Introduction

The University of North Carolina at Greensboro (the "University") provides the following management discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2018. This discussion, the following financial statements, required supplementary information, and the related notes to the financial statements have been prepared by management and comprise the University's complete financial report. The financial statements, required supplementary information, notes to the financial statements, and this discussion are the responsibility of management.

The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. However, this discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the related financial statements, required supplementary information, and notes to the financial statements.

Using the Financial Report

The University's financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements, which establish standards for external financial reporting for public colleges and universities. GASB standards require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net position categories. As part of the implementation of GASB Statement No. 75 in fiscal year 2018, prior year amounts in the condensed Statement of Net Position have been restated. Refer to Note 20 of the notes to the financial statements for details.

Statement of Net Position

The Statement of Net Position is a "point of time" financial statement that presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University. The purpose of this financial statement is to present to the readers of the University's financial report a fiscal snapshot as of the end of the fiscal year (i.e., June 30th). The Statement of Net Position presents both the current and noncurrent portions of assets and liabilities as well as deferred outflows and deferred inflows. The differences between current and noncurrent assets and liabilities are discussed further in the notes to the financial statements.

From the data presented, readers of this statement are able to determine the assets available to continue the operations of the institution. They are able to determine how much the institution owes vendors, bond holders, and other creditors. The Statement of Net Position also provides a picture of the net position (assets and deferred outflows minus liabilities and deferred inflows) and their availability for expenditure by the institution. Net position is divided into three major categories: net investment in capital assets; unrestricted net position; and restricted net position, which is reflected in two subcategories – expendable and nonexpendable. These three categories of net position are discussed further in the notes to the financial statements.

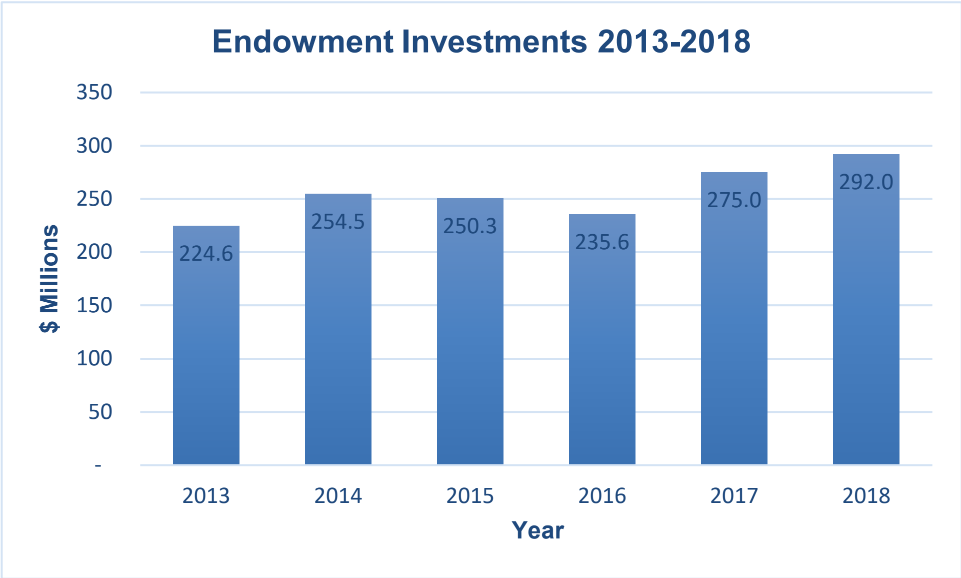
A condensed Statement of Net Position is reflected in the following table.

Condensed Statement of Net Position

	6/30/2018	6/30/2017 (as Restated)
Assets		
Current Assets	$ 160,500,928	$ 159,539,595
Noncurrent Capital Assets, Net of Accumulated Depreciation	780,068,128	750,315,842
Other Noncurrent Assets	305,116,719	296,150,786
Total Assets	1,245,685,775	1,206,006,223
Deferred Outflows of Resources		
Deferred Loss on Refunding	6,722,213	4,234,479
Deferred Outflows Related to Pensions	22,037,602	29,886,669
Deferred Outflows Related to OPEB	11,129,161	10,191,942
Total Deferred Outflows of Resources	39,888,976	44,313,090
Liabilities		
Current Liabilities	38,423,168	36,681,016
Long-Term Liabilities, Net	691,150,513	851,197,813
Other Noncurrent Liabilities	11,491,545	12,383,265
Total Liabilities	741,065,226	900,262,094
Deferred Inflows of Resources		
Deferred Inflows for Irrevocable Split-Interest Agreements	149,822	155,715
Deferred Inflows Related to Pensions	1,984,490	3,311,474
Deferred Inflows Related to OPEB	144,213,215	
Total Deferred Inflows of Resources	146,347,527	3,467,189
Net Position		
Net Investment in Capital Assets	422,348,859	393,035,143
Restricted - Nonexpendable	153,553,625	149,351,074
Restricted - Expendable	157,266,942	148,181,205
Unrestricted	(335,007,428)	(343,977,392)
Total Net Position	$ 398,161,998	$ 346,590,030

Assets

The total assets of the University increased by $39.7 million for the year ($1.0 million increase for current assets and a $38.7 million increase for noncurrent assets). This overall increase was primarily the result of an increase of $29.8 million in capital assets, net of accumulated depreciation, an increase of $17.0 million in endowment investments, and a decrease of $8.3 million in noncurrent restricted cash and cash equivalents. The increase in capital assets, net of accumulated depreciation, is mainly due to the completion of the Spartan Village II Residence Hall and associated retail space, the completion of the Cone Residence Hall renovation, the completion of the 1510 Walker Avenue renovation, and capitalized construction costs associated with the Nursing and Instructional Building. The increase in endowment investments (see chart below) is directly attributable to increases in the value of investments of UNCG Endowment Partners, LP, which holds the endowment pool assets, as well as the current year's addition of endowment gifts of approximately $4.1 million. The decrease in noncurrent restricted cash and cash equivalents is related to completion of the aforementioned construction projects and accrued construction costs for the Nursing and Instructional building.



Liabilities

A significant change in accounting was made in the current fiscal year with the implementation of GASB Statement No. 75, which requires recognition of the liability for postemployment benefits other than pensions (OPEB). The University was required to record a proportionate share of the state liability for these items.

The total liabilities of the University decreased by $159.2 million for the year ($1.7 million increase for current liabilities and a $160.9 million decrease in noncurrent liabilities). This overall decrease in total liabilities was primarily the result of a $147.7 million decrease in the newly recognized net OPEB liability related to GASB Statement No. 75, a $5.2 million decrease in net pension liability, and a $6.2 million decrease in notes and bonds payable.

