3 asset and is reported at fair value based on management's assumptions about the estimated future cash receipts from the Foundation's share of the fair market value of the trust's assets.
- Beneficial interest in the charitable remainder unitrusts is considered a Level 3 asset and is reported at fair value based on management's assumptions about the estimated future cash receipts from the Foundation's share of the fair market value of the trust's assets.

The following table represents the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis:

Fair Value Measurements on a Recurring Basis as of June 30, 2018

	Level 1	Level 2	Level 3
Assets:			
UNC Investment Fund, LLC	$ 0.00	$ 0.00	$ 34,016,262.78
Fixed Income Funds	247,216.89		
Equities	485,084.26		
Alternative Investments	147,491.54		
Real Estate Funds	81,977.82		
Short-Term Investment Fund		3,596,685.91	
Beneficial Interest in Charitable Remainder Trusts			129,561.29
Beneficial Interest in Perpetual Trust			137,853.38
Beneficial Interest in Assets Held by Others			18,067.11
Total Investments Measured at Fair Value	$ 961,770.51	$ 3,596,685.91	$ 34,301,744.56

Fair Value Measurements at June 30, 2018 Using Significant Unobservable Inputs (Level 3)

	Level 3		
	UNC Investment Fund	Trusts	Total
Beginning Balance, June 30, 2017	$ 30,260,017.23	$ 219,701.43	$ 30,479,718.66
Purchases	400,000.00	75,360.20	475,360.20
Total Gains or Losses (Realized/Unrealized)			
Included in Earnings as Unrealized Gains (Losses)	3,537,782.78	(8,979.85)	3,528,802.93
Included in Earnings as Realized Gains	213,427.46		213,427.46
Withdrawals	(235,000.00)	(600.00)	(235,600.00)
Investment Fees Paid	(159,964.69)		(159,964.69)
Ending Balance, June 30, 2018	$ 34,016,262.78	$ 285,481.78	$ 34,301,744.56

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of the average of the endowment principal's three-year trailing market value. Under this policy, the spending policy is agreed upon prior to the beginning of the University's fiscal year and is maintained at that level unless altered by Board action. To the extent that the total return for the current year exceeds the payout, the excess is added to the appreciation of the principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2018, net appreciation of $6,072,193.18 was available to be spent, of which $5,726,164.06 was classified in net position as restricted to specific purposes (e.g. scholarships, fellowships, and professorships). The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 824,036.98	$ 148,523.79	$ 675,513.19
Student Sponsors	15,873.41		15,873.41
Accounts	318,311.99		318,311.99
Intergovernmental	141,534.35		141,534.35
Interest on Loans	109,711.38		109,711.38
Federal Interest Subsidy on Debt	42,507.87		42,507.87
Other	25,501.37		25,501.37
Total Current Receivables	$ 1,477,477.35	$ 148,523.79	$ 1,328,953.56
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 656,949.03	$ 151,198.99	$ 505,750.04
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 494,112.08	$ 113,721.52	$ 380,390.56

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land	$ 9,035,773.18	$ 0.00	$ 0.00	$ 9,035,773.18
Art, Literature, and Artifacts	207,300.00			207,300.00
Construction in Progress	5,874,155.80	34,810,794.70	2,157,131.67	38,527,818.83
Total Capital Assets, Nondepreciable	15,117,228.98	34,810,794.70	2,157,131.67	47,770,892.01
Capital Assets, Depreciable:				
Buildings	240,647,491.41	1,854,367.26		242,501,858.67
Machinery and Equipment	8,452,431.46	440,733.15	227,322.53	8,665,842.08
Art, Literature, and Artifacts	201,500.00			201,500.00
General Infrastructure	17,905,431.11	205,152.46		18,110,583.57
Total Capital Assets, Depreciable	267,206,853.98	2,500,252.87	227,322.53	269,479,784.32
Less Accumulated Depreciation for:				
Buildings	73,213,569.83	4,518,802.73		77,732,372.56
Machinery and Equipment	4,591,073.76	507,946.21	227,322.53	4,871,697.44
Art, Literature, and Artifacts	179,367.16	4,599.12		183,966.28
General Infrastructure	11,769,140.73	372,714.24		12,141,854.97
Total Accumulated Depreciation	89,753,151.48	5,404,062.30	227,322.53	94,929,891.25
Total Capital Assets, Depreciable, Net	177,453,702.50	(2,903,809.43)		174,549,893.07
Capital Assets, Net	$ 192,570,931.48	$ 31,906,985.27	$ 2,157,131.67	$ 222,320,785.08

