STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2018

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

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

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

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

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

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

Independent Auditor's Report

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
East Carolina University
Greenville, North Carona

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Carolina University, and its discretely presented component unit, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 19 to the financial statements, during the year ended June 30, 2018, East Carolina University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as amended by Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 7, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

East Carolina University (ECU or University) provides this Management's Discussion and Analysis as supplementary information to assist in understanding the financial statements and related notes for the fiscal year ended June 30, 2018. The University is one of the 16 universities in the University of North Carolina System (UNC System), a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report (CAFR)*. The University's financial report includes three financial statements:

- ECU Statement of Net Position;
- ECU Statement of Revenues, Expenses, and Changes in Net Position; and
- ECU Statement of Cash Flows.

It also includes two financial statements from the discretely presented component unit:

- ECU Foundation, Inc. and Consolidated Affiliates (Foundation) Consolidated Statements of Financial Position; and
- ECU Foundation, Inc. and Consolidated Affiliates (Foundation) Consolidated Statements of Activities and Changes in Net Assets.

Four Required Supplementary Information schedules are provided as follows:

- Schedule of the Proportionate Net Pension Liability Teachers' and State Employees' Retirement System;
- Schedule of University Contributions Teachers' and State Employees' Retirement System;
- Schedule of the Proportionate Net OPEB Liability (Asset) Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans; and
- Schedule of University Contributions, Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans.

The University's basic financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. Per GASB Standards, the University's Foundation is reported as a component unit in the financial statements and is excluded from this Management's Discussion and Analysis unless specifically noted.

This discussion and analysis provides an overview of the University's financial position and activities for the year ended June 30, 2018, emphasizing current year data and significant changes between the prior and current fiscal years. Comparative information for the year ended June 30, 2017 is provided where applicable. This overview has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements that are included in this annual report. The Statement of Net Position reports the University's overall financial position; the Statement of Revenues, Expenses and Changes in Net Position provides a summation of the results of operations, and the Statement of Cash Flows identifies the sources of cash and how cash was used during the year.

Significant Financial Impact – Reporting Change for Postemployment Benefits Other Than Pensions

During the year ended June 30, 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. (See Note 19.) The implementation of this new pronouncement had a significant impact on the financial statements. It is important to note this change in accounting and reporting does not affect how the University operates or uses its operating reserves. The University provides postemployment benefits other than pensions (OPEB) for its employees through two OPEB plans administered by the State that are multi-employer, cost sharing, defined benefit plans. As such, these plans will either have unfunded obligations or funds in excess of obligations. The State's Retiree Health Benefit Plan (RHBF) has unfunded obligations and the State's Disability Income Plan (DIPNC) currently has funds in excess of obligations.

Proportionate shares in these OPEB plans are determined by an actuarial valuation as of a measurement date that is one year earlier than the reporting date of the University. The University reports its allocated share of the OPEB plans' unfunded liability, or funds in excess of obligations, along with deferrals required by the standard, and expenses for the period.

The cumulative effect of these items has a net impact on the University's net position. (See Note 10.)

The fiscal year 2017 balances were restated to include $1.137 billion in long-term liabilities, $1.5 million in noncurrent assets, and $24.7 million in deferred outflows for the University's share of the retiree health and disability benefit obligations. This pronouncement resulted in a net restatement to beginning net position of a negative $1.111 billion. (See Note 20.)

Statement of Net Position

The Statement of Net Position presents a fiscal snapshot of the University's financial position at a point-in-time, specifically, as of June 30, 2018 and includes all assets, deferred outflows and inflows of resources and liabilities of the University. Assets and liabilities are classified as either current or noncurrent. Net position represents the residual interest in the University's assets and deferred outflows of resources net of its liabilities and deferred inflows of resources. The change in net position is an indicator of whether the overall financial condition of the University has improved or worsened during the year. The following table presents a summarized comparison of these accounts at June 30, 2018 and 2017:

Condensed Statement of Net Position

(Dollars in Thousands)

	2018	2017 Restated	Change	Percent Change
Assets				
Current Assets	$ 365,922	$ 346,363	$ 19,559	5.6 %
Capital Assets, Net	1,125,896	1,048,712	77,184	7.4 %
Other Noncurrent Assets	202,231	186,065	16,166	8.7 %
Total Assets	1,694,049	1,581,140	112,909	7.1 %
Deferred Outflows of Resources	89,429	111,402	(21,973)	(19.7) %
Liabilities				
Current Liabilities:				
Long-Term Liabilities - Current Portion	23,385	17,441	5,944	34.1 %
Other Current Liabilities	61,192	58,478	2,714	4.6 %
Total Current Liabilities	84,577	75,919	8,658	11.4 %
Noncurrent Liabilities:				
Long-Term Liabilities, Net	1,293,692	1,631,927	(338,235)	(20.7) %
Other Noncurrent Liabilities	22,753	21,743	1,010	4.6 %
Total Noncurrent Liabilities	1,316,445	1,653,670	(337,225)	(20.4) %
Total Liabilities	1,401,022	1,729,589	(328,567)	(19.0) %
Deferred Inflows of Resources	383,642	6,381	377,261	5,912.3 %
Net Position				
Net Investment in Capital Assets	767,586	753,037	14,549	1.9 %
Restricted	121,477	107,715	13,762	12.8 %
Unrestricted	(890,249)	(904,180)	13,931	(1.5) %
Total Net Position	$ (1,186)	$ (43,428)	$ 42,242	(97.3) %

Total assets and deferred outflows of resources increased by $90.9 million. Total liabilities and deferred inflows of resources increased by $48.7 million, for a net growth of $42.2 million in the University's total net position.

Capital assets, net, increased $77.2 million and other noncurrent assets increased $16.2 million from the prior fiscal year end. Capital assets are discussed in detail in the capital assets section of this discussion and analysis. The increase in other noncurrent assets includes increases in restricted cash balances ($8.5 million), endowment investments ($5.4 million) and restricted investments ($2.9 million). The increase in restricted cash balances is from $4.2 million held for capital improvements and $4.3 million of accumulated bond proceeds from bond sales during fiscal year 2018. These funds will be used for ongoing construction projects. (See Note 8.) Endowment investments increased by $3.7 million due to an average return of 7.3% during the year. The $2.9 million increase in restricted investments consists of U.S. treasury notes and money market mutual funds held on deposit in the 2018A Bonds capitalized interest account.

Deferred outflows of resources are deferred outflows for the University's "loss" on bond refunding, pensions and OPEB. The "loss" is deferred interest expense amortized over time. Total deferred outflows of resources decreased $22.0 million. Deferred outflows for pensions decreased $23.8 million, and there were slight increases in the other two accounts. Deferred outflows for pensions is amortized over time as pension expense. The deferred outflows for pensions reflects the University's allocated portion of deferred outflows for the Teachers' and

State Employees' Retirement System (TSERS) cost-sharing pension plan and is affected by several factors. The differences between projected and actual investment earnings in the TSERS pension plan caused much of the decrease. (See Note 13.)

Current long-term liabilities increased $5.9 million and includes increases in bond payments due of $4.1 million. New bond issuances are discussed in the capital debt section of the discussion and analysis. These liabilities are associated with construction projects that are discussed in the capital assets section of the discussion and analysis.

Noncurrent long-term liabilities, net, decreased $338.2 million. This change includes decreases of $389.8 million for OPEB and $13.0 million for pensions and increases of $65.0 million for bonds payable. (See Note 8 for information on bonds payable.) The net OPEB liability decreased due to changes in the plan's economic and demographic assumptions, actual versus expected experience and the University's proportionate share of the liability. The net pension liability decreased as the pension plan earned higher investment returns than expected.

Deferred inflows of resources are for pensions and OPEB. The deferred inflows for pensions decreased $2.4 million because of higher investment earnings and are amortized over time as pension expense. Deferred inflows for OPEB were $379.7 million.