The newly recognized OPEB liability related to GASB Statement No. 75 resulted in a restated long-term OPEB liability for June 30, 2017 of $441.1 million compared to the long-term OPEB liability of $293.4 million for June 30, 2018. In accordance with the requirements of GASB Statement No. 75, the University has recognized its proportionate share of the State of North Carolina's net OPEB liability for fiscal year 2018, in addition to restating the prior period balance. Additional information is provided in Note 14 of the notes to the financial statements and in the required supplementary information regarding the implementation of GASB Statement No. 75. The University is also required to recognize its proportionate share of the State of North Carolina's net pension liability for fiscal year 2018, in accordance with GASB Statement No. 68. The overall net pension liability for the State of North Carolina decreased in fiscal year 2018, thus the University's Statement of Net Position reflects a similar decrease in net pension liability. Additional information on the University's pension plans is provided in Note 13 of the notes to the financial statements and in the required supplementary information. The net decrease in notes and bonds payable is attributable to the refinancing of debt in fiscal year 2018, as well as the annual bond principal payments of pre-existing debt. Refer to the Capital Assets and Debt Administration section for further details on the University's debt refinancing during the fiscal year.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources decreased by $4.4 million mainly due to the decrease in deferred outflows related to pensions which represents the University's proportionate share of the accumulated difference between projected and actual earnings on pension plan investments and cumulative changes in assumptions concerning future economic and demographic factors. This decrease was partially offset by an increase in deferred loss on refunding from the issuance of General Revenue Refunding Bonds, Series 2017 in December of 2017. Deferred inflows of resources increased by $142.9 million mainly due to the recognition of a deferred inflow related to OPEB which represents the University's proportionate share of the accumulated difference between actual and expected experience, changes in actuarial assumptions, changes between employer contributions and the proportionate share of contributions, and the difference between projected and actual earnings for OPEB investments. The net amount of deferred inflows related to OPEB is included in benefit expense using a systemic and rational amortization method over a closed five-year period (refer to Note 14 of the notes to the financial statements for details).

Overall Impact of GASB Statement No. 75

As previously discussed, 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.

Significant to this reporting change was the OPEB restatement for the RHBF that resulted in a decrease in the University's June 30, 2017 unrestricted net position by $431.5 million that reduced the University's overall unrestricted net position balance at June 30, 2017 to a $344.0 million deficit. To understand the continuing impact of the GASB Statement No. 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 $445.7 million deficit. The difference between the net effect amount reported in Note 10 and the unrestricted net position reported on the financial statements (a $335.0 million deficit) is a positive $110.7 million. This positive difference represents unrestricted funds held by the University in its institutional trust, special, and investment funds, as well as any unrestricted funds held by the University's blended component units, and it also includes any operating state funds authorized for carryforward.

More information regarding the GASB Statement No. 75 change can be located in Note 14, "Other Postemployment Benefits".

Net Position

The combination of the increase in total assets of $39.7 million, the decrease in total liabilities of $159.2 million, the decrease of $4.4 million in deferred outflows of resources, and the $142.9 million increase in deferred inflows of resources yields an overall increase in total net position of $51.6 million. The net position category of net investment in capital assets increased by $29.3 million due to the completion of Spartan Village II Residence Hall and associated retail space, the completion of the Cone Residence Hall renovation, the completion of the 1510 Walker Avenue renovation, the completion of renovations to five separate buildings for the relocation of operations formerly located in the now demolished McIver Building, and capitalized construction costs associated with the new Nursing and Instructional Building. An increase of $4.2 million in the category of nonexpendable net position is directly related to the current year's receipt of endowed gifts. An increase of $9.1 million in the category of restricted expendable net position is the result of an increase in the value of endowment investments during the fiscal year. The unrestricted net position category increased by $9.0 million. This increase is primarily attributable to the effect of increased student enrollment on tuition and fees and sales and services revenues.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as 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 the statement is to present the revenues earned by the institution, both operating and nonoperating, and the expenses incurred by the institution, operating and nonoperating, and any other revenues earned by the institution.

Generally speaking, operating revenues are earned for providing goods and services to the various constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the institution. Nonoperating revenues are revenues earned for which goods and services are not provided. State appropriations and federal financial aid awards are included as nonoperating revenues in accordance with GASB guidelines even though these revenues are instrumental to the University's mission and operations. Nonoperating expenses are expenses not directly related to the normal operations of the University (e.g., interest expense and other fees on capital asset related debt) and are netted against nonoperating revenues on the Statement of Revenues, Expenses, and Changes in Net Position. Other revenues include capital contributions and additions to the principal of permanent and term endowments.

A condensed Statement of Revenues, Expenses, and Changes in Net Position is reflected in the following table.

Condensed Statement of
Revenues, Expenses, and Changes in Net Position
For the Years Ended

	6/30/2018	6/30/2017*
Operating Revenues		
Student Tuition and Fees, Net	$ 112,143,611	$ 106,878,472
Grants and Contracts	20,805,276	14,756,698
Sales and Services, Net	56,108,821	53,480,365
Interest Earnings on Loans	114,323	123,169
Other Operating Revenues	1,505,220	1,596,540
Total Operating Revenues	190,677,251	176,835,244
Operating Expenses		
Salaries and Benefits	265,688,027	248,319,869
Supplies and Materials	22,865,123	21,970,726
Services	64,016,909	62,507,081
Scholarships and Fellowships	29,913,984	29,302,389
Utilities	8,794,845	8,540,438
Depreciation	22,115,740	21,001,359
Total Operating Expenses	413,394,628	391,641,862
Operating Loss	(222,717,377)	(214,806,618)
Nonoperating Revenues (Expenses)		
State Appropriations	170,294,190	153,781,139
Noncapital Grants and Gifts	73,593,649	72,401,684
Investment Income (Net of Investment Expense)	25,145,127	34,641,444
Interest and Fees on Debt	(11,786,151)	(11,869,043)
Other Nonoperating Expenses	(1,254,177)	(1,846,478)
Net Nonoperating Revenues	255,992,638	247,108,746
Income Before Other Revenues	33,275,261	32,302,128
Other Revenues		
Capital Appropriations	2,514,816	2,472,004
Capital Grants and Gifts	11,718,232	2,430,484
Total Other Revenues	14,233,048	4,902,488
Income Before Additions to Endowments	47,508,309	37,204,616
Additions to Endowments	4,063,659	10,869,629
Increase in Net Position	51,571,968	48,074,245
Net Position - July 1	346,590,030	728,816,487
Restatement (Note 20)		(430,300,702)
Net Position - June 30	$ 398,161,998	$ 346,590,030

*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 net position at the end of the year and an increase of $24.5 million (5.4%) in total revenues of $478.0 million. Total expenses were $426.4 million. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

- Operating revenues increased by $13.8 million (7.8%), whereas operating expenses increased by $21.7 million (5.6%), for a combined net increase in operating loss of $7.9 million. The largest increase within operating revenues was in student tuition and fees, net, which increased $5.3 million (4.9%). This increase is due to enrollment and tuition rate increases. Federal grants and contracts, the largest component of grants and contracts, increased by $4.9 million (50.1%) reflecting continuing increases in research activity at the University.