During the year ended June 30, 2018, the University incurred $4,038,936.52 in interest costs related to the acquisition and construction of capital assets. Of this total, $2,487,232.79 was charged in interest expense, and $1,551,703.73 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (Agreement) dated September 1, 2014. The net book value of the energy savings improvement asset associated with the agreement is $2,712,504.11 and is subject to security provisions in the Agreement to ensure timely debt service payments. Additional information regarding the Agreement can be found in Note 8.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

		Amount
Current Accounts Payable and Accrued Liabilities		
Accounts Payable	$	1,432,646.75
Accounts Payable - Capital Assets		3,941,676.10
Accrued Payroll		510,056.91
Contract Retainage		1,514,978.63
Other		18,099.41
Total Current Accounts Payable and Accrued Liabilities	$	7,417,457.80

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 85,588,400.00	$ 0.00	$ 2,380,300.00	$ 83,208,100.00	$ 2,031,000.00
Plus: Unamortized Premium	2,970,342.83		137,943.11	2,832,399.72	
Less: Unamortized Discount	7,741.52		1,067.79	6,673.73	
Total Revenue Bonds Payable, Net	88,551,001.31		2,517,175.32	86,033,825.99	2,031,000.00
Note Payable	2,668,971.64		421,006.19	2,247,965.45	438,590.46
Total Long-Term Debt	91,219,972.95		2,938,181.51	88,281,791.44	2,469,590.46
Other Long-Term Liabilities					
Compensated Absences	3,233,919.00	2,147,971.00	2,152,701.00	3,229,189.00	642,286.00
Net Pension Liability	10,933,653.00		938,638.00	9,995,015.00	
Net Other Postemployment Benefits Liability	110,964,120.00		33,009,568.00	77,954,552.00	
Total Other Long-Term Liabilities	125,131,692.00	2,147,971.00	36,100,907.00	91,178,756.00	642,286.00
Total Long-Term Liabilities, Net	$ 216,351,664.95	$ 2,147,971.00	$ 39,039,088.51	$ 179,460,547.44	$ 3,111,876.46

Additional information regarding the net pension liability is included in Note 13.
Additional information regarding the net other postemployment benefits liability is included in Note 14.

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

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Revenue Bonds Payable						
The University of North Carolina System Pool Revenue Bonds						
Refunding Campus Housing and Dining, Series 1997 C & D	(A)	5.25% *	04/01/2020	$ 7,575,000.00	$ 6,695,000.00	$ 880,000.00
Refunding of Campus Housing and Dining, Series 2002A	(B)	5.00% *	10/01/2024	5,815,000.00	3,285,000.00	2,530,000.00
Total The University of North Carolina System Pool Revenue Bonds				13,390,000.00	9,980,000.00	3,410,000.00
UNCA General Revenue Bonds						
UNCA Revenue Bonds (Build America Bonds)** - Housing & Renovation	2010	4.36% *	06/01/2040	26,160,000.00	1,755,000.00	24,405,000.00
UNCA Revenue Refunding Bond - Housing, Series 2002A	2012	2.32%	06/01/2027	6,345,400.00	3,321,300.00	3,024,100.00
UNCA Revenue Bond - Student Health, Counseling, Development Center	2013A	2.14%	04/01/2030	4,987,000.00	1,298,000.00	3,689,000.00
UNCA Revenue Refunding Bond - Housing, Series 2005A	2013B	2.32%	04/01/2023	2,522,000.00	949,000.00	1,573,000.00
UNCA Revenue Bond - Athletics, Student Recreation Center	2014	2.89%	06/01/2029	1,039,500.00	222,500.00	817,000.00
UNCA Revenue Bond - Housing, Student Center Renovation	2017	3.95% *	06/01/2046	46,290,000.00		46,290,000.00
Total General Revenue Bonds Payable				87,343,900.00	7,545,800.00	79,798,100.00
Total Revenue Bonds Payable (principal only)				$ 100,733,900.00	$ 17,525,800.00	83,208,100.00
Plus: Unamortized Premium						2,832,399.72
Less: Unamortized Discount						6,673.73
Total Revenue Bonds Payable, Net						$ 86,033,825.99