The University's liquidity remains strong. The current ratio of 4.3, defined as current assets divided by current liabilities, indicates the University could pay its current obligations more than four times before current assets are exhausted. Working capital, defined as current assets less current liabilities, is $281.3 million at June 30, 2018, a $10.9 million or 4.0 percent increase from the prior year. The amount of available working capital is a measure of the University's ability to meet its short-term obligations.

The University's net position consists of three primary classifications: net investment in capital assets, restricted and unrestricted. The balance in each of the three classifications increased from the prior year. Restricted net position includes the University's permanent endowment fund and expendable funds that are subject to externally imposed restrictions. The most notable restricted increases are $2.6 million for capital projects and $2.8 million for debt service and $4.5 million for endowed professorships.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents revenues earned and expenses incurred during the fiscal year, providing information to evaluate the University's management of operations and maintenance of financial strength. Activities are classified and reported as operating, nonoperating, or other revenues. In general, operating revenues are generated by providing goods and services and operating expenses are incurred to acquire or produce the goods and services needed to fulfill the mission of the University. The University consistently shows an operational loss (operating revenues less operating expenses) because public universities are dependent on state appropriations, which are not included in operating revenues. State appropriations, noncapital grants and gifts, and investment income (net of investment expense) are classified as nonoperating revenues because they are revenues received for which goods and services are not provided. When the nonoperating revenues, net of nonoperating expenses, are added to the operational loss, the University shows an increase in income before other revenues of $30.6 million. Other revenues are neither operating nor nonoperating and include capital appropriations, capital grants and gifts and additions to endowments. When these other revenues are added, the University shows a $42.2 million increase in net position as of June 30, 2018. The following table presents a summarized comparison of the statements as of June 30, 2018 and June 30, 2017:

Condensed Statement of Revenues, Expenses, and Changes in Net Position
(Dollars in Thousands)

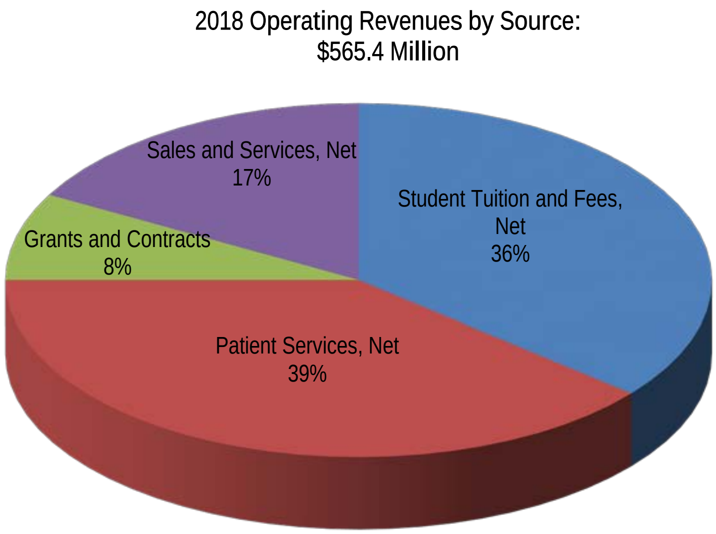
	2018	2017*	Change	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 203,201	$ 198,550	$ 4,651	2.3 %
Patient Services, Net	222,352	207,489	14,863	7.2 %
Grants and Contracts	42,576	43,652	(1,076)	(2.5) %
Sales and Services, Net	95,886	94,321	1,565	1.7 %
Other	1,429	1,391	38	2.7 %
Total Operating Revenues	565,444	545,403	20,041	3.7 %
Operating Expenses				
Salaries and Benefits	602,389	585,053	17,336	3.0 %
Supplies and Materials	94,621	93,917	704	0.7 %
Services	120,552	116,198	4,354	3.7 %
Scholarships and Fellowships	41,175	39,414	1,761	4.5 %
Utilities	18,679	17,763	916	5.2 %
Depreciation/Amortization	31,227	31,198	29	0.1 %
Total Operating Expenses	908,643	883,543	25,100	2.8 %
Operating Loss	(343,199)	(338,140)	5,059	1.5 %
Nonoperating Revenues (Expenses)				
State Appropriations	304,945	294,057	10,888	3.7 %
Noncapital Grants and Gifts	71,780	66,067	5,713	8.6 %
Investment Income, Net	8,387	9,450	(1,063)	(11.2) %
Other Nonoperating Expenses	(11,305)	(11,436)	131	1.1 %
Net Nonoperating Revenues	373,807	358,138	15,669	4.4 %
Income Before Other Revenues	30,608	19,998	10,610	53.1 %
Capital Appropriations	4,044	3,813	231	6.1 %
Capital Grants and Gifts	4,321	1,485	2,836	191.0 %
Additions to Endowments	3,269	1,879	1,390	74.0 %
Increase in Net Position	42,242	27,175	15,067	55.4 %
Net Position-July 1	(43,428)	1,040,209	(1,083,637)	(104.2) %
Less: Restatements		(1,110,812)	1,110,812	(100.0) %
Net Position-June 30	$ (1,186)	$ (43,428)	$ 42,242	(97.3) %

Fiscal year 2017-2018 total revenues are $962,595 and total expenses are $920,353.
Fiscal year 2016-2017 total revenues are $922,154 and total expenses are $894,979.

** 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*

The University generates operating revenues by providing goods and services related to instruction, research, and public service missions. Operating revenues increased $20.0 million, or 3.7 percent. The most significant increase in operating revenues is the $14.9 million increase in patient services, net. The University's School of Dental Medicine filed its first Medicaid cost reimbursement report in fiscal year 2018. Patient revenues increased $6.1 million due to three years of accrued Medicaid cost reimbursement. An additional increase of $1.6 million in patient revenues is from revenue growth in the School of Dental Medicine. The University's Brody School of Medicine increased the number of providers (4.7%), outpatient appointments (2.1%), inpatient visits (4.8%) and procedures (3.1%), which contributed $6.8 million in additional patient revenues in fiscal year 2018.

The following chart shows each operating revenue component as it relates to total operating revenues:



Operating expenses are the day-to-day expenses incurred to carry out the mission of the University. Operating expenses are reported by natural classification. Classification amounts changed at varying rates with an overall increase of $25.1 million, or 2.8 percent. The largest change in dollars occurred in salaries and benefits with an increase in salaries and benefits of $17.3 million. Several factors contributed to these changes including:

- Career banded salary schedule was updated for fiscal year 2017 legislative increase of 1.5 percent and 2018 legislative increase of $1,000 per person;
- Modest salary increases for some employees;
- Increase in number of employees by approximately 170 as new positions were approved and vacant positions were filled, particularly in Academic Affairs and Health Sciences;
- Decrease in retirement benefits costs with the implementation of GASB 75; and
- Increase in health insurance costs.