  The increase in operating expenses is primarily the result of a $17.4 million (7.0%) increase in salaries and benefits, a $1.5 million (2.4%) increase in services, a $1.1 million (5.3%) increase in depreciation, and a $.9 million (4.1%) increase in supplies and materials. The increase in salaries and benefits is due to both increases in personal costs consistent with enrollment growth and additional benefit expense related to OPEB, due to the implementation of GASB Statement No. 75 discussed earlier. The increases in services and supplies and materials are correlated with the increase in state appropriations providing additional funds for University departments to expend on academic services type activities and noncapitalized equipment. The increase in depreciation is primarily due to additions to buildings for the Spartan Village II, 1510 Walker Ave. Renovation, and Leonard J. Kaplan Center for Wellness projects.

- State appropriations increased by $16.5 million (10.7%) due to increases in enrollment resulting in increased enrollment change funding from the State. Investment income decreased by $9.5 million, to an investment gain of $25.1 million compared to an investment gain of $34.6 million in the prior year. This decrease is the result of a significant decrease in net unrealized gains on investments compared to the prior fiscal year. The caption other nonoperating expenses consists of surplus property sales (a revenue), bond issue costs, refunds to grantors, and the loss on the disposal of capitalized assets. The loss on the disposal of capitalized assets was $.8 million.

- Other revenues for fiscal year 2018 consist of capital appropriations, capital grants, capital gifts, and additions to endowments. The University received capital grants of $11.5 million during fiscal year 2018 primarily for funding construction of the new Nursing and Instructional Building. The University also received $2.5 million in capital appropriations from the State (consistent with prior year funding) for various repair and renovation projects across the campus. Additions to endowments were $4.1 million in fiscal year 2018 compared to the prior year amount of $10.9 million as there were gifts from two donors in the prior year of $5.1 million.

Capital Assets and Debt Administration

During fiscal year 2017-18, the Spartan Village II Residence Hall and associated retail space, the Cone Residence Hall renovation project, and the 1510 Walker Avenue renovation projects were all completed and capitalized.

Major projects included in construction in progress consisted of the Nursing and Instructional Building and fire alarm upgrade projects for the Phillips Hawkins Residence Hall and the Curry Building.

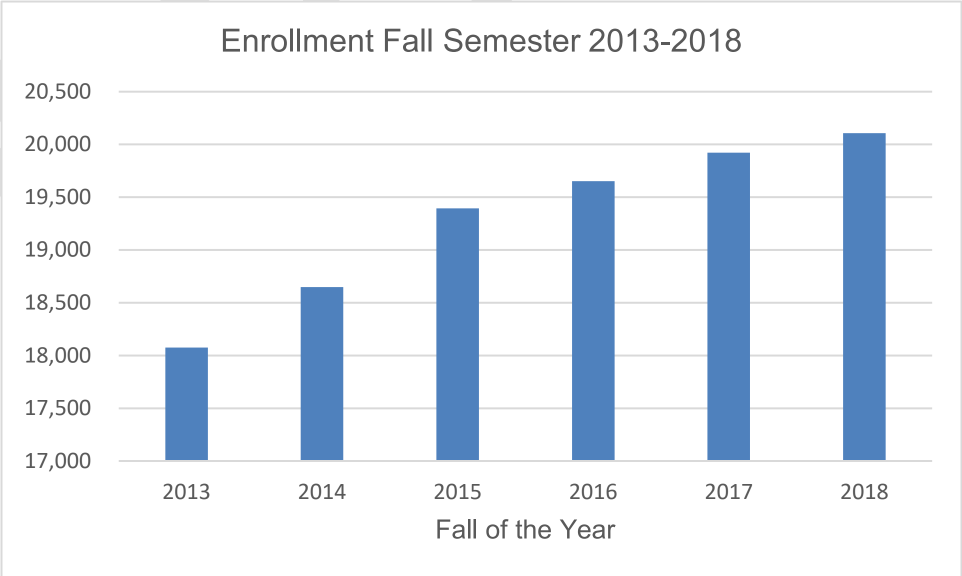
On December 14, 2017, the University issued $77.2 million in General Revenue Refunding Bonds, Series 2017. The proceeds were used to advance refund $60.9 million of outstanding General Revenue Bonds, Series 2011 and $20.8 million of outstanding General Revenue Bonds, Series 2012A. This refunding will result in an economic gain of $8.6 million over the next 19 years.

On June 6, 2018, the University issued $45.3 million in General Revenue Bonds, Series 2018. The proceeds were used to retire a $46.0 million note payable with PNC whose proceeds were used to construct the Spartan Village II Residence Hall and associated retail space.

For additional information concerning Capital Assets and Debt Administration, see Notes 6 and 8 in the notes to the financial statements.

Economic and Strategic Outlook

The University continues to experience strong enrollment growth with a record overall enrollment of 20,106 students for the fall semester of 2018. This positive enrollment trend is further evidenced by an enrollment increase of 11.2% or 2,032 students since the fall semester of 2013. A chart depicting this enrollment growth over the past six fall semesters is shown below. For the fall semester of 2018, the University welcomed a new student class (freshman and transfer students) of 4,893 students, which is an increase of 236 students over the prior fall semester.



In an effort to maintain the University's strong financial position in the current challenging and competitive higher education environment, the University has successfully expanded its geographic footprint along the Gate City Boulevard corridor through the completion of several significant building projects. The final project of this initiative, the Spartan Village II Residence Hall and associated retail space, was completed in August 2017. This is a 300-bed apartment-style residence hall, located between Spartan Village Phase I and the Kaplan Center for Wellness, and was fully occupied for the fall 2017 semester. The demand for this apartment style residence hall space will remain strong in this area due to the related projects, the Railroad Pedestrian Underpass and Campus Police Building, that were completed and fully operational for the fall 2014 semester. These projects provide Spartan Village Phase I and II and the Kaplan Center for Wellness with access to security services and an easy connection to other areas of the campus.

In March of 2016, North Carolina voters approved the Connect NC Bonds, which will provide the University with $105 million for the construction of a new Nursing and Instructional Building on the main campus. Construction began in early 2018 and will result in a four-story structure that will house the entire School of Nursing, which is currently located in four separate campus buildings. This facility will also provide teaching and flexible laboratory research space for the Biology, Chemistry, and Health and Human Services departments.

The University's unrestricted net position has been significantly impacted by the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As previously stated, Note 10, "Net Position" details how the implementation of this standard and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* has negatively impacted the University's unrestricted net position, but should not be considered a weakening of the overall financial condition of the University. The University has in the past, and will in the future, continue to make its full required contribution to the Teachers' and State Employees' Retirement Plan, the Retiree Health Benefit Fund, and the Disability Income Plan of North Carolina (see Required Supplementary Information Schedule of University Contributions Teachers' and State Employees' Retirement System and Schedule of University Contributions Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans).