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

* For variable rate debt, interest rates in effect at June 30, 2018 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. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2018, are as follows:

	Annual Requirements			
	Revenue Bonds Payable		Note Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2019	$ 2,031,000.00	$ 3,938,027.86	$ 438,590.46	$ 38,406.53
2020	2,143,500.00	3,860,845.72	456,695.53	30,203.43
2021	2,267,700.00	3,777,639.34	475,334.89	21,663.20
2022	2,387,500.00	3,698,660.56	494,522.43	12,775.84
2023	2,515,700.00	3,612,517.68	382,822.14	3,531.20
2024-2028	15,846,700.00	16,181,228.19		
2029-2033	14,586,000.00	12,729,863.50		
2034-2038	17,090,000.00	8,678,064.00		
2039-2043	15,625,000.00	3,848,420.50		
2044-2046	8,715,000.00	706,200.00		
Total Requirements	$ 83,208,100.00	$ 61,031,467.35	$ 2,247,965.45	$ 106,580.20

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

D. Note Payable - The University was indebted for a note payable for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp.	1.84%	02/14/2023	$ 3,175,492.00	$ 927,526.55	$ 2,247,965.45

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for digital equipment, wireless equipment and software, computers, servers, sports facility use, telephone equipment, classroom space, and vehicles. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	$ 1,323,492.49
2020	1,159,977.71
2021	746,343.00
2022	185,559.39
2023	49,999.00
2024-2026	149,997.00
Total Minimum Lease Payments	$ 3,615,368.59

Rental expense for all operating leases during the year was $1,565,750.52.

NOTE 10 - NET POSITION

The deficit in unrestricted net position of $99,472,480.05 has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources. A summary of the balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
Deferred Outflows Related to Pensions	$ 5,787,315.48	$ 0.00	$ 5,787,315.48
Deferred Outflows Related to OPEB		2,558,540.54	2,558,540.54
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	9,995,015.00		9,995,015.00
Net OPEB Liability		77,954,552.00	77,954,552.00
Deferred Inflows Related to Pensions	326,989.00		326,989.00
Deferred Inflows Related to OPEB		33,217,919.00	33,217,919.00
Net Effect on Unrestricted Net Position	$ (4,534,688.52)	$ (108,613,930.46)	$ (113,148,618.98)

See Notes 13 and 14 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

NOTE 11 - REVENUES

A summary of 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	$ 32,057,905.94	$ 0.00	$ 8,076,240.15	$ 135,363.36	$ 23,846,302.43
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 7,364,135.93	$ 28,839.71	$ 1,882,594.74	$ 0.00	$ 5,452,701.48
Dining	5,253,544.93		1,364,083.47		3,889,461.46
Health, Physical Education, and Recreation Services	73,844.10				73,844.10
Bookstore	129,214.93				129,214.93
Parking	863,719.12	198,825.92	72,933.45		591,959.75
Athletic	1,032,698.29				1,032,698.29
Other	306,872.97	289,706.79			17,166.18
Sales and Services of Education					0.00
and Related Activities	471,041.34	53,914.45			417,126.89
Total Sales and Services, Net	$ 15,495,071.61	$ 571,286.87	$ 3,319,611.66	$ 0.00	$ 11,604,173.08

