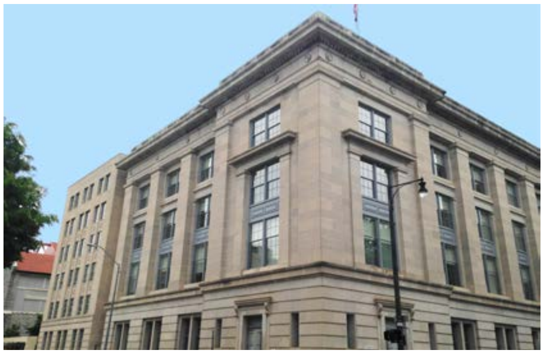
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS

WINSTON-SALEM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2018

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

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, University of North Carolina School of the Arts

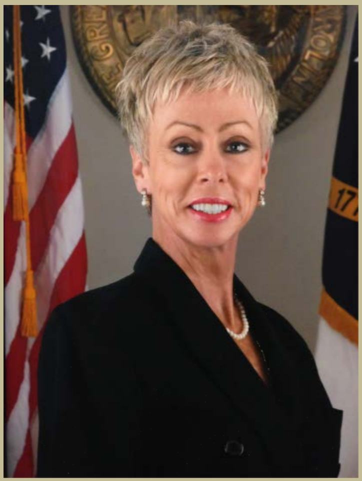
We have completed a financial statement audit of the University of North Carolina School of the Arts for the year ended June 30, 2018, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented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

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
University of North Carolina School of the Arts
Winston-Salem, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the University of North Carolina School of the Arts (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 School of the Arts 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 School of the Arts 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 School of the Arts Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the 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 School of the Arts, 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.

Emphasis of Matter

As discussed in Note 18 to the financial statements, during the year ended June 30, 2018, the University of North Carolina School of the Arts adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as amended by Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

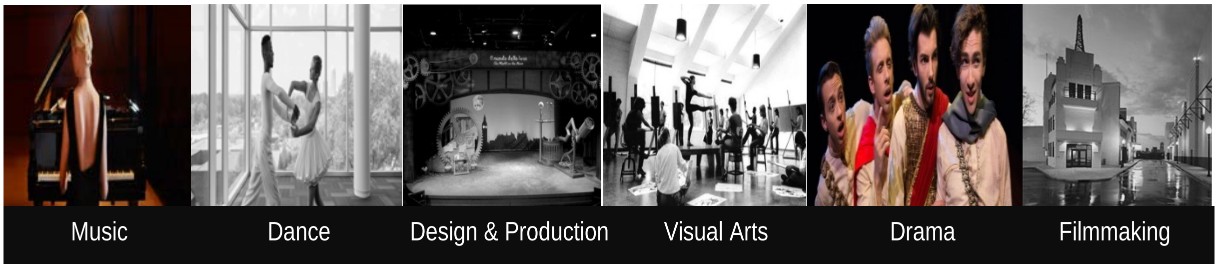
Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 16, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS



Introduction

This section of the University of North Carolina School of the Arts 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 and should be read in conjunction with the financial statements and the notes thereto, which follow this section. This discussion and analysis is designed to focus on current activities, resulting change, and current known facts.

Using the Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). These financial statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole. The three financial statements presented include: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Cash Flows provides information relative to the University's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Position as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Position. For the purpose of this discussion, we will address the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

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

In addition to the University's financial statements and accompanying notes, information for a component unit is presented. The Consolidated Statement of Financial Position, Consolidated Statement of Activities, and certain notes for the University of North Carolina School of the Arts Foundation, Inc. (Foundation) are discretely presented alongside the University financial statements; however, the component unit is not included in management's discussion and analysis. More information describing the relationship between the University and its discretely presented component unit can be found in Note 1A, Significant Accounting Policies - Financial Reporting Entity.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position of the University as of the end of the fiscal year. The purpose of the Statement of Net Position is to present the readers of the financial statements a fiscal snapshot of the University of North Carolina School of the Arts. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets plus deferred outflows minus liabilities plus deferred inflows).

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and their availability for expenditure by the University.

Net Position is divided into three major categories. The first category, net investment in capital assets provides the University's total investment in property, plant, and equipment owned by the University, net of outstanding liabilities related to those capital assets. The next net position category is restricted net position, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment investments, which are only available for investment purposes, and student loan funds. Expendable restricted net position is available for expenditure by the University, but must be spent for purposes as determined by donors and/or external entities that have placed certain restrictions on the use of the assets. This category includes restricted funds for endowment investments, capital projects, debt service, and other expendable restricted resources. The final category is unrestricted net position, which is available to the University for any lawful purpose of the University. The University uses available resources to acquire and improve all areas of the University to better serve the instructional and public service missions of the University. Please refer to the financial statements and notes to the financial statements for more detail.

Condensed Statement of Net Position

	Year Ended June 30, 2018	2017 (as Restated)	Change
Assets			
Current Assets	$ 29,050,044.75	$ 34,921,676.71	$ (5,871,631.96)
Capital Assets, Net	120,260,775.54	122,219,542.14	(1,958,766.60)
Other Noncurrent Assets	29,436,136.93	22,082,414.20	7,353,722.73
Total Assets	178,746,957.22	179,223,633.05	(476,675.83)
Total Deferred Outflows of Resources	5,531,751.56	7,237,691.00	(1,705,939.44)
Liabilities			
Current Liabilities	3,362,688.44	5,031,642.04	(1,668,953.60)
Long-Term Liabilities	58,737,409.10	76,452,142.07	(17,714,732.97)
Other Noncurrent Liabilities	445,705.54	576,932.03	(131,226.49)
Total Liabilities	62,545,803.08	82,060,716.14	(19,514,913.06)
Total Deferred Inflows of Resources	16,911,930.00	1,360,232.00	15,551,698.00
Net Position			
Net Investment in Capital Assets	114,218,022.07	115,483,898.47	(1,265,876.40)
Restricted:			
Nonexpendable	16,496,738.88	15,007,702.93	1,489,035.95
Expendable	16,690,459.74	15,096,236.55	1,594,223.19
Unrestricted	(42,584,244.99)	(42,547,462.04)	(36,782.95)
Total Net Position	$ 104,820,975.70	$ 103,040,375.91	$ 1,780,599.79

The total assets of the University decreased by $476,675.83 for the year, with decreases in current assets and capital assets of $5,871,631.96 and $1,958,766.60, respectively, offset by an increase in other noncurrent assets of $7,353,722.73. Of the $5,871,631.96 change in current assets, the majority of the decrease was attributable to a decrease in due from university component units of $5,637,093.88, in addition to other small changes in other current assets. The decrease in the due from university component units was mainly a result of approximately $5.2 million in capital gifts and a $1.0 million endowment gift that was due to the School in the prior year from the Foundation. The decrease of $1,958,766.60 in capital assets primarily represents the net effect of an increase in buildings, equipment, construction in progress, and depreciation expense. The University has several new on-going projects in construction in progress. See Capital Asset and Debt Administration section below for more details. These increases in capital assets were mainly offset by a reduction of depreciable capital assets due to the annual depreciation charge. The increase in other noncurrent assets of $7,353,722.73 was primarily due to an increase in restricted cash and endowment investments of $4,525,653.10 and $3,075,841.02, respectively, offset with other small changes in other noncurrent assets. The increase in restricted cash was the result of receiving cash related to the capital gifts mentioned above during the year from the Foundation that will be used for the Performance Place renovation. The increase of endowments investments was due to receiving four new endowments totaling $1.5 million as well as continued improvement in the market, which resulted in gains on investments.