The University's overall financial condition is stable and strengthening due to sustained enrollment growth and new initiatives. The University will continue to be a leader nationally with focused innovative programs to improve student retention and foster student success. The ongoing efforts to contain costs, implement operating efficiencies whenever possible, and diversify revenue sources will continue. Despite the challenging and competitive higher education environment, management strongly believes the University has sufficient resources to grow and provide excellent service to students, the surrounding Piedmont Triad community, and the State of North Carolina.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Greensboro (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 blended 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 following component units of the University are reported as if they were part of the University: The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated; The University of North Carolina at Greensboro Weatherspoon Arts Foundation; The UNCG Excellence Foundation, Inc.; The University of North Carolina at Greensboro Investment Fund, Inc.; and the Capital Facilities Foundation, Inc.

The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated is governed by an 18-member board consisting of three ex officio directors and 15 appointed directors. The Foundation is organized exclusively for the benefit of the departments and center formerly housed within the School of Human Environmental Sciences at The University of North Carolina at Greensboro prior to July 1, 2011, which consist of the Consumer Apparel and Retail Studies Department, Human Development and Family Studies Department, Interior Architecture Department, Nutrition Department, Social Work Department, and the Center for New North Carolinians. The Foundation's purpose is to aid and promote excellence in higher education, service and research, and the endowment of the five departments and center listed above. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The University of North Carolina at Greensboro Weatherspoon Arts Foundation is governed by an 18-member board consisting of three ex officio directors and 15 appointed directors. The Foundation's purpose is to acquire by gift, purchase, lease, loan, or other means of conveyance works of art and to maintain and enhance the arts collection teaching, research, and public services purposes exclusively for the use and benefit of The University of North Carolina at Greensboro. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The UNCG Excellence Foundation, Inc. is governed by a 47-member board consisting of six ex officio directors and 41 appointed directors. The Foundation's purpose is to aid, support and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro as long as The University of North Carolina at Greensboro qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954 (or corresponding provisions of any future United States Internal Revenue law), its financial statements have been blended with those of the University.

The University of North Carolina at Greensboro Investment Fund, Inc. is governed by a 12-member board consisting of four ex officio directors and eight appointed directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. Because the directors of the Investment Fund are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Investment Fund's primary purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The Capital Facilities Foundation, Inc. is governed by a 10-member board consisting of five ex officio directors and five appointed directors. The Foundation's purpose is to enhance the University's educational mission through assisting with the acquisition, development, financing, construction, management, and operation of capital assets for the University. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The

University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

An electronic version of the separate financial statements for the Foundations and the Investment Fund is available by accessing the UNCG Business Affairs home page (http://www.uncg.edu/baf) and clicking on "Foundation Finance", then "Audit Reports", or by calling (336) 334-5200.

Condensed combining information regarding blended component units is provided in Note 18.

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

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

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

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

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

E. **Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Investments in partnerships are stated at net asset value based on the fair value of the partnership's assets. Fair value of the partnership investments is based upon the General Partner's best judgement in estimating the fair value of these investments. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

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

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

G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice cost method.

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

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

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

Asset Class	Estimated Useful Life
Buildings	25-50 years
Machinery and Equipment	2-20 years
General Infrastructure	25-50 years

The Weatherspoon Art Collection is capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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. **Funds Held in Trust for Pool Participants** - Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.

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

Revenue bonds payable are reported net of unamortized premiums. The University amortizes bond premiums over the life of the bonds using the proportionate-to-stated interest method. Deferred gains and losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are aggregated as deferred outflows of resources or deferred inflows of resources on the Statement of Net Position. Issuance costs are expensed in the reporting period in which they are incurred.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. **Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute* 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the

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

At June 30, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes $129,619,463, 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 $57,327. The carrying amount of the University's deposits not with the State Treasurer was $11,945,676, and the bank balance was $12,340,325. 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, $11,277,157 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

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

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

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

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

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

Investments of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, The UNCG Excellence Foundation, Inc., and The University of North Carolina at Greensboro Investment Fund, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

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

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the value of investments. The University's formal policy limits some fixed income holdings to those that have a high quality rating (AA/Aa or better) and those with a sufficient duration (four years or more) to provide effective protection in a deflationary environment.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's formal policy limits some fixed income holdings to those that have a high quality rating

(AA/Aa or better) and those with a sufficient duration (four years or more) to provide effective protection in a deflationary environment.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The University does not have a formal policy for concentration of credit risk.

External Investment Pool - The University of North Carolina at Greensboro Investment Fund, Inc., an External Investment Pool sponsored by the University, was established on July 1, 1992. The Pool is utilized to manage the investments for charitable, nonprofit organizations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Endowment funds of the University, as well as those of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, and The UNCG Excellence Foundation, Inc., represent the Pool's internal participants. Other affiliated organizations not included in the University's reporting entity represent the Pool's external participants. Fund ownership of the Pool is measured using the unit market value method. Under this method, each participating fund's investment balance is determined based on the number of units of ownership purchased when joining the Pool. Thereafter, the pooled assets are valued monthly, and a new market value is determined. The external portion of the Pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The External Investment Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. As of September 1, 2013, the Board along with Cambridge Associates Resources, LLC, created a limited partnership, UNCG Endowment Partners, LP. As part of the agreement, Cambridge is the General Partner and The University of North Carolina at Greensboro Investment Fund, Inc. is the Limited Partner. The University of North Carolina at Greensboro Investment Fund, Inc. contributed its investment portfolio in exchange for its interest in UNCG Endowment Partners, LP. The Board's primary role is to adopt investment objectives and policies and monitor the policy implementation and investment performance.

Cambridge Associates Resources, LLC serves as the outsourced chief investment officer for the Pool and provides the University with monthly statements defining income and fair value information, which is then allocated among the fund's participants. There are no involuntary participants in the Pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Pool's investments. The annual financial report for the External Investment Pool may be obtained from the Business Affairs Office, 254 Mossman, Greensboro, NC 27402, or by calling (336) 334-5200.