The following chart shows each operating expense component as it relates to total operating expenses and illustrates the consistency between the two years:

2018 OPERATING EXPENSES: $908.6 Million

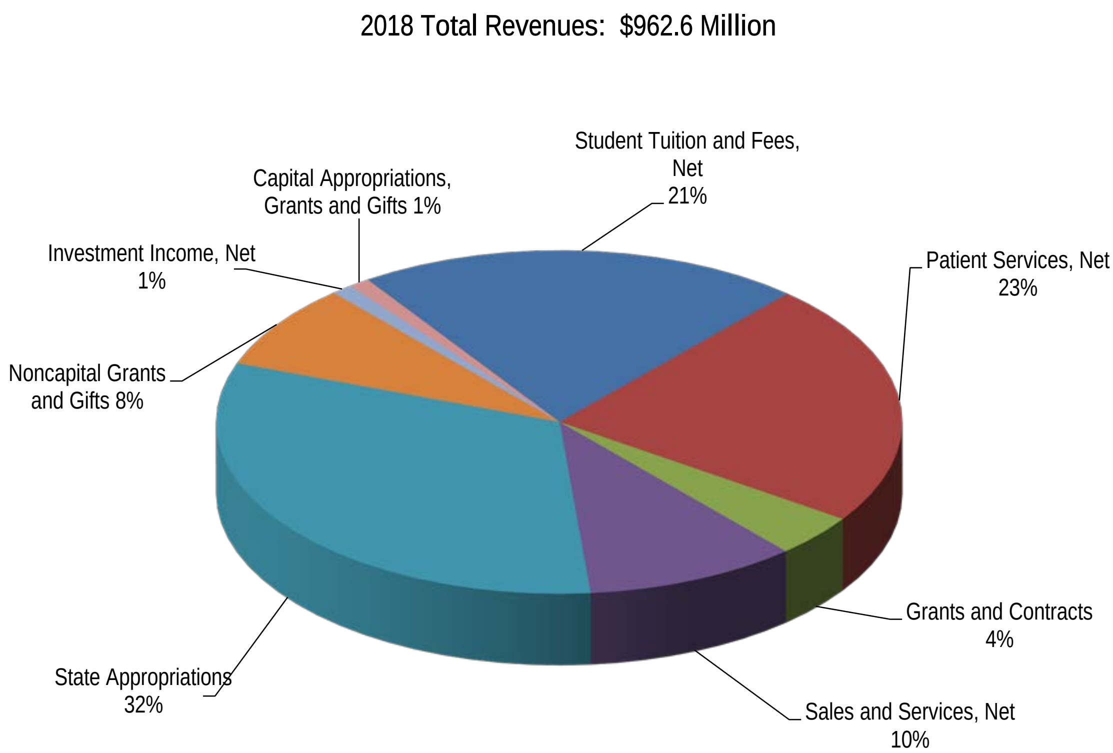
	% to Total 2018	% to Total 2017
Salaries and Benefits	66%	66%
Supplies and Materials	10%	11%
Services	13%	13%
Scholarships and Fellowships	5%	4%
Utilities	2%	2%
Depreciation / Amortization	4%	4%
Total	100%	100%

The University generates revenues and expenses in addition to its principal operations. These items are classified as nonoperating. Total nonoperating revenues, net, increased $15.7 million, or 4.4 percent, from the prior year. The increase is the net effect of changes in state appropriations, noncapital grants and gifts, investment income and other nonoperating revenues and expenses such as interest and fees expenses. The most notable changes include:

- $10.9 million increase in state appropriations primarily to fund enrollment and salary increases, higher medical and retirement costs, and additional veteran non-resident tuition waivers; and
- $5.7 million increase in noncapital grants and gifts largely from a $4.6 million increase in Pell grant funds

Other revenues consist of capital appropriations, capital grants and gifts, and additions to endowments. The most significant increase is the capital grants and gifts accounts which increased $2.8 million for support received from the State for the Life Sciences and Biotechnology Center.

The following chart illustrates the University's total revenues by source (operating, nonoperating and other revenues) which total $962.6 million for fiscal year end 2018:



Note: Accounts with less than 0.5% of total revenues are not shown.

Capital Assets

Capital assets for the University are comprised of nondepreciable and depreciable assets. Nondepreciable assets include land and construction in progress. Depreciable assets include buildings, machinery and equipment, general infrastructure and computer software. Completed buildings comprise 68.7 percent of the University's capital assets, net of accumulated depreciation.

The acquisition, construction and improvement of its capital assets are vital to the University's mission. The University continues to implement its long-range plan to modernize older teaching, research and residential facilities with renovations and new construction.

Capital assets at June 30, 2018 and June 30, 2017, are as follows:

Capital Assets
(Dollars in Thousands)

	2018	2017	Change	Percent Change
Land and Permanent Easements	$ 51,960	$ 50,109	$ 1,851	3.7 %
Construction in Progress	145,083	78,711	66,372	84.3 %
Computer Software in Development		551	(551)	(100.0) %
Buildings	1,040,455	1,016,485	23,970	2.4 %
Machinery and Equipment	161,179	149,893	11,286	7.5 %
General Infrastructure	105,336	103,927	1,409	1.4 %
Computer Software	14,095	14,080	15	0.1 %
Total Capital Assets	1,518,108	1,413,756	104,352	7.4 %
Accumulated Depreciation	392,212	365,044	27,168	7.4 %
Capital Assets, Net	$ 1,125,896	$ 1,048,712	$ 77,184	7.4 %

Capital additions consist primarily of replacement, renovation and new capital assets construction, as well as significant investments in equipment, including information technology. The University's capital assets, as of fiscal year end 2018, are over $1.1 billion, representing a net increase of $77.2 million from the prior year.

The University uses debt financing, student fees, state capital appropriations and university sources to provide funding for capital projects. The amount of construction in progress changes as construction costs on existing projects are incurred, completed projects are removed and new projects are added. As construction projects are completed, depreciable assets increase with an appropriate increase in accumulated depreciation. During fiscal year 2018, construction on new facilities and renovations on older buildings to modernize the campus continued. Construction projects of $24.9 million were completed in fiscal year 2018 and transferred to depreciable asset accounts, primarily buildings, including $18.0 million for Clement Hall Phase II and $2.0 million for the Health Sciences Campus Student Services Building.

Significant work on multi-year projects is on-going and includes a $122.2 million project for the New Student Union and Parking Structure on main campus at a cost of $107.6 million as of fiscal year end 2018. The Student Union will have over 210,000 square feet and will provide a new home for the Ledonia Wright Cultural Center, a 250-seat multi-purpose auditorium, office space for student government and student groups, multi-venue dining facilities, retail and service points, and a dividable ballroom. The project includes a 700-car parking deck.

The University began construction on new projects such as the Dowdy-Ficklen Stadium Expansion (Southside Renovation), the Galley Renovation and Expansion (Jones Hall), and Greene Residence Hall Renovation and incurred costs of $21.5, $2.6 and $2.0 million, respectively, as of fiscal year end 2018.

The University is renovating and expanding the south side of Dowdy-Ficklen Stadium. Debt service payments for this $60 million project are funded by athletics revenues and by the ECU Educational Foundation, Pirate Club. This project includes a new 87,200 square foot press box and new suite and loge areas with a variety of seating options for fans, donors and alumni. The project also includes renovations to the current student athlete academic support areas and training and locker spaces currently in the Ward and Scales buildings located directly beside the Dowdy-Ficklen Stadium. New tailgate parking will be designed to accommodate approximately 500 spaces for vehicles and tents with power and cable TV.

The renovations and expansion of "The Galley", a casual dining area located in Jones Residence Hall, is a $6.1 million project funded by dining services. The first phase will include a 2,000 square foot expansion of the existing interior space. The second phase will renovate the kitchen and serving areas (approximately 7,000 square feet) and expand seating capacity and includes improvements to the interior and adjacent landscape space to increase efficiency of operations and expand serving options and seating.

Renovations of Greene Residence Hall (originally constructed in 1966) is a $28.5 million project. Debt service payments for this project are funded by housing services. The project includes comprehensive American Disabilities Act and high-rise compliance, remodeling of the ground floor entry, lobby and common spaces, renovation of resident rooms, bathrooms, study lounges, and corridors, relocating laundry facilities to ground floor, upgrading electrical grounding and other improvements to the facility.

The four projects described above (Student Union and Parking Structure, Southside Renovation, Galley Renovation and Expansion, and Greene Residence Hall), represent 92.1 percent of the construction in progress balance at fiscal year-end 2018.