The University recorded deferred outflows for pensions and deferred outflows for other postemployment benefits in the amount of $3,812,085.02 and $1,719,666.54, respectively at June 30, 2018. The deferred outflow for pensions decreased $1.8 million due to differences between actual and projected earnings and actuarial assumptions. Approximately $1.4 million of this deferred outflow will reduce the net pension liability for the year ending June 30, 2019. The deferred outflow for postemployment benefits is new this year due to the implementation of GASB 75. Approximately all of this outflow will reduce the other postemployment benefits liability for the year ending June 30, 2019. For more information about the University's deferred outflows related to pensions and other postemployment benefits, refer to Notes 13 and 14 of the Notes to the Financial Statements.

The total liabilities of the University decreased $19,514,913.06, with the majority of the decreases in current liabilities and long-term liabilities of $1,668,953.60 and $17,714,732.97, respectively. The decrease in current liabilities was primarily attributable to decreases in accounts payable and the current portion of long-term liabilities totaling $1,443,565.17. Accounts payable decreased mainly due to completion of the primary electrical infrastructure project. The decrease in the current portion of long-term liabilities was primarily due to normal principal payments made on outstanding notes payable as well as an amendment to the terms of the Blackboard note payable during the year. The amended terms included a reduction in purchased security surveillance and equipment from Blackboard. The decrease in long-term liabilities of $17,714,732.97 primarily resulted from the University recording the net other postemployment benefits liability due to implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, in addition to the University continuing to pay down its capital debt for the UNCSA Housing Corporation 2015 certificates of participation and notes payable.

The University recorded deferred inflows for pensions and deferred inflows for other postemployment benefits in the amount of $213,606.00 and $16,698,324.00, respectively at June 30, 2018. This represents the net amount of the University's pension and other postemployment benefits deferrals that will impact pension and other postemployment expenses in fiscal years 2019 to 2023. For more information about the University's deferred inflows related to pensions and other postemployment benefits, refer to Notes 13 and 14 of the Notes to the Financial Statements.

The University's net position was $104,820,975.70 at June 30, 2018, an increase of $1,780,599.79 from the prior year as restated (refer to Note 19 of the Notes to Financial Statements for details). The significant changes within net position are in the categories of net investment in capital assets decrease of $1.3 million, restricted for nonexpendable endowed professorships increase of $1.5 million, and restricted for expendable endowed professorships increase of $1.0 million. The decrease in net investment in capital assets is a net result of increases of new capitalized assets less current year depreciation expense. The increase in restricted for nonexpendable endowed professorships was due to four new endowments created, and the increase in restricted for expendable endowed professorships was due to continued improvement in the market, which resulted in gains on investments compared to prior year.

During the current fiscal year, the University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. As a result of this new accounting and reporting change, participants in the State's OPEB plans, including the University, were allocated a proportionate share of the OPEB plan's net OPEB liabilities (assets), deferred outflows of resources, deferred inflows of resources, and OPEB benefit expense, specifically for the Disability Income Plan of North Carolina (DIPNC) and the Retiree Health Benefit Fund (RHBF). For the purpose of reporting actuarial determined OPEB benefit expense for fiscal year 2018, the Statement of Net Position was restated as of June 30, 2017. The amounts for the restatement as well as the amounts for June 30, 2018, were based on the allocated proportionate shares from the State's Plans as determined by actuarial valuation and the deferred outflows for current contributions as determined by the participating entity. This reporting change resulted in a significant restatement to the University's June 30, 2017 beginning net position of $162,128,300.91 to $103,040,375.91, a net decrease of $59,087,925.00.

For more information regarding the GASB 75 restatement for OPEB, refer to Note 19 of the Notes to the Financial Statements.

Significant to this reporting change was that the OPEB restatement for the RHBF resulted in a significant decrease in the University's June 30, 2017, unrestricted net position by $59,272,535.00 that reduced the University's overall unrestricted net position balance at June 30, 2017, to a deficit $42,547,462.04. To understand the continuing impact of the GASB 75 change as of June 30, 2018 and the effect of reporting the proportionate share of the RHBF as well as the University's proportionate share of the State's Pension Plan on unrestricted net position, Note 10 "Net Position" has been added to the Notes to the Financial Statements. As reported in Note 10, the total impact from reporting the RHBF as well as the Pension Plan obligations at June 30, 2018, was a deficit $62,530,147.46. The difference between the net effect amount and the unrestricted net position reported on the financial statements (a deficit $42,584,244.99) is a positive $19,945,902.47. This positive difference represents unrestricted funds held by the University in its institutional trust funds and special funds, as well as any unrestricted funds held by the University's blended component units, and includes any operating state funds authorized for carryforward.

For more information regarding the GASB 75 change, refer to Note 18 of the Notes to the Financial Statements.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reports the University's results of operation for the fiscal year. Changes in total net position presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the revenues received by the University and expenses paid by the University, both operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the University.

Generally speaking, operating revenues are received for providing instruction, goods, or services to the various customers of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. For example, the state appropriations are nonoperating because they are provided by the state legislature which receives no goods or services in return for those revenues.