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 29,199,011.90	$ 727,935.24	$ 1,865,216.65	$ 0.00	$ 0.00	$ 0.00	$ 31,792,163.79
Research	1,406,273.53	115,292.32	346,495.19				1,868,061.04
Public Service	1,233,561.66	52,584.06	589,028.61				1,875,174.33
Academic Support	3,290,927.34	887,616.07	698,169.81				4,876,713.22
Student Services	4,180,821.44	174,815.93	1,389,275.35				5,744,912.72
Institutional Support	10,183,447.82	223,882.84	2,267,839.75		183.94		12,675,354.35
Operations and Maintenance of Plant	6,305,980.91	828,234.85	742,330.15		1,705,897.84		9,582,443.75
Student Financial Aid	39,190.37	4,689.53	1,813.58	4,610,510.22			4,656,203.70
Auxiliary Enterprises	7,094,529.06	1,730,176.06	7,134,326.72		768,983.65		16,728,015.49
Depreciation						5,404,062.30	5,404,062.30
Total Operating Expenses	$ 62,933,744.03	$ 4,745,226.90	$ 15,034,495.81	$ 4,610,510.22	$ 2,475,065.43	$ 5,404,062.30	$ 95,203,104.69

NOTE 13 - PENSION PLANS

A. Defined Benefit Plan

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2018 was 10.78% of covered payroll. Employee contributions to the pension plan were $1,120,991.62, and the University's contributions were $2,014,048.28 for the year ended June 30, 2018.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at https://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

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

Net Pension Liability: At June 30, 2018, the University reported a liability of $9,995,015.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the University's proportion was 0.12597%, which was an increase of 0.00701 from its proportion measured as of June 30, 2016, which was 0.11896%.

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

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

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

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

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2017 calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20%) or 1-percentage point higher (8.20%) than the current rate:

Net Pension Liability		
1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
$ 20,573,878.93	$ 9,995,015.00	$ 1,131,276.10

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the University recognized pension expense of $3,029,716.00. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 216,673.00	$ 326,989.00
Changes of Assumptions	1,579,062.00	
Net Difference Between Projected and Actual Earnings on Plan Investments	1,352,665.20	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	624,867.00	
Contributions Subsequent to the Measurement Date	2,014,048.28	
Total	$ 5,787,315.48	$ 326,989.00

The amount of $2,014,048.28 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

Year Ended June 30:	Amount
2019	$ 857,224.00
2020	2,081,756.00
2021	1,048,649.00
2022	(541,350.80)
Total	$ 3,446,278.20

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Member and employer contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2018, these rates were set at 6% of covered payroll for members and 6.84% of covered payroll for employers. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of $47,814,550.42, of which $23,606,732.58 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $1,416,403.95 and $1,614,700.51, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. At the end of the reporting period, the University had a liability of $12,153.40. The amount of forfeitures reflected in pension expense recognized during the reporting period was $73,401.68.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan’s financial information, including all information about the plans’ assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina’s fiscal year 2017 *Comprehensive Annual Financial Report.* An electronic version of this report is available on the North Carolina Office of the State Controller’s website at https://www.osc.nc.gov/ or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. The fiduciary net position of each plan was determined using the same basis as the other postemployment benefit (OPEB) plans.

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report.*

B. Plan Descriptions

1. Health Benefits

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 15. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The University's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The University's contributions to the RHBF were $2,558,540.54 for the year ended June 30, 2018.

2. Disability Income

Plan Administration: As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the University

Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

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

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of $3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than $10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The University's contributions to DIPNC were $59,205.90 for the year ended June 30, 2018.

C Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2018, the University reported a liability of $77,954,552.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The University's proportion of the net OPEB liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the University's proportion was 0.23776%, which was a decrease of 0.01731 from its proportion measured as of June 30, 2016, which was 0.25507%.

Net OPEB Asset: At June 30, 2018, the University reported an asset of $160,104.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The University's proportion of the net OPEB asset was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the University's proportion was 0.26195%, which was an increase of 0.01722 from its proportion measured as of June 30, 2016, which was 0.24473%.