Capital Debt

The University uses revenue bonds, notes payable and capital leases to finance construction projects and purchase equipment. As reflected in the following chart, total capital debt increased by $67.8 million in 2018.

Capital Debt Summary
Dollars in Thousands

	2018	2017	Change
Revenue Bonds Payable	$ 408,380	$ 339,295	$ 69,085
Bond Discounts/Premiums	17,856	17,017	839
Notes Payable	6,609	8,879	(2,270)
Capital Leases Payable	1,951	1,806	145
Total Capital Debt	$ 434,796	$ 366,997	$ 67,799

Note 8 to the financial statements provides information on debt administration. The increase in revenue bonds payable is the net effect of bond issuances, refundings and scheduled payments made by the University. In October 2017, the University issued $20.6 million in General Revenue Bonds, Series 2017A and 2017B. The Series 2017A bond was used to advance refund $11.6 million of outstanding University of North Carolina System Pool Revenue Bonds, Series 2010A. The Series 2017B bond was used for a current refunding of $8.1 million in outstanding General Revenue Refunding Bond, Series 2012. These actions reduced debt service payments and resulted in economic gains. In October 2017, the University closed on a $55 million Taxable General Revenue Bond Anticipation Note, Series 2017, to provide temporary funding for renovation costs of the South Side of Dowdy-Ficklen Stadium until bonds could be sold for permanent funding.

In April 2018, the University issued $75.8 million in General Revenue Bonds, Series 2018A and $5.0 million of Taxable General Revenue Bonds, Series 2018B. The bonds were issued to provide permanent funding for the Dowdy-Ficklen Southside Renovation project, prepayment of the amount outstanding on the 2017 Note ($11.1 million) issued for the interim financing of this project, renovation of Greene Residence Hall and bond issuance expenses.

In March 2018, Moody's assigned a rating of Aa2 with a stable outlook and Standard & Poor's Global assigned a rating of AA- to the General Revenue Bonds, Series 2018A and Taxable General Revenue Bonds, Series 2018B.

Economic and Strategic Outlook

Even though the University's net financial position is in a deficit, after eliminating the required OPEB and pension adjustments, the University's net position remains financially strong. Total net position grew by $42.2 million because of effective institutional planning and cost controls, as well as continued support from the State to meet educational needs.

Beginning in fiscal year 2018, the University received enrollment growth funding based on actual enrollment changes rather than projections. The University had a record-breaking Fall 2017 enrollment of 29,131 students. A lower Fall 2018 enrollment of 28,718 students will likely reduce fiscal year 2019 appropriations by approximately $5.0 million. Additionally, in fiscal year 2019 the State Legislature reduced the University's appropriations to fund purchases of services and supplies by $1.1 million.

The Brody School of Medicine will receive $803,000 in fiscal year 2019 for the expansion of Graduate Medical Education.

In fiscal year 2019, the University of North Carolina System Board of Governors approved a request to expand ECU's Millennial Campus to include three additional areas, thereby increasing opportunities for public-private and regional economic development.

The University will receive $90 million from the statewide $2 billion Connect NC bond referendum approved by voters in Spring 2016. The funds will be used to construct a life sciences and biotechnology building on the University's Millennial Campus and will house complementary programs from the departments of Biology, Chemistry, and Engineering. These programs will support natural interdisciplinary research and teaching. Planning and design work have begun, and construction is expected to start in April 2019.

ECU is in the quiet stage of a comprehensive $500 million fundraising campaign and has surpassed $190 million in gifts, pledges and commitments. The campaign will generate philanthropic, corporate, and research revenue to be used for academic programs, student scholarships, research programs, faculty professorships, capital needs, and other activities. In its entirety, the campaign is expected to span seven or more years.

Contacting the University's Financial Management

This financial report is designed to provide our citizens, investors and creditors with a general overview of the University's finances and show accountability for all funds received. Please contact East Carolina University's Financial Services at (252) 737-1133 with questions or for additional financial information.

FINANCIAL STATEMENTS

East Carolina University
Statement of Net Position
June 30, 2018

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 253,270,740
Restricted Cash and Cash Equivalents	46,009,633
Receivables, Net (Note 5)	54,894,032
Due from University Component Units	56,741
Inventories	4,954,529
Notes Receivable, Net (Note 5)	1,867,344
Other Assets	4,869,113
Total Current Assets	365,922,132
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	129,258,319
Receivables (Note 5)	2,392,167
Endowment Investments	56,395,727
Restricted Investments	2,865,500
Investments in Joint Ventures	290,916
Notes Receivable, Net (Note 5)	9,525,449
Net Other Postemployment Benefits Asset	1,503,026
Capital Assets - Nondepreciable (Note 6)	197,042,951
Capital Assets - Depreciable, Net (Note 6)	928,853,076
Total Noncurrent Assets	1,328,127,131
Total Assets	1,694,049,263
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Loss on Refunding	3,612,882
Deferred Outflows Related to Pensions	59,379,296
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	26,436,866
Total Deferred Outflows of Resources	89,429,044
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	37,873,333
Deposits Payable	1,534,871
Unearned Revenue	18,124,328
Interest Payable	3,660,425
Long-Term Liabilities - Current Portion (Note 8)	23,384,519
Total Current Liabilities	84,577,476
Noncurrent Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	872,863
Funds Held for Others	9,254,751
U. S. Government Grants Refundable	12,625,496
Long-Term Liabilities, Net (Note 8)	1,293,691,793
Total Noncurrent Liabilities	1,316,444,903
Total Liabilities	1,401,022,379

DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	3,947,392
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	379,694,756
Total Deferred Inflows of Resources	383,642,148
NET POSITION	
Net Investment in Capital Assets	767,586,027
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,310,856
Endowed Professorships	34,651,592
Departmental Uses	764,463
Loans	2,102,162
Expendable:	
Scholarships and Fellowships	3,301,215
Research	2,968,912
Endowed Professorships	14,240,941
Departmental Uses	2,704,008
Capital Projects	36,379,132
Debt Service	18,906,525
Other	3,146,592
Unrestricted	(890,248,645)
Total Net Position	$ (1,186,220)

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

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

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 11)	$	203,201,275
Patient Services, Net (Note 11)		222,351,903
Federal Grants and Contracts		18,138,969
State and Local Grants and Contracts		11,769,253
Nongovernmental Grants and Contracts		12,667,692
Sales and Services, Net (Note 11)		95,885,674
Interest Earnings on Loans		44,322
Other Operating Revenues		1,384,430
Total Operating Revenues		565,443,518
EXPENSES		
Operating Expenses:		
Salaries and Benefits		602,388,994
Supplies and Materials		94,621,580
Services		120,552,008
Scholarships and Fellowships		41,174,709
Utilities		18,678,638
Depreciation / Amortization		31,227,100
Total Operating Expenses		908,643,029
Operating Loss		(343,199,511)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		304,945,175
Noncapital Grants - Student Financial Aid		39,576,685
Noncapital Grants		15,504,314
Noncapital Gifts		16,699,261
Investment Income (Net of Investment Expense of $125,575)		8,386,553
Interest and Fees on Debt		(9,734,960)
Federal Interest Subsidy on Debt		405,319
Other Nonoperating Expenses		(1,975,444)
Net Nonoperating Revenues		373,806,903
Income Before Other Revenues		30,607,392
Capital Appropriations		4,044,303
Capital Grants		3,777,862
Capital Gifts		542,865
Additions to Endowments		3,269,265
Increase in Net Position		42,241,687
NET POSITION		
Net Position - July 1, 2017, as Restated (Note 20)		(43,427,907)
Net Position - June 30, 2018	$	(1,186,220)