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

	Year Ended June 30, 2018	2017*	Change
Operating Revenues			
Student Tuition and Fees, Net	$ 15,556,687.34	$ 15,052,284.97	$ 504,402.37
Sales and Services, Net	8,068,069.85	8,303,948.02	(235,878.17)
Other Operating Revenues	798,993.98	786,648.88	12,345.10
Total Operating Revenues	24,423,751.17	24,142,881.87	280,869.30
Operating Expenses			
Salaries and Benefits	42,779,211.39	40,597,053.02	2,182,158.37
Supplies and Materials	5,214,579.69	4,399,379.29	815,200.40
Services	9,975,263.56	10,271,180.57	(295,917.01)
Scholarships and Fellowships	1,535,657.55	1,572,023.04	(36,365.49)
Utilities	2,153,218.06	2,131,473.27	21,744.79
Depreciation	4,152,908.42	4,130,193.71	22,714.71
Total Operating Expenses	65,810,838.67	63,101,302.90	2,709,535.77
Operating Loss	(41,387,087.50)	(38,958,421.03)	(2,428,666.47)
Nonoperating Revenues (Expenses)			
State Appropriations	31,864,825.25	31,003,555.00	861,270.25
Noncapital Grants - Student Financial Aid	1,786,714.61	1,874,542.39	(87,827.78)
Noncapital Grants	157,493.00	129,252.56	28,240.44
Noncapital Gifts	3,586,376.18	2,715,704.47	870,671.71
Investment Income, Net	2,727,620.79	2,470,803.55	256,817.24
Interest and Fees on Debt	(170,662.90)	(187,245.52)	16,582.62
Other Nonoperating Revenues	18,139.73	146,089.03	(127,949.30)
Net Nonoperating Revenues	39,970,506.66	38,152,701.48	1,817,805.18
Loss Before Other Revenues	(1,416,580.84)	(805,719.55)	(610,861.29)
Capital Appropriations	43,900.00	96,777.00	(52,877.00)
Capital Grants	1,502,480.63	679,494.01	822,986.62
Capital Gifts	150,800.00	5,607,103.77	(5,456,303.77)
Additions to Endowments	1,500,000.00		1,500,000.00
Total Other Revenues	3,197,180.63	6,383,374.78	(3,186,194.15)
Increase in Net Position	1,780,599.79	5,577,655.23	(3,797,055.44)
Beginning Net Position	103,040,375.91	156,550,645.68	(53,510,269.77)
Restatement		(59,087,925.00)	59,087,925.00
Ending Net Position	$ 104,820,975.70	$ 103,040,375.91	$ 1,780,599.79

**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.*

The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in the net position at the end of the year. Total revenues for the fiscal year were $67,762,101.36 compared to $68,866,203.65 from the previous year, a decrease of $1,104,102.29. Some of the highlights of the revenue accounts presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

- Student tuition and fees, net increased by $504,402.37. This increase was primarily the result of an increase in tuition rate and fees during the year, offset by small changes in unearned revenue and scholarship discounts. The tuition rate increase per student ranged from $127.00 to $700.00, and the fee rates increase per student ranged from $1.00 to $250.00.

- State appropriations increased $861,270.25. This change was mainly as a result of increased funding to support legislatively approved salary increases and increases to the University's share of insurance premiums and retirement contributions.
- Noncapital gifts increased $870,671.71. This increase was mainly as a result of an increase in funding provided by the University's Foundation to support scholarships and University operational costs.
- Capital grants increased $822,986.62 primarily as a result of funds received from the Connect NC Bond referendum for the Performance Place and Old Library renovation projects. In addition, the University received funds for work performed on the Film School Production Design Facility building.
- Capital gifts decreased $5,456,303.77 primarily as a result of approximately $5.2 million in gifts for capital projects that were due to the University in the prior year from the Foundation. The $5.2 million gifts were for the Performance Place renovations and various other capital projects.
- Additions to endowments increased $1,500,000.00 as a result of gifts received to establish four new endowment professorships.

Total expenses were $65,981,501.57 for fiscal year ended June 30, 2018 and $63,288,548.42 for 2017. Operating expenses totaled $65,810,838.67 for the year compared to $63,101,302.90 from the previous year, an increase of $2,709,535.77. The significant changes include:

- Salaries and benefits increased $2,182,158.37 primarily due to legislative salary increases awarded to employees and increases to the University's share of insurance premiums and retirement contributions.
- Supplies and materials increased by $815,200.40. This increase was a result of additional maintenance projects for repairs and renovations that started and completed in this fiscal year.

Capital Asset and Debt Administration

The University's capital assets, net of accumulated depreciation at June 30, 2018, were $120,260,775.54. Construction in progress at June 30, 2018 totaled $1,357,780.27 and consisted of the following projects: Phase III of the New Library, Old Library renovation, and Performance Place renovation. For more information about the University's capital asset holdings, refer to Note 6 of the Notes to the Financial Statements.

The University had $6,200,667.94 in outstanding long-term debt at June 30, 2018, and continues to make all of its debt payments in a timely manner. No new debt was issued during the 2017-2018 fiscal year. As mentioned above, the University amended the terms of the notes payable agreement signed in the prior year that resulted in a reduction in total cost and modification to the original payment terms. Refer to Note 8 of the Notes to the Financial Statements for more detailed information about the University's debt obligations.

Highlights

The University of the North Carolina School of the Arts (UNCSA) is consistently recognized for academic quality, excellent education, quality of life, and great value. Highlights from recent achievements, rankings, and distinctions include:

- UNCSA and Wake Forest University School of Business have created a partnership to promote and support opportunities for UNCSA graduates to pursue graduate studies at the Wake Forest School of Business in its nationally-recognized Master's in Management program.
- The School of Design & Production was ranked second among the Top 10 BFA Theatre Design & Tech Programs in the country by OnStage blog and The Hollywood Reporter named the Costume Design Program as one of the nation's best.
- The School of Drama was ranked #5 in the world by The Hollywood Reporter, and the School of Filmmaking was ranked #14 by The Hollywood Reporter and #8 in the country by The Wrap. Also, *MovieMaker* magazine included the School of Filmmaking in its list of 40 best film schools in the U.S. and Canada. The *MovieMaker* list organized schools alphabetically by region without assigning rank.
- The School of Filmmaking at UNCSA has landed on Variety's list of 50 "Cinema School Stars." The Entertainment Education Report in the April 24 issue includes an alphabetical listing of schools in North and South America, Asia, and Europe that "score high marks in both showbiz and academic circles."
- Scholarship funds for the School of Music doubled for the next school year, thanks to two gifts totaling $4 million: an estate gift of $3 million from an anonymous donor; and a $1 million gift from the estate of Jenny Lillian Semans Koortbojian.
- Daniela Thorne, the second recipient of the Gillian Murphy Endowed Scholarship in the School of Dance, competed at the Prix de Lausanne, one of the world's most prestigious competitions for young ballet dancers.
- Students in the High School Visual Arts Program earned 11 awards at the 2018 Scholastic Art Awards, including seven gold keys, two silver keys, and two honorable mentions.

Economic Outlook

The University of North Carolina School of the Arts continued to manage and use its resources wisely in fiscal year 2018, due to effective institutional planning and continued support from the State to meet the educational needs of the University. The University's management team led by Chancellor M. Lindsay Bierman remains fully committed to student affordability and prudent use of resources by spending carefully, wisely, and thoughtfully and allocating its resources strategically to support the University's core academic mission.

State appropriations comprised approximately 47% of the University's annual revenues during fiscal year 2018. As a result of modest increases in operating revenues and state appropriations, the University was able to provide increased support to its instructional mission.

The University continues to recruit, admit, and retain top-caliber students even as we compete against the most selective public and private performing arts conservatory schools in the country. Applications to the University for Fall 2018 increased 30%, which led to an increased enrollment of 1,292 students enrolled in Fall 2018 when compared to 1,268 in the prior year.