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

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

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.
N/A - Not Applicable

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

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the University's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	Net OPEB Liability (Asset)		
	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
RHBF	$ 92,994,022.66	$ 77,954,552.00	$ 66,024,192.58
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (136,111.84)	$ (160,104.00)	$ (184,150.85)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (Medical - 4.00 - 5.50%, Pharmacy - 4.00 - 6.25%, Med. Advantage - 3.00 - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00 - 6.50%, Pharmacy - 5.00 - 7.25%, Med. Advantage - 4.00 - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00 - 7.50%, Pharmacy - 6.00 - 8.25%, Med. Advantage - 5.00 - 6.00%, Administrative - 4.00%)
RHBF Net OPEB Liability	$ 63,680,813.37	$ 77,954,552.00	$ 96,923,674.76
DIPNC Net OPEB Asset	N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the University recognized OPEB expense of $2,638,633.00 for RHBF and $81,785.00 for DIPNC. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 0.00	$ 43,898.00	$ 43,898.00
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		35,093.00	35,093.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions			
Contributions Subsequent to the Measurement Date	2,558,540.54	59,205.90	2,617,746.44
Total	$ 2,558,540.54	$ 138,196.90	$ 2,696,737.44

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 5,589,485.00	$ 0.00	$ 5,589,485.00
Changes of Assumptions	21,468,328.00		21,468,328.00
Net Difference Between Projected and Actual Earnings on Plan Investments	28,971.00		28,971.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	6,131,135.00	9,834.00	6,140,969.00
Total	$ 33,217,919.00	$ 9,834.00	$ 33,227,753.00

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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

Year Ended June 30:	RHBF	DIPNC
2019	$ (6,645,032.00)	$ 20,133.00
2020	(6,645,032.00)	20,133.00
2021	(6,645,032.00)	20,125.00
2022	(6,645,032.00)	8,766.00
2023	(6,637,791.00)	
Total	$ (33,217,919.00)	$ 69,157.00

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

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

B Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. Auxiliary buildings along with the building at 118 W.T. Weaver have broad form coverage for building and contents in addition to the fire coverage with the same $5,000 deductible. The Janice W. Brumit Pisgah House, Lookout Observatory, and the Wilma M. Sherrill Center have all risk special form coverage with a $5,000 deductible. The leased River Arts Makers Place (RAMP)

South Building also has all risk coverage on contents, while the Natural Environmental Modeling and Analysis Center (NEMAC) leased space at the Collider has fire and theft on contents with a $5,000 deductible. Coverage value for all buildings and contents are based on replacement values. The University has also purchased through the Fund extended coverage for boiler and machinery components with a $5,000 deductible, and fine arts coverage for artwork that has a $2,500 deductible.

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. **Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $10,485,611.83 and on other purchases were $7,862,645.64 at June 30, 2018.

B. **Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

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

GASB Statement No. 85, *Omnibus 2017*

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

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

NOTE 18 - NET POSITION RESTATEMENT

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

		Amount
July 1, 2017 Net Position as Previously Reported	$	173,776,157.28
Restatement:		
Record the University's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.		(108,222,792.00)
July 1, 2017 Net Position as Restated	$	65,553,365.28

REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.12597%	0.11896%	0.11814%	0.11854%	0.11120%
Proportionate Share of TSERS Collective Net Pension Liability	$ 9,995,015.00	$ 10,933,653.00	$ 4,353,693.00	$ 1,389,788.00	$ 6,750,973.00
Covered Payroll	$ 17,932,977.86	$ 17,682,484.99	$ 17,151,853.98	$ 16,663,714.36	$ 17,355,567.16
Net Pension Liability as a Percentage of Covered Payroll	55.74%	61.83%	25.38%	8.34%	38.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	94.64%	98.24%	90.60%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* , as amended.