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

External Investment Pool

	Amount
Investment Type	
Other Securities	
Partnerships:	
UNCG Endowment Partners, LP	$ 293,162,053

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

Non-Pooled Investments

		Investment Maturities (in Years)		
	Amount	Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
Money Market Funds	$ 4,957	$ 4,957	$ 0	$ 0
Mutual Bond Funds	3,691,680		600,394	3,091,286
Total Debt Securities	3,696,637	$ 4,957	$ 600,394	$ 3,091,286
Other Securities				
Mutual Funds	6,810,362			
Corporate Securities:				
Common Stocks	2,098,602			
Investments in Real Estate	739,500			
Total Non-Pooled Investments	$ 13,345,101			

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

	Amount	AAA Aaa	AA Aa	A	BB/Ba and below
Money Market Funds	$ 4,957	$ 4,957	$ 0	$ 0	$ 0
Mutual Bond Funds	3,691,680	2,371,542	53,875	410,301	855,962
Totals	$ 3,696,637	$ 2,376,499	$ 53,875	$ 410,301	$ 855,962

Rating Agency: Standard & Poor's and Moody's Rating Services

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

	Amount
Investment Type	
Debt Securities	
Money Market Funds	$ 4,957
Mutual Bond Funds	3,691,680
Other Securities	
Mutual Funds	6,810,362
Corporate Securities:	
Common Stocks	2,098,602
Investments in Real Estate	739,500
Partnerships:	
UNCG Endowment Partners, LP	293,162,053
Total Investments	$ 306,507,154

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	$ 57,327
Amount of Deposits with Private Financial Institutions	11,945,676
Deposits in the Short-Term Investment Fund	129,619,463
External Investment Pool	293,162,053
Non-Pooled Investments	13,345,101
Total Deposits and Investments	$ 448,129,620
Deposits	
Current:	
Cash and Cash Equivalents	$ 110,274,328
Restricted Cash and Cash Equivalents	27,709,198
Noncurrent:	
Restricted Cash and Cash Equivalents	3,638,940
Total Deposits	141,622,466
Investments	
Current:	
Short-Term Investments	784,883
Restricted Short-Term Investments	9,083,333
Noncurrent:	
Endowment Investments	292,034,124
Other Investments	4,604,814
Total Investments	306,507,154
Total Deposits and Investments	$ 448,129,620

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Money Market Funds	$ 4,957	$ 4,957	$ 0	$ 0
Mutual Bond Funds	3,691,680	3,691,680		
Total Debt Securities	3,696,637	3,696,637		
Other Securities				
Mutual Funds	6,810,362	6,810,362		
Corporate Securities:				
Common Stocks	2,098,602	2,098,602		
Investments in Real Estate	739,500			739,500
Total Investments by Fair Value Level	13,345,101	$ 12,605,601	$ 0	$ 739,500
Investments Measured at the Net Asset Value (NAV)				
Partnerships:				
UNCG Endowment Partners, LP	293,162,053			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	129,619,463			
Total Investments Measured at Fair Value	$ 436,126,617			

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

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

Investments in Real Estate – The UNCG Excellence Foundation, Inc. currently holds four parcels of land that were gifted to the Foundation. Three parcels are life estates which were appraised at the time of gift and recorded at a value of $739,000. These properties will be sold at the time the donor no longer lives on the property. The fourth parcel was gifted as part of an estate and is valued at the tax value of $500.

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

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Partnerships:				
UNCG Endowment Partners, LP	$ 293,162,053	N/A	N/A	N/A

UNCG Endowment Partners, LP – The UNCG Endowment Partners, LP (the "Partnership") will generally seek to achieve long-term equity-like returns through broadly diversifying by asset class, investment manager, geography, economic sector, and security. The Partnership seeks to achieve its objective by allocating its assets among unaffiliated limited partnerships, unaffiliated limited liability companies, unaffiliated private equity and/or venture capital funds, including offshore funds, other investment entities and/or separate accounts managed pursuant to investment management agreements (collectively, the "Underlying Funds"), as well as publicly-traded stocks, exchange-traded funds, mutual funds, bonds, and derivative contracts.

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 pooled endowment funds for 2018 and 2017 are equal to 4.25 and 4.25 percent respectively of the average market value of the Investment Pool at December 31 for the past three years. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. 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 $28,546,082 was available to be spent, of which $26,937,935 was classified in net position as restricted expendable for scholarships and fellowships, endowed professorships, departmental uses, loans, art, and other, as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2018, the amount of investment losses reported against the nonexpendable endowment balances was $5,450.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 2,480,363	$ 362,520	$ 2,117,843
Student Sponsors	1,935,193		1,935,193
Intergovernmental	3,252,026		3,252,026
Pledges	1,347,140	6,972	1,340,168
Investment Earnings	160,826		160,826
Interest on Loans	130,183		130,183
Other	1,956,037		1,956,037
Total Current Receivables	$ 11,261,768	$ 369,492	$ 10,892,276
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 1,084,922	$ 82,603	$ 1,002,319
Institutional Student Loan Programs	328,607	148,915	179,692
Total Notes Receivable - Current	$ 1,413,529	$ 231,518	$ 1,182,011
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 3,519,080	$ 349,430	$ 3,169,650

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	$ 49,671,639	$ 965,391	$ 0	$ 50,637,030
Art, Literature, and Artifacts	23,572,490	177,096	26,250	23,723,336
Construction in Progress	48,030,139	43,642,786	70,678,596	20,994,329
Total Capital Assets, Nondepreciable	121,274,268	44,785,273	70,704,846	95,354,695
Capital Assets, Depreciable:				
Buildings	720,733,900	72,741,887	1,932,507	791,543,280
Machinery and Equipment	61,604,784	5,874,981	4,654,753	62,825,012
General Infrastructure	83,053,399		158,307	82,895,092
Total Capital Assets, Depreciable	865,392,083	78,616,868	6,745,567	937,263,384
Less Accumulated Depreciation for:				
Buildings	161,911,500	15,952,002	1,882,030	175,981,472
Machinery and Equipment	32,574,062	3,163,896	4,023,187	31,714,771
General Infrastructure	41,864,947	2,999,842	11,081	44,853,708
Total Accumulated Depreciation	236,350,509	22,115,740	5,916,298	252,549,951
Total Capital Assets, Depreciable, Net	629,041,574	56,501,128	829,269	684,713,433
Capital Assets, Net	$ 750,315,842	$ 101,286,401	$ 71,534,115	$ 780,068,128

During the year ended June 30, 2018, the University incurred $11,833,799 in interest costs related to the acquisition and construction of capital assets. Of this total, $11,730,252 was charged in interest expense, and $103,547 was capitalized.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 1,519,722
Accounts Payable - Capital Assets	6,206,794
Accrued Payroll	6,866,484
Other	1,199,385
Total Current Accounts Payable and Accrued Liabilities	$ 15,792,385
Noncurrent Accounts Payable and Accrued Liabilities	
Contract Retainage	$ 1,618,695

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 283,891,000	$ 122,435,000	$ 93,280,000	$ 313,046,000	$ 13,056,000
Plus: Unamortized Premium	21,438,844	18,045,229	7,965,152	31,518,921	
Total Revenue Bonds Payable, Net	305,329,844	140,480,229	101,245,152	344,564,921	13,056,000
Notes Payable	55,367,310	1,411,010	46,884,374	9,893,946	900,747
Annuities and Life Income Payable	6,444,697		326,949	6,117,748	
Total Long-Term Debt	367,141,851	141,891,239	148,456,475	360,576,615	13,956,747
Other Long-Term Liabilities					
Compensated Absences	12,082,956	12,670,746	11,703,463	13,050,239	627,390
Net Pension Liability	43,893,616		5,149,741	38,743,875	
Net Other Postemployment Benefits Liability	441,054,860		147,690,939	293,363,921	
Total Other Long-Term Liabilities	497,031,432	12,670,746	164,544,143	345,158,035	627,390
Total Long-Term Liabilities, Net	$ 864,173,283	$ 154,561,985	$ 313,000,618	$ 705,734,650	$ 14,584,137