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

East Carolina University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	559,606,347
Payments to Employees and Fringe Benefits		(601,671,406)
Payments to Vendors and Suppliers		(234,560,311)
Payments for Scholarships and Fellowships		(41,174,709)
Loans Issued		(1,544,944)
Collection of Loans		1,568,358
Interest Earned on Loans		249,126
Student Deposits Received		1,852,876
Student Deposits Returned		(1,841,272)
Net Cash Used by Operating Activities		(317,515,935)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		304,945,175
Noncapital Grants - Student Financial Aid		39,672,815
Noncapital Grants		15,557,719
Noncapital Gifts		16,705,541
Additions to Endowments		3,269,265
William D. Ford Direct Lending Receipts		167,214,416
William D. Ford Direct Lending Disbursements		(167,168,184)
Related Activity Agency Receipts		30,513,637
Related Activity Agency Disbursements		(30,370,280)
Net Cash Provided by Noncapital Financing Activities		380,340,104
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Debt		114,378,366
Capital Appropriations		4,044,303
Capital Grants		3,777,862
Acquisition and Construction of Capital Assets		(105,927,056)
Principal Paid on Capital Debt and Leases		(46,894,110)
Interest and Fees Paid on Capital Debt and Leases		(13,731,664)
Federal Interest Subsidy on Debt Received		409,645
Other Payments		(396,613)
Net Cash Used by Capital Financing and Related Financing Activities		(44,339,267)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		5,017,562
Investment Income		7,580,798
Investment in Joint Ventures		150,000
Purchase of Investments and Related Fees		(12,429,937)
Net Cash Provided by Investing Activities		318,423
Net Increase in Cash and Cash Equivalents		18,803,325
Cash and Cash Equivalents - July 1, 2017		409,735,367
Cash and Cash Equivalents - June 30, 2018	$	428,538,692

East Carolina University
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2018 — *Page 2 of 2*

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(343,199,511)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation / Amortization Expense		31,227,100
Allowances and Write-Offs		(115,528)
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(8,772,833)
Due from University Component Units		(5,369)
Inventories		765,442
Prepaid Assets		(907,677)
Notes Receivable, Net		23,414
Net Other Postemployment Benefits Asset		2,092
Deferred Outflows Related to Pensions		23,812,450
Deferred Outflows Related to Other Postemployment Benefits		(1,718,269)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		1,337,516
Due to Primary Government		(47,911)
Unearned Revenue		2,902,689
Net Pension Liability		(13,024,893)
Net Other Postemployment Benefits Liability		(389,847,215)
Compensated Absences		2,780,330
Deposits Payable		11,604
Deferred Inflows Related to Pensions		(2,434,122)
Deferred Inflows Related to Other Postemployment Benefits		379,694,756
Net Cash Used by Operating Activities	$	(317,515,935)
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	253,270,740
Restricted Cash and Cash Equivalents		46,009,633
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		129,258,319
Total Cash and Cash Equivalents - June 30, 2018	$	428,538,692
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through the Assumption of a Liability	$	2,376,006
Assets Acquired through a Gift		542,865
Change in Fair Value of Investments		805,753
Gain on Investment in Joint Venture		121,248
Loss on Disposal of Capital Assets		(1,248,519)
Bond Issuance Cost Withheld		(510,907)
Amortization of Bond Premiums/Discounts		970,291
Funds Escrowed to Defease Debt		20,581,662

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

East Carolina University Foundation, Inc. and Consolidated Affiliates
Consolidated Statements of Financial Position
For the Fiscal Year Ended June 30, 2018 — *Exhibit B-1*

ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	8,382,053
Current Portion of Unconditional Promises to Give, Net		1,422,069
Prepaid Expenses		13,115
Other Receivables		61,838
Total Current Assets		9,879,075
INVESTMENTS		
Investments		122,281,250
Real Estate Held for Investment		1,066,149
Total Investments		123,347,399
CAPITAL ASSETS		
Capital Assets, Net		8,873,314
OTHER ASSETS		
Life Insurance Policy - Cash Surrender Value		247,052
Student Loans		56,968
Beneficial Interest in Charitable Remainder Trusts		2,734,397
Assets Held in Charitable Remainder Trusts and Annuities		1,284,462
Unconditional Promises to Give, Less Current Portion, Net		2,867,666
Other Assets		53,183
Total Other Assets		7,243,728
TOTAL ASSETS	$	149,343,516
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$	155,838
Current Portion of Lines of Credit		899,550
Accrued Expenses		17,827
Deferred Revenue		13,390
Current Portion of Notes Payable		2,442,458
Current Portion of Charitable Gift Annuities Payable		92,684
Agency Payables		1,354,976
Total Current Liabilities		4,976,723
LONG-TERM LIABILITIES		
Refundable Advances		53,254
Notes Payable, Less Current Portion		4,161,279
Interest Rate Swap Agreement		7,744
Charitable Gift Annuities Payable, Less Current Portion		370,379
Liabilities Under Charitable Remainder Trusts		220,622
Total Long-Term Liabilities		4,813,278
Total Liabilities		9,790,001
NET ASSETS		
Unrestricted		16,077,765
Temporarily Restricted		57,392,237
Permanently Restricted		66,083,513
Total Net Assets		139,553,515
TOTAL LIABILITIES AND NET ASSETS	$	149,343,516

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

East Carolina University Foundation, Inc. and Consolidated Affiliates
Consolidated Statements of Activities and Changes in Net Assets
For the Fiscal Year Ended June 30, 2018 — Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	$ 139,692	$ 7,747,206	$ 2,398,219	$ 10,285,117
Gifts in Kind	9,416	115,740		125,156
Contributed Services and Facilities	2,295,376			2,295,376
Return on Investments				
Interest and Dividends	1,201,064	2,924,009	53,194	4,178,267
Net Unrealized and Realized Gains (Losses)on Investments	(49,511)	3,898,442	116,300	3,965,231
Other Income	1,183,751	268,531	3,263	1,455,545
Net Loss on Sales or Transfer of Property	(506,864)	(11,376)	(3,484)	(521,724)
Change in Value of Split Interest Agreements		122,881	192,647	315,528
Net Assets Released from Restrictions	7,360,585	(7,360,585)		
Total Revenues, Gains and Other Support	11,633,509	7,704,848	2,760,139	22,098,496
EXPENSES AND LOSSES				
Program Services				
Program Development	3,741,305			3,741,305
Scholarships	3,308,966			3,308,966
Total Program Services	7,050,271			7,050,271
General and Administrative	1,582,841			1,582,841
Fund Raising	1,943,698			1,943,698
Total Operating Expenses	10,576,810			10,576,810
Bad Debt Losses		57,475	56,757	114,232
Total Expenses and Losses	10,576,810	57,475	56,757	10,691,042
Changes in Net Assets	1,056,699	7,647,373	2,703,382	11,407,454
NET ASSETS				
Net Assets at Beginning of Year	15,936,544	49,450,966	62,758,551	128,146,061
Reclassification of Net Assets, Donor Stipulations	(853,549)	231,969	621,580	
Reclassification of Net Assets, ASC 320	(61,929)	61,929		
Net Assets at End of Year	$ 16,077,765	$ 57,392,237	$ 66,083,513	$ 139,553,515

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Discretely Presented Component Unit – East Carolina University Foundation, Inc. (Foundation) is a legally separate, tax-exempt nonprofit corporation and is reported as discretely presented component unit based on the nature and significance of its relationship to the University. East Carolina University Real Estate Foundation, Inc. and Green Town Properties, Inc. are the consolidated affiliates of the Foundation.

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 63 members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2018, the Foundation distributed $7,050,271 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University Financial Services Office, 3800 East Tenth Street, Second Floor, Greenville, NC 27858, or by calling (252) 737-1133.