The University of North Carolina at Asheville
Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years ***Exhibit C-2***

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 2,014,048.28	$ 1,789,711.19	$ 1,617,947.38	$ 1,569,394.64	$ 1,448,076.78
Contributions in Relation to the Contractually Determined Contribution	2,014,048.28	1,789,711.19	1,617,947.38	1,569,394.64	1,448,076.78
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 18,683,193.70	$ 17,932,977.86	$ 17,682,484.99	$ 17,151,853.98	$ 16,663,714.36
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 1,445,718.74	$ 1,291,698.83	$ 969,176.50	$ 691,531.92	$ 671,077.96
Contributions in Relation to the Contractually Determined Contribution	1,445,718.74	1,291,698.83	969,176.50	691,531.92	671,077.96
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 17,355,567.16	$ 17,361,543.37	$ 19,658,752.68	$ 19,370,641.94	$ 19,972,558.35
Contributions as a Percentage of Covered Payroll	8.33%	7.44%	4.93%	3.57%	3.36%

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

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

Changes of Benefit Terms:

Cost of Living Increase

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

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

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

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

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

	2017	2016
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	0.23776%	0.25507%
Proportionate Share of Collective Net OPEB Liability	$ 77,954,552.00	$ 110,964,120.00
Covered Payroll	$ 40,958,387.45	$ 39,115,679.31
Net OPEB Liability as a Percentage of Covered Payroll	190.33%	283.68%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%
Disability Income Plan of North Carolina		
Proportionate Share Percentage of Collective Net OPEB Asset	0.26195%	0.24473%
Proportionate Share of Collective Net OPEB Asset	$ 160,104.00	$ 151,977.00
Covered Payroll	$ 40,958,387.45	$ 39,115,679.31
Net OPEB Asset as a Percentage of Covered Payroll	0.39%	0.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	116.23%	116.06%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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

Retiree Health Benefit Fund	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 2,558,540.54	$ 2,379,682.31	$ 2,190,478.04	$ 2,041,929.23	$ 1,916,137.70
Contributions in Relation to the Contractually Determined Contribution	2,558,540.54	2,379,682.31	2,190,478.04	2,041,929.23	1,916,137.70
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 42,289,926.28	$ 40,958,387.45	$ 39,115,679.31	$ 37,193,610.81	$ 35,484,031.39
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%

	2013	**2012**	**2011**	**2010**	**2009**
Contractually Required Contribution	$ 1,821,471.46	$ 1,655,420.46	$ 1,761,142.89	$ 1,594,829.63	$ 1,491,996.44
Contributions in Relation to the Contractually Determined Contribution	1,821,471.46	1,655,420.46	1,761,142.89	1,594,829.63	1,491,996.44
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 34,367,386.04	$ 33,108,409.15	$ 35,941,691.59	$ 35,440,658.38	$ 36,390,157.13
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%

Disability Income Plan of North Carolina	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 59,205.90	$ 155,641.87	$ 160,374.29	$ 152,493.80	$ 156,129.73
Contributions in Relation to the Contractually Determined Contribution	59,205.90	155,641.87	160,374.29	152,493.80	156,129.73
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 42,289,926.28	$ 40,958,387.45	$ 39,115,679.31	$ 37,193,610.81	$ 35,484,031.39
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%

	2013	**2012**	**2011**	**2010**	**2009**
Contractually Required Contribution	$ 151,216.50	$ 172,163.73	$ 186,896.79	$ 184,291.43	$ 189,228.81
Contributions in Relation to the Contractually Determined Contribution	151,216.50	172,163.73	186,896.79	184,291.43	189,228.81
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 34,367,386.04	$ 33,108,409.15	$ 35,941,691.59	$ 35,440,658.38	$ 36,390,157.13
Contributions as a Percentage of Covered Payroll	0.44%	0.52%	0.52%	0.52%	0.52%

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

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

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

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

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the Retiree Health Benefit Fund. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina. See Note 14 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

In 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the Retiree Health Benefit Fund were reduced based upon the plan's most recent experience.

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

INDEPENDENT AUDITOR'S REPORT

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Office of the State Auditor

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Asheville (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 13, 2018. Our report includes a reference to other auditors who audited the consolidated financial statements of The University of North Carolina at Asheville Foundation, Inc., as described in our report on the University's financial statements. The consolidated financial statements of The University of North Carolina at Asheville Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with The University of North Carolina at Asheville Foundation, Inc.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 13, 2018

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For additional information contact:
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This audit required 689.5 hours at an approximate cost of $71,019.