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Revenue Bonds Payable						
General Revenue Bonds						
Housing and Parking	2009A	5.00%	04/01/2034	$ 29,525,000	$ 28,555,000	$ 970,000
Refund Series 2002A - Dining and Housing	2011	3.50%-5.00%	04/01/2036	77,505,000	67,040,000	10,465,000
Refund Series 2002A and 2004C - Housing, Athletics, Police Building, and Dining	2012A	2.00%-5.00%	04/01/2037	52,360,000	31,200,000	21,160,000
Student Recreation Center and Housing	2014	4.00%-5.00%	04/01/2039	125,685,000	11,380,000	114,305,000
Refund Series 2005A and 2012B - Housing, Parking, and Athletics	2015	1.75%	04/01/2026	10,109,000	3,223,000	6,886,000
Refund Series 2009A - Housing and Parking	2016	2.50%-5.00%	04/01/2034	21,575,000		21,575,000
Refund Series 2011 and 2012A - Dining, Housing, Police Building, and Athletics	2017	4.00%-5.00%	04/01/2036	77,175,000		77,175,000
Housing	2018	3.00%-5.00%	04/01/2043	45,260,000		45,260,000
Total General Revenue Bonds				439,194,000	141,398,000	297,796,000
The University of North Carolina System Pool Revenue Bonds						
Refund Series 1997B, 1997C, 1997D, and 2000G - Housing, Parking, and Athletics	(A)	5.25%	04/01/2026	22,235,000	19,085,000	3,150,000
Elliott University Center and Various Construction Projects	(B)	3.25%-5.25%	04/01/2026	23,780,000	11,680,000	12,100,000
Total The University of North Carolina System Pool Revenue Bonds				46,015,000	30,765,000	15,250,000
Total Revenue Bonds Payable (principal only)				$ 485,209,000	$ 172,163,000	313,046,000
Plus: Unamortized Premium						31,518,921
Total Revenue Bonds Payable, Net						$ 344,564,921

(A) The University of North Carolina System Pool Revenue Bonds, Series 2005A
(B) The University of North Carolina System Pool Revenue Bonds, Series 2010B-2

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

	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2019	$ 13,056,000	$ 13,942,892	$ 900,747	$ 253,038
2020	13,261,000	13,750,263	226,286	223,031
2021	13,875,000	13,138,883	231,898	217,419
2022	14,294,000	12,534,370	237,649	211,668
2023	14,871,000	11,886,513	243,543	205,775
2024-2028	72,524,000	48,959,487	8,053,823	761,184
2029-2033	77,015,000	31,331,100		
2034-2038	72,555,000	13,871,212		
2039-2043	21,595,000	2,438,250		
Total Requirements	$ 313,046,000	$ 161,852,970	$ 9,893,946	$ 1,872,115

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

On December 14, 2017, the University issued $77,175,000 in General Revenue refunding bonds, Series 2017 with an average interest rate of 4.51%. The bonds were issued to advance refund $60,945,000 of outstanding General Revenue Bonds, Series 2011 and $20,815,000 of outstanding General Revenue Bonds, Series 2012A with an average interest rate of 4.9%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by $10,993,806 over the next 19 years and resulted in an economic gain of $8,617,569. At June 30, 2018, the outstanding balance was $60,945,000 for the defeased General Revenue Bonds, Series 2011 and $20,815,000 for the defeased General Revenue Bonds, Series 2012A.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Energy Savings Performance Contract	Sun Trust Equipment Finance Corp.	3.61%	03/01/2019	$ 5,808,994	$ 5,129,057	$ 679,937
Improvement Advance	PNC	2.48%	04/01/2027	9,460,000	245,991	9,214,009
Total Notes Payable				$ 15,268,994	$ 5,375,048	$ 9,893,946

On June 6, 2018, the University issued $45,260,000 in General Revenue Bonds, Series 2018. The proceeds totaled $50,302,434 (par amount plus bond premium) for which a portion of these proceeds were used to retire a $46,000,000 note payable to PNC, which included a $1,411,010 draw that occurred during the year. The note payable to PNC was used to construct the Spartan Village II Residence Hall and associated retail space. The remaining portion of the proceeds were used to pay bond issuance costs and other related costs associated with equipping the project.

F. Annuities Payable - The Annuity and Life Income Payable balance consists of 148 Charitable Annuity agreements and 12 Charitable Remainder Unitrusts with a market value of $10.7 million. The $6.118 million Annuity and Life Income Payable liability is the expected present value payable to donors based upon their age, the agreed on payment rate, and the applicable federal rate.

NOTE 9 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
2019	$ 985,329
2020	915,285
2021	892,545
2022	829,830
2023	775,500
2024-2026	2,326,500
Total Minimum Lease Payments	$ 6,724,989

Rental expense for all operating leases during the year was $1,055,282.

NOTE 10 - NET POSITION

The deficit in unrestricted net position of $335,007,428 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	$ 22,037,602	$ 0	$ 22,037,602
Deferred Outflows Related to OPEB		10,593,021	10,593,021
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	38,743,875		38,743,875
Net OPEB Liability		293,363,921	293,363,921
Deferred Inflows Related to Pensions	1,984,490		1,984,490
Deferred Inflows Related to OPEB		144,213,215	144,213,215
Net Effect on Unrestricted Net Position	$ (18,690,763)	$ (426,984,115)	$ (445,674,878)

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	$ 152,637,371	$ 0	$ 40,184,271	$ 309,489	$ 112,143,611
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 33,261,268	$ 377,265	$ 8,245,772	$ 68,092	$ 24,570,139
Dining	19,962,159	17,663	4,478,812	37,250	15,428,434
Student Union Services	114,823				114,823
Health, Physical Education, and Recreation Services	1,383,501	8,367			1,375,134
Parking	4,383,368	147,003		20,528	4,215,837
Athletic	1,033,876	22,281			1,011,595
Other	6,347,949	3,506,624	380,031	2,917	2,458,377
Sales and Services of Education and Related Activities	7,208,956	274,474			6,934,482
Total Sales and Services, Net	$ 73,695,900	$ 4,353,677	$ 13,104,615	$ 128,787	$ 56,108,821

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	$ 148,613,316	$ 5,334,896	$ 9,668,314	$ 3,805	$ 7,124	$ 0	$ 163,627,455
Research	10,914,416	715,995	3,835,135	1,182,607			16,648,153
Public Service	6,780,156	120,324	1,628,581	14,209	3,204		8,546,474
Academic Support	30,669,217	7,340,087	8,862,694	877,907	1,995		47,751,900
Student Services	18,602,996	1,600,529	4,350,981	11,127			24,565,633
Institutional Support	7,112,030	2,348,042	7,830,732	4,487	11,708		17,306,999
Operations and Maintenance of Plant	21,620,312	1,488,982	5,016,454		5,784,546		33,910,294
Student Financial Aid				27,781,342			27,781,342
Auxiliary Enterprises	21,375,584	3,916,268	22,824,018	38,500	2,986,268		51,140,638
Depreciation						22,115,740	22,115,740
Total Operating Expenses	$ 265,688,027	$ 22,865,123	$ 64,016,909	$ 29,913,984	$ 8,794,845	$ 22,115,740	$ 413,394,628

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 $4,939,964, and the University's contributions were $8,875,469 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 $38,743,875 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 0.48830%, which was an increase of 0.01073 from its proportion measured as of June 30, 2016, which was 0.47757%.