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

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

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

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

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

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

Other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

F. **Receivables** - Receivables consist of tuition and fees charged to students, charges for services rendered to patients, 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. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

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

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

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

Asset Class	Estimated Useful Life
Buildings	10-75 years
Machinery and Equipment	2-50 years
General Infrastructure	10-50 years
Computer Software	2-20 years

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

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

J. **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 capital leases payable. Other long-term liabilities include: compensated absences, net pension liability, net other postemployment benefits (OPEB) liability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes $428,336,185, 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 $112,507. The carrying amount of the University's deposits not with the State Treasurer was $90,000, and the bank balance was $90,162. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2018, the University's bank balance was not exposed to custodial credit risk.

B. Investments

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

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

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

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

Investments of the University's component unit, the East Carolina University Foundation, Inc. and Consolidated Affiliates, 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 Endowment Board has a formal policy that addresses interest rate risk. The policy states that fixed income investments should have a duration that is not greater than +/- 40% that of Barclays Capital Aggregate Bond Index in order to minimize interest rate risk. The University has no formal investment policy that addresses interest rate risk for investments other than those under the control of the Endowment Board.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's Endowment Board has a formal investment policy that addresses credit risk. Each fixed income investment manager must assure that no position of any one issuer shall exceed 8% of the manager's portfolio at market value, with the exception of securities issued by the U.S. government and its agencies. Each fixed income portfolio must have an overall weighted average credit rating of "A" or better by Moody's and Standard & Poor's rating services, except where dedicated positions to less than investment grade securities are approved by the investment committee. There shall be no more than 7.5% of bond investments rated below "B" and no more than 25% of the portfolio may be in investments rated below investment grade (below Baa/BBB). Split rated securities will be governed by the lower rating. Investments in corporate securities of any one economic sector may be no more than 25% of the Portfolio value. No more than 60% of the portfolio shall be invested in either corporate or mortgage-backed securities. The University has no formal investment policy that addresses credit risk for investments other than those under the control of the Endowment Board.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Currently, the Endowment Fund does not participate in a securities lending program, therefore counterparty risk is not material. With regard to the safety of assets held by the custodian, the Endowment Fund retains title to those assets; as such, in the event of the broker/dealer failure, the assets held do not become assets of the broker/dealer and are protected from any counterparty claimants. The University has no formal investment policy that addresses custodial credit risk for investments other than those under the control of the Endowment Board.

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the dollar value method. Under this method, each participating fund's investment balance is determined on the account balance and its proportionate share to the total pool. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

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

Long-Term Investment Pool

		Investment Maturities (in Years)			
	Amount	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
Debt Mutual Funds	$ 7,864,745	$ 0	$ 1,399,002	$ 3,645,254	$ 2,820,489
Money Market Mutual Funds	3,047,188	3,047,188			
Total Debt Securities	10,911,933	$ 3,047,188	$ 1,399,002	$ 3,645,254	$ 2,820,489
Other Securities					
UNC Investment Fund	3,097,908				
International Mutual Funds	12,244,357				
Equity Mutual Funds	20,394,090				
Hedge Funds	8,068,020				
Private Equity Limited Partnerships	1,385,198				
Domestic Stocks	204,906				
Other	89,315				
Total Long-Term Investment Pool	$ 56,395,727				

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

	Amount	AAA Aaa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	$ 7,864,745	$ 7,906	$ 5,740,172	$ 1,376,417	$ 726,997	$ 13,253
Money Market Mutual Funds	3,047,188	3,047,188				
Totals	$ 10,911,933	$ 3,055,094	$ 5,740,172	$ 1,376,417	$ 726,997	$ 13,253

Rating Agency: Moody's / Standard and Poors

At June 30, 2018, investments in the Long-Term Investment Pool were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty
Domestic Stock	$ 204,906

UNC Investment Fund, LLC - At June 30, 2018, the University's investments include $3,097,908 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

		Investment Maturities (in Years)	
	Amount	Less Than 1	1 to 5
Investment Type			
Debt Securities			
U.S. Treasuries	$ 2,735,756	$ 1,795,154	$ 940,602
Money Market Mutual Funds	129,744	129,744	
Total Non-Pooled Investments	$ 2,865,500	$ 1,924,898	$ 940,602

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

	Amount	AAA Aaa
U.S. Treasuries	$ 2,735,756	$ 2,735,756
Mondy Market Mutal Funds	129,744	129,744
Totals	$ 2,865,500	$ 2,865,500

Rating Agency: Moody's / Standard and Poors

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

	Amount
Investment Type	
Debt Securities	
U.S. Treasuries	$ 2,735,756
Debt Mutual Funds	7,864,745
Money Market Mutual Funds	3,176,932
Other Securities	
UNC Investment Fund	3,097,908
International Mutual Funds	12,244,357
Equity Mutual Funds	20,394,090
Hedge Funds	8,068,020
Private Equity Limited Partnerships	1,385,198
Domestic Stocks	204,906
Other	89,315
Total Investments	$ 59,261,227

Component Unit - Investments of the University's discretely presented component unit, the East Carolina University Foundation, Inc. and Consolidated Affiliates, are subject to and restricted by G.S. 36E "Uniform

Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment Type	Carrying Value
Common Stock	$ 20,000
Mutal Funds	89,374,554
Alternative Investments	32,886,696
Total	$ 122,281,250

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	$ 112,507
Amount of Deposits with Private Financial Institutions	90,000
Deposits in the Short-Term Investment Fund	428,336,185
Long-Term Investment Pool	56,395,727
Non-Pooled Investments	2,865,500
Total Deposits and Investments	$ 487,799,919
Deposits	
Current:	
Cash and Cash Equivalents	$ 253,270,740
Restricted Cash and Cash Equivalents	46,009,633
Noncurrent:	
Restricted Cash and Cash Equivalents	129,258,319
Total Deposits	428,538,692
Investments	
Noncurrent:	
Endowment Investments	56,395,727
Restricted Investments	2,865,500
Total Investments	59,261,227
Total Deposits and Investments	$ 487,799,919

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	$ 2,735,756	$ 2,735,756	$ 0	$ 0
Debt Mutual Funds	7,864,745	7,864,745		
Money Market Mutual Funds	3,176,932	3,176,932		
Total Debt Securities	13,777,433	13,777,433		
Other Securities				
International Mutual Funds	12,244,357	12,244,357		
Equity Mutual Funds	20,394,090	20,394,090		
Domestic Stocks	204,906	204,906		
Total Investments by Fair Value Level	46,620,786	$ 46,620,786	$ 0	$ 0
Investments Measured at the Net Asset Value (NAV)				
Hedge Funds	8,068,019			
Private Equity Limited Partnerships	1,385,198			
Other - Private Distressed Debt LP	89,316			
Total Investments Measured at the NAV	9,542,533			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	428,336,185			
UNC Investment Fund	3,097,908			
Total Investments as a Position in an External Investment Pool	431,434,093			
Total Investments Measured at Fair Value	$ 487,597,412			

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

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

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.

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
Hedge Funds[A]				
Harvest	$ 2,484,151	$ 0	Monthly	90 days
Lighthouse	5,583,868		Quarterly	30 days
Private Equity Limited Partnerships[B]				
FEG Private Opportunities I	407,052	25,750	Ineligible	N/A
FEG Private Opportunities II	391,880	132,500	Ineligible	N/A
FEG Priveate Opportunities III	539,085	1,104,000	Ineligible	N/A
Northgate I	16,929	12,000	Ineligible	N/A
Northgate II	30,252	10,000	Ineligible	N/A
Other - Private Distressed Debt LP[C]	89,316	15,000	Ineligible	N/A
Total Investments Measured at the NAV	$ 9,542,533			

A. **Hedge Funds** - This type includes investments in two hedge funds that are in the fund-of-funds category. The funds invest in both long and short positions across a globally allocated pool of various types of assets. The hedge fund investments pursue a variety of strategies, including real estate, debt, equity, and other hedging strategies. Management of each hedge fund has the ability to use leverage in the funds and to shift investments from value to growth strategies, from small to large capitalization stocks and from net long positions to net short positions. The fair values of the investments in this type have been determined using the NAV per share of the investments. Restriction periods ranged from 30 to 90 days on these investments as of June 30, 2018.