As fiscal year 2019 progresses, the University will build on its efforts to plan and manage its precious resources to create unparalleled learning opportunities for our students and to establish strong ties to communities throughout North Carolina and beyond. Overall, the University sees strong enrollment numbers and the financial position remains positive. Management continues to maintain a close watch over resources to ensure the ability to react to unknown internal and external issues and sustain its current high-quality financial position.

FINANCIAL STATEMENTS

University of North Carolina School of the Arts
Statement of Net Position *Exhibit A-1*
June 30, 2018 *Page 1 of 2*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 23,307,417.96
Restricted Cash and Cash Equivalents	3,764,097.64
Receivables, Net (Note 5)	135,137.15
Due from University Component Units	734,056.12
Inventories	182,895.18
Notes Receivable, Net (Note 5)	75,455.94
Prepaid Items	850,984.76
Total Current Assets	29,050,044.75
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	6,125,077.35
Endowment Investments	22,925,322.81
Notes Receivable, Net (Note 5)	294,661.77
Net Other Postemployment Benefits Asset	91,075.00
Capital Assets - Nondepreciable (Note 6)	7,524,441.72
Capital Assets - Depreciable, Net (Note 6)	112,736,333.82
Total Noncurrent Assets	149,696,912.47
Total Assets	178,746,957.22
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	3,812,085.02
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	1,719,666.54
Total Deferred Outflows of Resources	5,531,751.56
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	985,632.88
Due to Primary Government	2,266.57
Unearned Revenue	1,560,885.80
Interest Payable	13,306.57
Long-Term Liabilities - Current Portion (Note 8)	800,596.62
Total Current Liabilities	3,362,688.44
Noncurrent Liabilities:	
Funds Held for Others	8,291.61
U. S. Government Grants Refundable	437,413.93
Long-Term Liabilities (Note 8)	58,737,409.10
Total Noncurrent Liabilities	59,183,114.64
Total Liabilities	62,545,803.08
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	213,606.00
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	16,698,324.00
Total Deferred Inflows of Resources	16,911,930.00

NET POSITION

Net Investment in Capital Assets		114,218,022.07
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		322,503.20
Endowed Professorships		11,510,167.91
Departmental Uses		4,641,145.21
Loans		22,922.56
Expendable:		
Scholarships and Fellowships		1,032,261.00
Endowed Professorships		4,697,966.15
Departmental Uses		4,492,960.46
Capital Projects		6,293,229.11
Other		174,043.02
Unrestricted		(42,584,244.99)
Total Net Position	$	104,820,975.70

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

University of North Carolina School of the Arts
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)	$	15,556,687.34
Federal Grants and Contracts		152,767.07
Sales and Services, Net (Note 11)		8,068,069.85
Interest Earnings on Loans		7,179.31
Other Operating Revenues		639,047.60
Total Operating Revenues		24,423,751.17
EXPENSES		
Operating Expenses:		
Salaries and Benefits		42,779,211.39
Supplies and Materials		5,214,579.69
Services		9,975,263.56
Scholarships and Fellowships		1,535,657.55
Utilities		2,153,218.06
Depreciation		4,152,908.42
Total Operating Expenses		65,810,838.67
Operating Loss		(41,387,087.50)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		31,864,825.25
Noncapital Grants - Student Financial Aid		1,786,714.61
Noncapital Grants		157,493.00
Noncapital Gifts		3,586,376.18
Investment Income (Net of Investment Expense of $104,807.86)		2,727,620.79
Interest and Fees on Debt		(170,662.90)
Other Nonoperating Revenues		18,139.73
Net Nonoperating Revenues		39,970,506.66
Loss Before Other Revenues		(1,416,580.84)
Capital Appropriations		43,900.00
Capital Grants		1,502,480.63
Capital Gifts		150,800.00
Additions to Endowments		1,500,000.00
Increase in Net Position		1,780,599.79
NET POSITION		
Net Position - July 1, 2017, as Restated (Note 19)		103,040,375.91
Net Position - June 30, 2018	$	104,820,975.70

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

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	24,180,048.61
Payments to Employees and Fringe Benefits		(41,922,455.19)
Payments to Vendors and Suppliers		(17,009,455.96)
Payments for Scholarships and Fellowships		(1,535,657.55)
Loans Issued		(85,500.00)
Collection of Loans		28,455.22
Interest Earned on Loans		1,092.27
Net Cash Used by Operating Activities		(36,343,472.60)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		31,864,825.25
Noncapital Grants - Student Financial Aid		1,786,714.61
Noncapital Grants		157,493.00
Noncapital Gifts		2,927,911.18
Additions to Endowments		1,500,000.00
William D. Ford Direct Lending Receipts		7,633,414.00
William D. Ford Direct Lending Disbursements		(7,633,414.00)
Related Activity Agency Disbursements		(87,885.28)
Net Cash Provided by Noncapital Financing Activities		38,149,058.76
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Capital Appropriations		43,900.00
Capital Grants		1,502,480.63
Capital Gifts		5,367,258.88
Proceeds from Sale of Capital Assets		29,860.06
Acquisition and Construction of Capital Assets		(2,675,008.69)
Principal Paid on Capital Debt		(900,828.46)
Interest and Fees Paid on Capital Debt		(171,823.17)
Other Receipts		24,933.57
Net Cash Provided by Capital Financing and Related Financing Activities		3,220,772.82
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		704,544.46
Investment Income		360,858.50
Purchase of Investments and Related Fees		(1,406,758.80)
Net Cash Used by Investing Activities		(341,355.84)
Net Increase in Cash and Cash Equivalents		4,685,003.14
Cash and Cash Equivalents - July 1, 2017		28,511,589.81
Cash and Cash Equivalents - June 30, 2018	$	33,196,592.95

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

Operating Loss	$	(41,387,087.50)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		4,152,908.42
Allowances		11,487.69
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(21,650.85)
Inventories		11,562.53
Notes Receivable, Net		(13,703.57)
Prepaid Items		322,685.61
Net Other Postemployment Benefits Asset		(8,656.00)
Deferred Outflows Related to Pensions		1,760,796.98
Deferred Outflows Related to Other Postemployment Benefits		(54,857.54)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(137,418.62)
Due to Primary Government		(3,268.72)
Unearned Revenue		(220,959.44)
Net Pension Liability		(1,092,873.00)
Net Other Postemployment Benefits Liability		(16,297,403.00)
U. S. Government Grants Refundable		(43,341.21)
Compensated Absences		126,607.62
Deferred Inflows Related to Pensions		(146,626.00)
Deferred Inflows Related to Other Postemployment Benefits		16,698,324.00
Net Cash Used by Operating Activities	$	(36,343,472.60)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	23,307,417.96
Restricted Cash and Cash Equivalents		3,764,097.64
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		6,125,077.35
Total Cash and Cash Equivalents - June 30, 2018	$	33,196,592.95

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	178,755.90
Assets Acquired through a Gift		79,100.00
Change in Fair Value of Investments		1,997,141.02
Loss on Disposal of Capital Assets		(6,793.84)
Change in Note Payable Agreement		(335,652.26)