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

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

* Salary increases include 3.5% inflation and productivity factor.

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

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

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

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

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

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

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

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

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

Net Pension Liability		
1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
$ 79,750,933	$ 38,743,875	$ 4,385,188

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 $10,240,369. 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	$ 839,896	$ 1,267,514
Changes of Assumptions	6,120,948	
Net Difference Between Projected and Actual Earnings on Plan Investments	5,243,361	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	957,928	716,976
Contributions Subsequent to the Measurement Date	8,875,469	
Total	$ 22,037,602	$ 1,984,490

The amount of $8,875,469 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

Year Ended June 30:	Amount
2019	$ 1,973,628
2020	7,465,606
2021	3,836,858
2022	(2,098,449)
Total	$ 11,177,643

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 $204,815,109, of which $92,758,519 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $5,565,511 and $6,344,683, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of $340,382 recognized during the reporting period.

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 $10,593,021 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 $245,128 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 $293,363,921 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 0.89477%, which was a decrease of 0.11907 from its proportion measured as of June 30, 2016, which was 1.01384%.

Net OPEB Asset: At June 30, 2018, the University reported an asset of $584,980 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 0.95710%, which was an increase of 0.05176 from its proportion measured as of June 30, 2016, which was 0.90534%.

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	$ 349,967,453	$ 293,363,921	$ 248,471,008
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (497,319)	$ (584,980)	$ (672,841)

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	$ 239,652,092	$ 293,363,921	$ 364,756,042
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 $6,088,842 for RHBF and $311,599 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	$ 160,390	$ 160,390
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		128,223	128,223
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		2,399	2,399
Contributions Subsequent to the Measurement Date	10,593,021	245,128	10,838,149
Total	$ 10,593,021	$ 536,140	$ 11,129,161

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 21,034,733	$ 0	$ 21,034,733
Changes of Assumptions	80,791,085		80,791,085
Net Difference Between Projected and Actual Earnings on Plan Investments	109,027		109,027
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	42,278,370		42,278,370
Total	$ 144,213,215	$ 0	$ 144,213,215

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	$ (28,848,094)	$ 86,336
2020	(28,848,094)	86,336
2021	(28,848,094)	86,307
2022	(28,848,094)	32,033
2023	(28,820,839)	
Total	$ (144,213,215)	$ 291,012

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. The General Property Coverage Policy is the Fund's basic policy and is used to provide insurance against losses caused by Fire and Lightning, Extended

Coverage, Broad Form Coverage, and Special Form Coverage. However, the University is covered only for those named perils for which the University has paid a premium and for which the named peril is indicated in the Declarations. Extended coverage for buildings and contents has been purchased for the following buildings: Chemical Storage Facility, the Baseball Complex, the Softball Complex, the Sullivan Science Building, and the Graphics and Printing Services Building. Broad Form Coverage has been purchased for the building and contents for the L.J. Kaplan Center for Wellness. All Risk Coverage has been purchased for the Baseball Locker Room & Training Facility and the Elliott University Center. Vandalism and Malicious Mischief insurance (VMM) has been purchased for the Elliott University Center. The University must fund the additional cost of the above stated insurance.

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. These purchased coverages are: "all-risk" for computers and miscellaneous equipment covering all perils including fire (replacement cost on listed computers and miscellaneous equipment, $5,000 deductible per event); study abroad accident and health ($250,000 per injury or sickness medical expenses, $10,000 accidental death and dismemberment, $50,000 repatriation of remains, $200,000 evacuation benefit limit, $1,500 bedside visit); international students accident and sickness ($150,000 maximum limit for medical expenses, $10,000 accidental death and dismemberment, $15,000 for repatriation of remains and $50,000 lifetime benefit for medical evacuation); robbery and safe burglary ($1.0 million per event, $25,000 deductible); musical instruments (stated value cash replacement value with $500 deductible); fine art (property coverage – museum collection and temporary loan, Limits of Liability: $250.0 million limit at insured premises, $25.0 million at any other location, $25.0 million limit in transit on any one conveyance, exhibition, and location, $70.0 million for TRIA (Terrorism Risk Insurance Act), and $250.0 million aggregate limit in any one loss or disaster; Deductibles: $2,500); University Intern liability ($2.0 million per incident / $4.0 million per year); business travel ($100,000 maximum medical expense, $10,000 maximum accidental death and dismemberment maximum benefit, $100,000 medical evacuation maximum benefit); boiler and machinery ($50.0 million equipment breakdown limit, $5,000 deductible); leased computer equipment (stated value with $10,000 deductible for medical equipment and $500 deductible for all other); athletic accident (maximum medical coverage limit $75,000, with $0 deductible, maximum death specific loss $50,000); physicians professional medical liability ($1.0 million per person, $3.0 million total); postal bond (coverage limit $30,000); non-physicians professional medical liability (individual policies) ($1.0 million per person, $3.0 million total); student health; camp accident ($250,000 accidental death and dismemberment maximum annual limit); club sports travel ($10,000 accidental death and dismemberment); volunteer liability ($1.0 million per incident / $3.0 million per year); Railroad Underpass general liability coverage $2.0 million per year and aggregate limit; Railroad Underpass excess liability $1.0 million limit; Campus Recreation Adventure Program accident & health insurance ($15,000 accidental death, up to $15,000 dismemberment, $10,000 accidental medical expenses); boat $1.0

million liability and property damage; fiber optics bond $50,000; Unmanned Aircraft Aviation insurance ($1.0 million liability limit).

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 $82,110,944 and on other purchases were $4,598,536 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.

C. Other Contingent Receivables - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end are as follows:

Purpose	Amount
Pledges to the UNCG Excellence Foundation Endowment Fund	$ 1,245,486
Pledges to the UNCG Endowment Fund	3,216,712

NOTE 17 - RELATED PARTIES

The University and North Carolina Agricultural and Technical State University have formed a jointly governed nonprofit organization, Gateway University Research Park, Inc., which is also a component unit of the State of North Carolina. The purpose of this organization is to provide a collaborative research environment that fosters academic enrichment, research growth, technology transfer, commercialization, and discovery while encouraging and promoting regional economic development.