B. **Private Equity Limited Partnerships** - This type includes investments in five private equity funds that are in the fund-of-funds category. The funds generally invest in long positions across a globally allocated pool of various types of assets. The private equity investments include funds whose focus is on buyouts, distressed debt, real assets, and various real estate purchases. Management of each fund has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, invest in a variety of debt structures, and participate in buyout opportunities across a wide variety of industries. The fair values of the investments in this type have been determined using the NAV per share of the investments. A limited amount of the underlying managers use leverage in their return strategy. These are closed period funds which do not permit redemptions for an extended period of time or until the underlying managers liquidate and disburse funds.

C. **Other – Private Distressed Debt LP** - This type includes investments in one private equity fund that is in the fund-of-funds category. The private equity investments include equity investments in limited partnership funds in banking, hedge fund, commercial real estate, distressed debt, residential real estate, real property, and hospitality.

Component Unit

Fair value as defined under GAAP is an exit price, representing 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. In determining fair value, the Foundation uses various valuation approaches within the FASB ASC 820 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

FASB ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. FASB ASC 820 defines levels within the hierarchy based on the reliability of inputs as follows:

Level 1 — Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 — Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

The following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. These valuation methodologies have not changed and are consistent with prior years.

Mutual funds listed on a national market or exchanges are valued at the last sales price. If there is no sale, and the market is considered still active, equity securities are valued at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy.

Investments in real estate are valued based on independent appraisals and county tax records and are classified within Level 2 of the valuation hierarchy.

Investments in charitable remainder trusts and annuities are valued at the market price of the investments held and are classified as Level 2 of the valuation hierarchy. While the Foundation has access to a detailed listing of the underlying assets held in these trusts and annuities, the majority of which are publicly traded and readily available in active markets, the trusts themselves do not have daily quoted active market prices. Investments in these trusts and annuities are valued per share based on the market prices of the underlying assets.

Beneficial interest in charitable remainder trusts is valued at the market price of the investments and is classified as Level 3 of the valuation hierarchy. While the Foundation has access to a detailed listing of the underlying assets held in these trusts, the majority of which are publicly traded and readily available in active markets, the beneficial interests are determined through discounted cash flow analysis.

The Foundation's interest rate swap agreement is valued based upon a calculated mathematical approximation of market values based upon proprietary models of the counterparty to the swap agreement. The interest rate swap is included in Level 2 of the fair value hierarchy, given that the significant inputs used in developing the calculations are determined to be observable and comparable to similar instruments within the market.

The fair value of the Foundation's charitable gift annuity obligations is based on the net present value of the anticipated benefit using the difference between the assets received and the original contribution. As beneficiary payments are made, the liability is adjusted based on an amortization schedule. The annuity obligations are included in Level 2 of the fair value hierarchy.

The fair value of liabilities under charitable remainder trusts is based on the net present value of the anticipated benefit payments from the trust for which the Foundation is both a beneficiary and trustee. As beneficiary payments are made, the life expectancy of the beneficiary decreases and discount rates fluctuate year to year, the Foundation adjusts the liability accordingly. The trust liabilities are included in Level 2 of hierarchy.

The following table present assets and liabilities measured at fair value by classification within hierarchy as of June 30, 2018:

	Financial Assets (Liabilities) at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Investments in mutual funds	$ 89,374,554	$ 0	$ 0	$ 89,374,554
Investments in common stock	20,000			20,000
Investments in real estate		1,066,149		1,066,149
Investments in private equity funds measured at net asset value[(a)]				6,071,830
Investments in hedge funds funds measured at net asset value [(a)]				26,814,866
Total	$ 89,394,554	$ 1,066,149	$ 0	$ 123,347,399
Investments in charitable remainder trusts and annuities	$ 0	$ 1,284,462	$ 0	$ 1,284,462
Beneficial interest in charitable remainder trusts	$ 0	$ 0	$ 2,734,397	$ 2,734,397
Interest rate swap	$ 0	$ (7,744)	$ 0	$ (7,744)
Liabilities under charitable gift annuities	$ 0	$ (463,063)	$ 0	$ (463,063)
Liabilities under charitable remainder trusts	$ 0	$ (220,622)	$ 0	$ (220,622)

[(a)]In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Consolidated Statements of Financial Position.

There were no transfers among Level 1, Level 2, or Level 3 assets during the year ended June 30, 2018. When transfers occur, they are recognized at the end of the reporting period.

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. The Foundation's Board of Directors assesses and approves these policies and procedures. At least annually, management: (1) determines if the current valuation techniques used in fair value measurements are still appropriate, and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

The following is a reconciliation of the beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the year ended June 30, 2018.

	2018
Balance, beginning of year	$ 2,648,102
Balance, beginning of year Distributions from Level 3	
Revaluation of split interest agreements	86,295
Balance, end of year	$ 2,734,397

Revaluation of split interest agreements applicable to instruments valued using significant unobservable inputs (Level 3) shown on the previous page are included in the change in net assets for 2018 in the Consolidated Statements of Activities.

Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

The following table represents the Foundation's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and ranges of values for those unobservable inputs.

	Significant Unobservable Inputs at June 30, 2018			
	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values
Beneficial interests in charitable remainder trusts	$ 2,734,397	Discounted Cash Flows	Payout Rate Discount Rate	5-7% 5.1-9.1%

The following table summarizes the Foundation's alternative investments at June 30, 2018:

	Alternative Investments at June 30, 2018			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently available)	Redemption Notice Period
Private Equity Funds:				
FEG Private Investors	$ 2,442,310	$ 154,500	Ineligible	N/A
FEG Private Investors II	2,351,275	795,000	Ineligible	N/A
FEG Private Investors III	808,627	1,656,000	Ineligible	N/A
Northgate Private Equity Partners I	67,686	48,000	Ineligible	N/A
Northgate Private Equity Partners II	128,627	50,000	Ineligible	N/A
Siguler Guff Distressed Opportunities III	273,305	45,000	Ineligible	N/A
Total Private Equity Funds	6,071,830	2,748,500		
Hedge Funds:				
Fidelity Real Estate High Income Fund	1,387,961			
Harvest MLP	3,395,808		Daily	5 days
Lighthouse Diversified Fund	10,264,277		Monthly	30 days
UNC Investment Fund, LLC	11,766,820		Quarterly	90 days
Total Hedge Funds	26,814,866		Monthly	30 days
Total Alternative Investments	$ 32,886,696	$ 2,748,500		

The Foundation invests in alternative investment vehicles as a hedge against broader market risks by further diversifying the portfolio holdings. Investments in both private equity and hedge funds are in the fund-of-funds category. The private equity investments include funds whose focus is on buyouts and distressed debt purchases. The hedge fund investments pursue a variety of strategies, including real estate, equity, and other hedging strategies.

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

As of June 30, 2018, the Foundation has entered into an agreement to participate in an additional private equity fund, FEG Private Investors IV. As of June 30, 2018 no investment has been made, but the Foundation has committed to fund $3,500,000. The fund is structured similar to the other FEG Private Investors funds and will be ineligible for redemption.