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

University of North Carolina School of the Arts Foundation, Inc.
Consolidated Statement of Financial Position
June 30, 2018 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	9,878,614
Investments		44,778,524
Annuity Investments		13,685
Prepaid Expenses and Other Current Assets		53,788
Assets to be Transferred to UNCSA		56,222
Pledges Receivable, Net		8,776,897
Beneficial Interest in Perpetual Trusts		790,400
Property		60,001
Other Long-Term Assets		67,896
Total Assets	$	64,476,027
LIABILITIES		
Accounts Payable and Accrued Expenses	$	27,916
Annuity Obligations		24,121
Due to UNCSA		734,056
Total Liabilities		786,093
NET ASSETS		
Unrestricted:		
Unappropriated		726,200
Board Appropriated		91,731
Temporarily Restricted		21,595,377
Permanently Restricted		41,276,626
Total Net Assets		63,689,934
Total Liabilities and Net Assets	$	64,476,027

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Gifts and Grants	$ 557,604	$ 7,460,472	$ 2,485,125	$ 10,503,201
Interest and Dividend Income	91,808	10,735		102,543
Change in Fair Value of:				
Annuity Investments			25,670	25,670
Perpetual Trusts			29,441	29,441
Annuity Obligations			(1,681)	(1,681)
Other Long-Term Assets			(10,000)	(10,000)
Net Gain on Other Investments Reported at Fair Value	2,915	4,719,824	84,268	4,807,007
Other Income	29,043	249,828		278,871
Net Assets Released from Restrictions	5,626,216	(5,626,216)		
Total Revenues and Support	6,307,586	6,814,643	2,612,823	15,735,052
EXPENDITURES				
Program Services:				
Scholarships and Awards	2,000,714			2,000,714
School Programs	1,819,843			1,819,843
TSKIA Programs	1,141,952			1,141,952
Total Program Services	4,962,509			4,962,509
Supporting Services:				
Development Costs	473,409			473,409
Administrative Costs	549,394			549,394
Investment Management Fees	212,328			212,328
Total Supporting Services	1,235,131			1,235,131
Total Expenditures	6,197,640			6,197,640
Change in Net Assets Before Transfers	109,946	6,814,643	2,612,823	9,537,412
Transfer Between Funds		(10,714)	10,714	
Transfers to TSKIA Funds		(654,726)		(654,726)
Transfer Due to UNCSA		(56,222)		(56,222)
Change in Net Assets	109,946	6,092,981	2,623,537	8,826,464
NET ASSETS				
Net Assets, Beginning of Year	707,985	15,502,396	38,653,089	54,863,470
Net Assets, End of Year	$ 817,931	$ 21,595,377	$ 41,276,626	$ 63,689,934

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

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

Blended Component Units - Although legally separate, the University of North Carolina School of the Arts Housing Corporation (Housing Corporation) and the University of North Carolina School of the Arts Program Support Corporation (Program Support Corporation), component units of the University, are reported as if they were part of the University.

The Housing Corporation is governed by a five-member board. Its purpose is to aid, support, and promote the University, specifically by the ownership of the Center Stage apartment complex at 900 Center Stage Court, Winston-Salem, NC 27127. Because the directors are appointed by the Chancellor and its primary purpose is to benefit the University of North Carolina School of the Arts, its financial statements have been blended with those of the University.

The Program Support Corporation board consists of at least three and no more than 12 appointed directors. Its purpose is to foster, promote, manage, assist, and support the schools of Dance, Design and Production, Drama, Filmmaking, and Music, and any other related activity of the University of North Carolina School of the Arts. Because the directors are appointed by the Chancellor and its primary purpose is to benefit the University of North Carolina School of the Arts, its financial statements have been blended with those of the University.

Separate financial statements for the Housing Corporation and Program Support Corporation may be obtained from the University Controller's Office, P.O. Box 12189, Winston-Salem, NC 27117, or by calling (336) 770-3304.

Condensed combining information regarding blended component units is provided in Note 17.

Discretely Presented Component Unit - The University of North Carolina School of the Arts 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 not less than 12, nor more than 21 members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The University of North Carolina School of the Arts Foundation, Inc. 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 $10,056,505.99 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University of North Carolina School of the Arts Foundation, Inc., P.O. Box 12189, Winston-Salem, NC 27117.

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, 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.

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

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued using the retail inventory method.

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

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

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

Asset Class	Estimated Useful Life
Buildings	10-50 years
Machinery and Equipment	2-25 years
Specialized Musical Instruments	25-50 years
General Infrastructure	10-50 years

The Regis Film collection, acquired prior to July 1, 2015, is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

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

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

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 outflows related to pensions and deferred outflows related to other postemployment benefits.

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

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

Net Investment in Capital Assets - This represents the University's total investment in capital assets, net of outstanding liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

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** - The University has 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 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 $33,133,761.36, 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 $2,030.80. The carrying amount of the University's deposits not with the State Treasurer was $60,800.79, and the bank balance was $60,796.82. 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.

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

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

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

UNC Investment Fund, LLC - At June 30, 2018, the University's investments include $22,925,322.81, 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.

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

	Amount
Investment Type	
UNC Investment Fund	$ 22,925,322.81

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

	Amount
Investment Type	
UNC Investment Fund	$ 44,778,524.00
Mutual Funds	13,685.00
Total Investments	$ 44,792,209.00

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	$	2,030.80
Amount of Deposits with Private Financial Institutions		60,800.79
Deposits in the Short-Term Investment Fund		33,133,761.36
External Investment Pool		22,925,322.81
Total Deposits and Investments	$	56,121,915.76
Deposits		
Current:		
Cash and Cash Equivalents	$	23,307,417.96
Restricted Cash and Cash Equivalents		3,764,097.64
Noncurrent:		
Restricted Cash and Cash Equivalents		6,125,077.35
Total Deposits		33,196,592.95
Investments		
Noncurrent Endowment Investments		22,925,322.81
Total Deposits and Investments	$	56,121,915.76

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.

Short-Term Investment Fund - At year end, the University's investments held in the STIF were valued at $33,133,761.36. 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 - At year end, the University's investments held in the UNC Investment Fund were valued at $22,925,322.81. 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.

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 fair value of cash and cash equivalents and accounts payable and accrued expenses is not materially different than their carrying amounts, as reported, since they approximate the amount for which the assets could be sold or the liabilities could be settled. The discount rate used for pledges receivable approximates a market rate. Accordingly, the carrying value approximates fair value. The fair value of annuity obligations approximate carrying amounts as discount rates on these obligations approximate market. Investments are carried at fair value.

Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1 — Quoted market prices in active markets for identical assets or liabilities;

Level 2 — Observable market-based inputs or unobservable inputs that are corroborated by market data;

Level 3 — Unobservable inputs that are not corroborated by market data.