During the fiscal year, the University made payments totaling $1,329,215 to Gateway University Research Park, Inc. These payments consisted of: $801,607 for the construction, maintenance, acquisition, movement, installation, and upgrades of offices, classrooms, and laboratories for the

Joint School of Nanoscience and Nanoengineering; $472,808 for the operation and maintenance of University facilities at the Gateway University Research Park; $75,000 for the annual management fee for the Gateway University Research Park; $50,000 for the annual management fee for the Gateway University Research Park; and $4,800 for other facility use fees and maintenance expenses.

NOTE 18 - 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

	UNCG	UNCG Excellence Foundation	Human Environmental Sciences Foundation	Weatherspoon Arts Foundation	Capital Facilities Foundation	Total
ASSETS						
Current Assets	$ 148,339,229	$ 7,036,499	$ 422,972	$ 0	$ 4,702,228	$ 160,500,928
Capital Assets, Net	746,632,378			23,658,836	9,776,914	780,068,128
Other Noncurrent Assets	165,841,626	129,654,980	9,620,113			305,116,719
Total Assets	1,060,813,233	136,691,479	10,043,085	23,658,836	14,479,142	1,245,685,775
TOTAL DEFERRED OUTFLOWS OF RESOURCES	39,888,976					39,888,976
LIABILITIES						
Current Liabilities	37,507,458	214,831			700,879	38,423,168
Long-Term Liabilities, Net	682,157,314				8,993,199	691,150,513
Other Noncurrent Liabilities	5,373,797	6,117,748				11,491,545
Total Liabilities	725,038,569	6,332,579			9,694,078	741,065,226
TOTAL DEFERRED INFLOWS OF RESOURCES	146,172,705	174,822				146,347,527
NET POSITION						
Net Investment in Capital Assets	398,127,118			23,658,836	562,905	422,348,859
Restricted - Nonexpendable	73,729,293	75,086,675	4,737,657			153,553,625
Restricted - Expendable	107,701,011	46,011,336	3,554,595			157,266,942
Unrestricted	(350,066,487)	9,086,067	1,750,833		4,222,159	(335,007,428)
Total Net Position	$ 229,490,935	$ 130,184,078	$ 10,043,085	$ 23,658,836	$ 4,785,064	$ 398,161,998

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

	UNCG	UNCG Excellence Foundation	Human Environmental Sciences Foundation	Weatherspoon Arts Foundation	Capital Facilites Foundation	Eliminations	Total
OPERATING REVENUES							
Rental Income	$ 0	$ 0	$ 0	$ 0	$ 462,119	$ (449,319)	$ 12,800
Operating Revenues	190,664,451						190,664,451
Total Operating Revenues	190,664,451				462,119	(449,319)	190,677,251
OPERATING EXPENSES							
Operating Expenses	390,616,523	265,528	10,687		845,499	(459,349)	391,278,888
Depreciation	21,929,255				186,485		22,115,740
Total Operating Expenses	412,545,778	265,528	10,687		1,031,984	(459,349)	413,394,628
Operating Loss	(221,881,327)	(265,528)	(10,687)		(569,865)	10,030	(222,717,377)
NONOPERATING REVENUES (EXPENSES)							
Investment Income, Net	14,469,817	9,902,324	772,986				25,145,127
Noncapital Gifts	4,073,182	952,273	3,484				5,028,939
Interest and Fees on Debt	(11,786,151)						(11,786,151)
Other Nonoperating Revenues	238,825,926				32,974		238,858,900
Other Nonoperating Expenses	(1,227,927)			(26,250)			(1,254,177)
Net Nonoperating Revenues (Expenses)	244,354,847	10,854,597	776,470	(26,250)	32,974		255,992,638
Transfers		(5,082,579)	(391,275)		3,719,409	1,754,445	
Capital Contributions	14,055,952			177,096			14,233,048
Additions to Endowments	1,077,618	2,946,300	39,741				4,063,659
Increase in Net Position	37,607,090	8,452,790	414,249	150,846	3,182,518	1,764,475	51,571,968
NET POSITION							
Net Position, July 1, 2017, as Restated	190,119,370	121,731,288	9,628,836	23,507,990	1,602,546		346,590,030
Net Position, June 30, 2018	$ 227,726,460	$ 130,184,078	$ 10,043,085	$ 23,658,836	$ 4,785,064	$ 1,764,475	$ 398,161,998

Condensed Statement of Cash Flows
June 30, 2018

	UNCG	UNCG Excellence Foundation	Human Environmental Sciences Foundation	Capital Facilities Foundation	Eliminations	Total
Net Cash Provided (Used) by Operating Activities	$ (206,681,176)	$ (265,528)	$ (10,687)	$ 559,662	$ 0	$ (206,397,729)
Net Cash Provided (Used) by Noncapital Financing Activities	254,001,698	(1,941,475)	(348,050)		(5,473,854)	246,238,319
Net Cash Used by Capital and Related Financing Activities	(50,807,997)			(6,734,965)		(57,542,962)
Net Cash Provided by Investing Activities	5,695,231	2,783,420	356,906	32,974		8,868,531
Net Increase (Decrease) in Cash and Cash Equivalents	2,207,756	576,417	(1,831)	(6,142,329)	(5,473,854)	(8,833,841)
Cash and Cash Equivalents, July 1, 2017	137,945,965	1,737,786	62,998	10,709,558		150,456,307
Cash and Cash Equivalents, June 30, 2018	$ 140,153,721	$ 2,314,203	$ 61,167	$ 4,567,229	$ (5,473,854)	$ 141,622,466

The University of North Carolina at Greensboro Investment Fund, Inc. (the Fund) was formed to consolidate the endowment pool investments of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, The UNCG Excellence Foundation, Inc., and The Endowment Fund of The University of North Carolina at

Greensboro. Subsequently, The Alumni Association of The University of North Carolina at Greensboro and The Associated Campus Ministries of The University of North Carolina at Greensboro joined the Fund as external participants. The Fund is the fiscal agent for the pool, and all units of the pool are owned by The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, The UNCG Excellence Foundation, Inc., The Endowment Fund of The University of North Carolina at Greensboro, The Alumni Association of The University of North Carolina at Greensboro, and The Associated Campus Ministries of The University of North Carolina at Greensboro (the Participants). Since the balances of the Participants are blended with the University for financial reporting and are included in the condensed combining information shown in the above tables, the entire activity for The University of North Carolina at Greensboro Investment Fund, Inc. is not shown.

NOTE 19 - 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. 81, Irrevocable Split-Interest Agreements

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. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

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 20 - 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	$	776,890,732
Restatement:		
Record the University's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.		(430,300,702)
July 1, 2017 Net Position as Restated	$	346,590,030