The following are the assets and liabilities measured at fair value as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Assets				
UNC Investment Fund	$ 0.00	$ 0.00	$ 44,778,524.00	$ 44,778,524.00
Mutual Funds	13,685.00			13,685.00
Total Assets at Fair Value	$ 13,685.00	$ 0.00	$ 44,778,524.00	$ 44,792,209.00
Liabilities				
Annuity Obligations	$ 0.00	$ 0.00	$ 24,121.00	$ 24,121.00

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 by which the rate of spending for a fiscal year is calculated between 2% and 5% of the trailing three year average, if applicable. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2018, net appreciation of $6,900,937.23 was available to be spent and was classified in net position as restricted expendable for scholarships and fellowships, endowed professorships, and departmental uses as it is restricted for specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 60,998.30	$ 45,626.50	$ 15,371.80
Accounts	61,514.48		61,514.48
Interest on Loans	58,250.87		58,250.87
Total Current Receivables	$ 180,763.65	$ 45,626.50	$ 135,137.15
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 102,935.48	$ 27,979.54	$ 74,955.94
Institutional Student Loan Programs	4,365.75	3,865.75	500.00
Total Notes Receivable - Current	$ 107,301.23	$ 31,845.29	$ 75,455.94
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 510,268.07	$ 215,606.30	$ 294,661.77

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 4,313,652.83	$ 0.00	$ 0.00	$ 4,313,652.83
Art, Literature, and Artifacts	1,839,008.62	14,000.00		1,853,008.62
Construction in Progress	208,935.00	1,575,054.91	426,209.64	1,357,780.27
Total Capital Assets, Nondepreciable	6,361,596.45	1,589,054.91	426,209.64	7,524,441.72
Capital Assets, Depreciable:				
Buildings	149,448,684.28	394,999.20		149,843,683.48
Machinery and Equipment	14,610,749.63	641,740.81	144,445.85	15,108,044.59
General Infrastructure	6,894,781.70	31,210.44		6,925,992.14
Total Capital Assets, Depreciable	170,954,215.61	1,067,950.45	144,445.85	171,877,720.21
Less Accumulated Depreciation for:				
Buildings	45,840,192.86	3,230,070.61		49,070,263.47
Machinery and Equipment	7,629,247.62	784,397.90	107,791.95	8,305,853.57
General Infrastructure	1,626,829.44	138,439.91		1,765,269.35
Total Accumulated Depreciation	55,096,269.92	4,152,908.42	107,791.95	59,141,386.39
Total Capital Assets, Depreciable, Net	115,857,945.69	(3,084,957.97)	36,653.90	112,736,333.82
Capital Assets, Net	$ 122,219,542.14	$ (1,495,903.06)	$ 462,863.54	$ 120,260,775.54

During the year ended June 30, 2018, the University incurred $170,662.90 in interest costs related to the acquisition and construction of capital assets. All of these costs were charged in interest expense.

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 carrying value of the energy savings improvement assets associated with the agreement is $1,212,877.91 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	$ 693,075.74
Accounts Payable - Capital Assets	165,430.64
Accrued Payroll	113,801.24
Contract Retainage	13,325.26
Total Current Accounts Payable and Accrued Liabilities	$ 985,632.88

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					
Certificates of Participation	$ 4,806,000.00	$ 0.00	$ 308,000.00	$ 4,498,000.00	$ 317,000.00
Notes Payable	2,631,148.66		928,480.72	1,702,667.94	266,513.73
Total Long-Term Debt	7,437,148.66		1,236,480.72	6,200,667.94	583,513.73
Other Long-Term Liabilities					
Compensated Absences	2,143,729.16	1,336,240.20	1,209,632.58	2,270,336.78	217,082.89
Net Pension Liability	7,622,124.00		1,092,873.00	6,529,251.00	
Net Other Postemployment Benefits Liability	60,835,153.00		16,297,403.00	44,537,750.00	
Total Other Long-Term Liabilities	70,601,006.16	1,336,240.20	18,599,908.58	53,337,337.78	217,082.89
Total Long-Term Liabilities	$ 78,038,154.82	$ 1,336,240.20	$ 19,836,389.30	$ 59,538,005.72	$ 800,596.62

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. Certificates of Participation - The University was indebted for certificates of participation for the purpose 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	See Table Below
Certificates of Participation							
Student Housing Project, Series 2015	(A)	2.99%	06/01/2030	$ 5,400,000.00	$ 902,000.00	$ 4,498,000.00	(1)

(A) University of North Carolina School of the Arts Student Housing Project, Series 2015 (Refunding of 2005 COPs)

The University has pledged future revenues, net of specific operating expenses, to repay certificates of participation as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	Current Year: Revenues Net of Expenses	Current Year: Principal	Current Year: Interest	Estimate of % of Revenues Pledged
(1)	Housing Revenues	$ 5,419,368.50	$ 529,689.66	$ 308,000.00	$ 142,931.82	85%

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			
	Certificates of Participation		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2019	$ 317,000.00	$ 134,490.20	$ 266,513.73	$ 23,338.08
2020	327,000.00	125,011.90	614,185.33	18,353.41
2021	336,000.00	115,234.60	288,841.83	13,163.85
2022	346,000.00	105,188.20	300,501.31	7,763.37
2023	357,000.00	94,842.80	232,625.74	2,145.76
2024-2028	1,950,000.00	307,611.20		
2029-2030	865,000.00	38,989.60		
Total Requirements	$ 4,498,000.00	$ 921,368.50	$ 1,702,667.94	$ 64,764.47

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp	1.84%	2/14/2023	$ 1,929,618.00	$ 563,620.43	$ 1,365,997.57
Blackboard Surveillance Upgrade and Integration	Blackboard	0.00%	7/15/2019	1,173,669.53	836,999.16	336,670.37
Total Notes Payable				$ 3,103,287.53	$ 1,400,619.59	$ 1,702,667.94

On March 1, 2018, the University executed a modification agreement with Blackboard with respect to the above loan in the original amount of $1,509,322.63. The original principal balance was amended due to a reduction in agreed-upon purchased security surveillance and equipment from Blackboard in the amount of $335,652.26. The original maturity date of October 30, 2018 was extended to July 15, 2019.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	$ 44,024.48
2020	21,400.94
2021	3,685.80
Total Minimum Lease Payments	$ 69,111.22

Rental expense for all operating leases during the year was $221,254.09.

NOTE 10 - NET POSITION

The deficit in unrestricted net position of $42,584,244.99 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	$ 3,812,085.02	$ 0.00	$ 3,812,085.02
Deferred Outflows Related to OPEB		1,636,698.52	1,636,698.52
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	6,529,251.00		6,529,251.00
Net OPEB Liability		44,537,750.00	44,537,750.00
Deferred Inflows Related to Pensions	213,606.00		213,606.00
Deferred Inflows Related to OPEB		16,698,324.00	16,698,324.00
Net Effect on Unrestricted Net Position	$ (2,930,771.98)	$ (59,599,375.48)	$ (62,530,147.46)

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	$ 20,838,395.72	$ 0.00	$ 5,261,282.66	$ 20,425.72	$ 15,556,687.34
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 4,332,991.85	$ 0.00	$ 1,105,222.87	$ 0.00	$ 3,227,768.98
Dining	3,002,344.82		748,963.25		2,253,381.57
Health, Physical Education, and Recreation Services	268,341.99	17,309.88			251,032.11
Parking	90,650.97	491.00			90,159.97
Other	55,680.06	400.00			55,280.06
Sales and Services of Education and Related Activities:					
University Production Revenues	845,239.86	33,438.27			811,801.59
Other	1,426,990.22	48,344.65			1,378,645.57
Total Sales and Services, Net	$ 10,022,239.77	$ 99,983.80	$ 1,854,186.12	$ 0.00	$ 8,068,069.85

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	$ 16,362,323.94	$ 929,105.74	$ 1,389,162.13	$ 0.00	$ 0.00	$ 0.00	$ 18,680,591.81
Public Service	547,631.75	250,512.30	728,301.83				1,526,445.88
Academic Support	5,616,779.75	371,543.60	248,662.95				6,236,986.30
Student Services	1,132,127.73	27,073.99	449,454.82				1,608,656.54
Institutional Support	8,461,232.00	1,956,979.76	2,548,900.08		186.12		12,967,297.96
Operations and Maintenance of Plant	6,034,285.50	632,720.03	1,336,495.30		1,940,766.33		9,944,267.16
Student Financial Aid				1,535,657.55			1,535,657.55
Auxiliary Enterprises	4,624,830.72	1,046,644.27	3,274,286.45		212,265.61		9,158,027.05
Depreciation						4,152,908.42	4,152,908.42
Total Operating Expenses	$ 42,779,211.39	$ 5,214,579.69	$ 9,975,263.56	$ 1,535,657.55	$ 2,153,218.06	$ 4,152,908.42	$ 65,810,838.67

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 $801,257.71, and the University's contributions were $1,439,593.02 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 $6,529,251.00 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 0.08229%, which was a decrease of 0.00064 from its proportion measured as of June 30, 2016, which was 0.08293%.

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%)
$ 13,439,902.34	$ 6,529,251.00	$ 739,006.99

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 $1,905,192.00. 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	$ 141,542.00	$ 213,606.00
Changes of Assumptions	1,031,523.00	
Net Difference Between Projected and Actual Earnings on Plan Investments	883,629.00	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	315,798.00	
Contributions Subsequent to the Measurement Date	1,439,593.02	
Total	$ 3,812,085.02	$ 213,606.00

The amount of $1,439,593.02 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	$ 499,238.00
2020	1,350,345.00
2021	662,942.00
2022	(353,639.00)
Total	$ 2,158,886.00

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

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

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

For the current fiscal year, the University had a total payroll of $32,490,666.67, of which $13,698,572.91 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $821,914.37 and $936,982.39, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions.

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 $1,636,698.52 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 $37,874.02 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 $44,537,750.00 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 0.13584%, which was a decrease of 0.004 from its proportion measured as of June 30, 2016, which was 0.13984%.

Net OPEB Asset: At June 30, 2018, the University reported an asset of $91,075.00 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 0.14901%, which was an increase of 0.01629 from its proportion measured as of June 30, 2016, which was 0.13272%.

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	$ 53,130,501.50	$ 44,537,750.00	$ 37,721,762.78
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (77,427.09)	$ (91,075.00)	$ (104,754.03)

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	$ 36,382,914.24	$ 44,537,750.00	$ 55,375,639.21
DIPNC Net OPEB Asset	N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the University recognized OPEB expense of $1,963,539.00 for RHBF and $48,441.00 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	$ 24,971.00	$ 24,971.00
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		19,963.00	19,963.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		160.00	160.00
Contributions Subsequent to the Measurement Date	1,636,698.52	37,874.02	1,674,572.54
Total	$ 1,636,698.52	$ 82,968.02	$ 1,719,666.54

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 3,193,439.00	$ 0.00	$ 3,193,439.00
Changes of Assumptions	12,265,493.00		12,265,493.00
Net Difference Between Projected and Actual Earnings on Plan Investments	16,552.00		16,552.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,222,840.00		1,222,840.00
Total	$ 16,698,324.00	$ 0.00	$ 16,698,324.00

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	$ (3,340,492.00)	$ 13,370.00
2020	(3,340,492.00)	13,370.00
2021	(3,340,492.00)	13,366.00
2022	(3,340,492.00)	4,988.00
2023	(3,336,356.00)	
Total	$ (16,698,324.00)	$ 45,094.00

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.

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The insurance purchased included general and professional liability insurance for the School of Filmmaking student interns, student accident and health insurance, and accident and health insurance for students who study abroad.

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 $2,230,600.71 and on other purchases were $977,560.53 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 - BLENDED COMPONENT UNITS

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

Condensed Statement of Net Position

June 30, 2018

	University	Housing Corporation	Program Support Corporation	Total
ASSETS				
Current Assets	$ 27,673,576.75	$ 1,251,894.00	$ 124,574.00	$ 29,050,044.75
Capital Assets, Net	114,925,617.54	4,252,533.00	1,082,625.00	120,260,775.54
Other Noncurrent Assets	29,436,136.93			29,436,136.93
Total Assets	172,035,331.22	5,504,427.00	1,207,199.00	178,746,957.22
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,531,751.56			5,531,751.56
LIABILITIES				
Current Liabilities	3,013,380.44	344,910.00	4,398.00	3,362,688.44
Long-Term Liabilities	54,547,955.10	4,189,454.00		58,737,409.10
Other Noncurrent Liabilities	445,705.54			445,705.54
Total Liabilities	58,007,041.08	4,534,364.00	4,398.00	62,545,803.08
TOTAL DEFERRED INFLOWS OF RESOURCES	16,911,930.00			16,911,930.00
NET POSITION				
Net Investment in Capital Assets	113,380,864.07	(245,467.00)	1,082,625.00	114,218,022.07
Restricted - Nonexpendable	16,496,738.88			16,496,738.88
Restricted - Expendable	16,690,459.74			16,690,459.74
Unrestricted	(43,919,950.99)	1,215,530.00	120,176.00	(42,584,244.99)
Total Net Position	$ 102,648,111.70	$ 970,063.00	$ 1,202,801.00	$ 104,820,975.70

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

	University	Housing Corporation	Program Support Corporation	Eliminations	Total
OPERATING REVENUES					
Operating Revenues	$ 16,439,770.32	$ 120.00	$ 27,720.00	$ (111,929.00)	$ 16,355,681.32
Sales and Services, Net	7,042,346.85	1,025,723.00			8,068,069.85
Total Operating Revenues	23,482,117.17	1,025,843.00	27,720.00	(111,929.00)	24,423,751.17
OPERATING EXPENSES					
Operating Expenses	61,215,267.25	531,793.00	22,799.00	(111,929.00)	61,657,930.25
Depreciation	4,042,317.42	110,591.00			4,152,908.42
Total Operating Expenses	65,257,584.67	642,384.00	22,799.00	(111,929.00)	65,810,838.67
Operating Income (Loss)	(41,775,467.50)	383,459.00	4,921.00		(41,387,087.50)
NONOPERATING REVENUES (EXPENSES)					
Investment Income, Net	2,707,122.79	20,498.00			2,727,620.79
Interest and Fees on Capital Asset Related Debt	(27,730.90)	(142,932.00)			(170,662.90)
Other Nonoperating Revenues	37,405,947.77	7,601.00			37,413,548.77
Net Nonoperating Revenues (Expenses)	40,085,339.66	(114,833.00)			39,970,506.66
Capital Appropriations	43,900.00				43,900.00
Capital Grants and Gifts	1,653,280.63				1,653,280.63
Additions to Endowments	1,500,000.00				1,500,000.00
Increase in Net Position	1,507,052.79	268,626.00	4,921.00		1,780,599.79
NET POSITION					
Net Position, July 1, 2017, as Restated	101,141,058.91	701,437.00	1,197,880.00		103,040,375.91
Net Position, June 30, 2018	$ 102,648,111.70	$ 970,063.00	$ 1,202,801.00	$ 0.00	$ 104,820,975.70

Condensed Statement of Cash Flows
June 30, 2018

	University	Housing Corporation	Program Support Corporation	Total
Net Cash Provided (Used) by Operating Activities	$ (36,845,545.60)	$ 500,339.00	$ 1,734.00	$ (36,343,472.60)
Net Cash Provided by Noncapital Financing Activities	38,149,058.76			38,149,058.76
Net Cash Provided (Used) by Capital and Related Financing Activities	3,664,870.82	(444,098.00)		3,220,772.82
Net Cash Provided (Used) by Investing Activities	(361,853.84)	20,498.00		(341,355.84)
Net Increase in Cash and Cash Equivalents	4,606,530.14	76,739.00	1,734.00	4,685,003.14
Cash and Cash Equivalents, July 1, 2017	27,237,915.81	1,159,552.00	114,122.00	28,511,589.81
Cash and Cash Equivalents, June 30, 2018	$ 31,844,445.95	$ 1,236,291.00	$ 115,856.00	$ 33,196,592.95

NOTE 18 - 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 19 - 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	$ 162,128,300.91
Restatement:	
Record the University's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	(59,087,925.00)
July 1, 2017 Net Position as Restated	$ 103,040,375.91

REQUIRED SUPPLEMENTARY INFORMATION

University of North Carolina School of the Arts
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	0.08229%	0.08293%	0.08008%	0.08128%	0.08190%
Proportionate Share of TSERS Collective Net Pension Liability	$ 6,529,251.00	$ 7,622,124.00	$ 2,951,107.00	$ 952,944.00	$ 4,972,165.00
Covered Payroll	$ 14,185,193.23	$ 12,263,260.70	$ 12,074,597.76	$ 12,111,613.34	$ 12,300,093.04
Net Pension Liability as a Percentage of Covered Payroll	46.03%	62.15%	24.44%	7.87%	40.42%
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.

University of North Carolina School of the Arts
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	$ 1,439,593.02	$ 1,415,682.28	$ 1,122,088.35	$ 1,104,825.70	$ 1,052,499.20
Contributions in Relation to the Contractually Determined Contribution	1,439,593.02	1,415,682.28	1,122,088.35	1,104,825.70	1,052,499.20
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 13,354,295.15	$ 14,185,193.23	$ 12,263,260.70	$ 12,074,597.76	$ 12,111,613.34
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	$ 1,024,597.75	$ 881,137.64	$ 607,338.98	$ 419,387.66	$ 415,060.57
Contributions in Relation to the Contractually Determined Contribution	1,024,597.75	881,137.64	607,338.98	419,387.66	415,060.57
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 12,300,093.04	$ 11,843,247.87	$ 12,319,249.00	$ 11,747,553.49	$ 12,352,993.12
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.

University of North Carolina School of the Arts
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* .

University of North Carolina School of the Arts
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	0.13584%	0.13984%
Proportionate Share of Collective Net OPEB Liability	$ 44,537,750.00	$ 60,835,153.00
Covered Payroll	$ 26,876,635.75	$ 23,564,162.96
Net OPEB Liability as a Percentage of Covered Payroll	165.71%	258.17%
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	0.14901%	0.13272%
Proportionate Share of Collective Net OPEB Asset	$ 91,075.00	$ 82,419.00
Covered Payroll	$ 26,876,635.75	$ 23,564,162.96
Net OPEB Asset as a Percentage of Covered Payroll	0.34%	0.35%
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*.

University of North Carolina School of the Arts
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	$ 1,636,698.52	$ 1,561,532.54	$ 1,319,593.13	$ 1,227,235.27	$ 1,176,662.93
Contributions in Relation to the Contractually Determined Contribution	1,636,698.52	1,561,532.54	1,319,593.13	1,227,235.27	1,176,662.93
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 27,052,868.06	$ 26,876,635.75	$ 23,564,162.96	$ 22,354,012.20	$ 21,790,054.27
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	$ 1,118,610.09	$ 1,026,001.49	$ 1,077,453.08	$ 957,576.11	$ 891,525.96
Contributions in Relation to the Contractually Determined Contribution	1,118,610.09	1,026,001.49	1,077,453.08	957,576.11	891,525.96
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 21,105,850.83	$ 20,520,029.83	$ 21,988,838.31	$ 21,279,469.09	$ 21,744,535.70
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	$ 37,874.02	$ 102,131.22	$ 96,613.07	$ 91,651.45	$ 95,876.24
Contributions in Relation to the Contractually Determined Contribution	37,874.02	102,131.22	96,613.07	91,651.45	95,876.24
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 27,052,868.06	$ 26,876,635.75	$ 23,564,162.96	$ 22,354,012.20	$ 21,790,054.27
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	$ 92,865.74	$ 106,704.16	$ 114,341.96	$ 110,653.24	$ 113,071.59
Contributions in Relation to the Contractually Determined Contribution	92,865.74	106,704.16	114,341.96	110,653.24	113,071.59
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 21,105,850.83	$ 20,520,029.83	$ 21,988,838.31	$ 21,279,469.09	$ 21,744,535.70
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.

University of North Carolina School of the Arts
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

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

Board of Trustees
University of North Carolina School of the Arts
Winston-Salem, 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 School of the Arts (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 16, 2018. Our report includes a reference to other auditors who audited the consolidated financial statements of the University of North Carolina School of the Arts Foundation, Inc., as described in our report on the University's financial statements. The consolidated financial statements of the University of North Carolina School of the Arts 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 this entity.

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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 16, 2018

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For additional information contact:
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This audit required 707 hours at an approximate cost of $72,821.