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which provides a distribution of 4% of its fiscal year end endowment fund's twelve month weighted average balance prior to the addition of the current year investment return. To the extent that the total return for the current year exceeds the payout and a 1.25% administrative fee, the excess is added to accumulated earnings unless donor restrictions require that it be 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, endowment net position of $18,766,770 were available to be spent, all of which was restricted to specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,176,972	$ 750,000	$ 2,426,972
Student Sponsors	179,333		179,333
Patients	61,978,796	19,738,230	42,240,566
Accounts	991,765	30,840	960,925
Intergovernmental	3,501,961		3,501,961
Grant Sponsors	3,968,772		3,968,772
Investment Earnings	3		3
Interest on Loans	689,296		689,296
Federal Interest Subsidy on Debt	100,087		100,087
Other	905,082	78,965	826,117
Total Current Receivables	$ 75,492,067	$ 20,598,035	$ 54,894,032
Noncurrent Receivables:			
Patients	$ 2,392,167	$ 0	$ 2,392,167
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 2,447,893	$ 581,049	$ 1,866,844
Institutional Student Loan Programs	500		500
Total Notes Receivable - Current	$ 2,448,393	$ 581,049	$ 1,867,344
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 10,700,998	$ 1,175,549	$ 9,525,449

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	$ 50,108,791	$ 1,851,550	$ 0	$ 51,960,341
Construction in Progress	78,711,105	91,302,814	24,931,309	145,082,610
Computer Software in Development	550,994		550,994	
Total Capital Assets, Nondepreciable	129,370,890	93,154,364	25,482,303	197,042,951
Capital Assets, Depreciable:				
Buildings	1,016,484,581	24,293,247	322,711	1,040,455,117
Machinery and Equipment	149,893,188	15,643,797	4,357,788	161,179,197
General Infrastructure	103,927,142	1,408,930		105,336,072
Computer Software	14,080,010	641,994	627,333	14,094,671
Total Capital Assets, Depreciable	1,284,384,921	41,987,968	5,307,832	1,321,065,057
Less Accumulated Depreciation/Amortization for:				
Buildings	250,763,461	16,806,784	177,194	267,393,051
Machinery and Equipment	78,166,059	10,760,794	3,343,079	85,583,774
General Infrastructure	28,436,197	2,924,898		31,361,095
Computer Software	7,678,477	734,624	539,040	7,874,061
Total Accumulated Depreciation/Amortization	365,044,194	31,227,100	4,059,313	392,211,981
Total Capital Assets, Depreciable, Net	919,340,727	10,760,868	1,248,519	928,853,076
Capital Assets, Net	$ 1,048,711,617	$ 103,915,232	$ 26,730,822	$ 1,125,896,027

During the year ended June 30, 2018, the University incurred $13,265,597 in interest costs related to the acquisition and construction of capital assets. Of this total, $9,734,960 was charged in interest expense, and $3,530,637 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (agreement) dated September 1, 2014. The value of the energy savings improvements assets associated with the agreement is $3,869,042 and is subject to security provisions in the agreement to ensure timely debt service payments. Additional information regarding the UNC System Energy Savings Installment Financing Agreement – Note Payable can be found in Note 8.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

		Amount
Current Accounts Payable and Accrued Liabilities		
Accounts Payable	$	5,545,585
Accounts Payable - Capital Assets		10,501,083
Accrued Payroll		17,206,113
Contract Retainage		4,453,371
Other		167,181
Total Current Accounts Payable and Accrued Liabilities	$	37,873,333
Noncurrent Accounts Payable and Accrued Liabilities		
Contract Retainage	$	872,863

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	$ 339,295,000	$ 101,440,000	$ 32,355,000	$ 408,380,000	$ 16,810,000
Plus: Unamortized Premium	19,515,608	3,474,183	1,623,944	21,365,847	
Less: Unamortized Discount	(2,498,112)	(1,163,457)	(152,084)	(3,509,485)	
Total Revenue Bonds Payable, Net	356,312,496	103,750,726	33,826,860	426,236,362	16,810,000
Notes Payable	8,878,525		2,269,353	6,609,172	2,344,835
Capital Leases Payable	1,805,768	392,911	247,762	1,950,917	279,863
Total Long-Term Debt	366,996,789	104,143,637	36,343,975	434,796,451	19,434,698
Other Long-Term Liabilities					
Compensated Absences	22,636,058	18,427,859	15,647,528	25,416,389	3,949,821
Net Pension Liability	122,700,291		13,024,893	109,675,398	
Net Other Postemployment Benefits Liability	1,137,035,289		389,847,215	747,188,074	
Total Other Long-Term Liabilities	1,282,371,638	18,427,859	418,519,636	882,279,861	3,949,821
Total Long-Term Liabilities, Net	$ 1,649,368,427	$ 122,571,496	$ 454,863,611	$ 1,317,076,312	$ 23,384,519

Additional information regarding capital lease obligations is included in Note 9.
Additional information regarding the net pension liability is included in Note 13.
Additional information regarding the net other postemployment benefit 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
General Revenue Bonds						
Tyler Dorm Project (BAB)	2010B	4.331-5.825*	10/01/2030	$ 10,045,000	$ 1,920,000	$ 8,125,000
Wright Place Renovations (BAB)	2010B	4.331-4.581*	10/01/2020	1,990,000	1,090,000	900,000
Olumpic Sports Facility (BAB)	2010B	4.331-5.875*	10/01/2035	15,935,000	2,130,000	13,805,000
Refunding of 2003A West End Dining Project	2012	2.984	10/12/2017	4,650,000	4,650,000	
Refunding of 2004C College Hill Dormitory Construction	2012	2.984	10/12/2017	5,770,000	5,770,000	
Refunding of 2004C College Hill Dormitory Construction	2013A	2.5-4.0	10/01/2033	10,905,000		10,905,000
Gateway East and West Housing Project	2014A	3.0-5.0	10/01/2043	53,685,000	1,965,000	51,720,000
West Facility Student Center	2015A	3.0-5.0	10/01/2044	29,955,000	1,120,000	28,835,000
Refunding of 2009A Bonds Dining Project Croatan	2015A	3.0-5.0	10/01/2029	5,164,922	126,886	5,038,036
Refunding of 2009A Bonds Scott Residence Hall	2015A	3.0-5.0	10/01/2034	24,248,294	616,584	23,631,710
Refunding of 2009A Softball Field Project	2015A	3.0-5.0	10/01/2034	3,946,784	101,530	3,845,254
Refunding of 2006A Bonds College Hill Dormitory	2015A	3.0-5.0	10/01/2033	2,930,000	160,000	2,770,000
Refunding of 2006A Ref Bonds 2001A Bonds (Jones and Galley)	2015B	3.0	10/01/2021	4,895,657	1,070,657	3,825,000
Refunding of 2006A Ref Bonds 1999Bonds (Student Health)	2015B	3.0	10/01/2018	524,343	269,343	255,000
East Union Project	2016A	2.0-5.0	10/01/2045	102,730,000	800,000	101,930,000
Housing Projects (White, Clement, & Greene)	2016A	2.0-5.0	10/01/2045	37,190,000	695,000	36,495,000
East Union Project	2016B	1.3	10/01/2018	3,510,000	1,865,000	1,645,000
Refunding of 2010A Pool East End Zone Project	2017A	2.19	10/01/2029	12,490,000		12,490,000
Refunding of Gen Rev Ref 2012-2003 WE Dining	2017B	1.99	10/01/2023	3,330,217		3,330,217
Refunding of Gen Rev Ref 2012-2004C Coll Hill	2017B	1.99	10/01/2026	4,814,783		4,814,783
Dowdy Ficklen Stadium Renovation	2018A	2.25-5.0	10/01/2047	51,685,000		51,685,000
Greene Residence Hall	2018A	2.25-5.0	10/01/2047	24,110,000		24,110,000
Dowdy Ficklen Stadium Renovation	2018B	2.0-3.0	10/01/2019	5,010,000		5,010,000
Total General Revenue Bonds				419,515,000	24,350,000	395,165,000
The University of North Carolina System Pool Revenue Bonds						
Dining Project Croatan	2009A	4.25-5.0	10/01/2019	8,050,000	7,320,000	730,000
Scott Residence Hall	2009A	4.25-5.0	10/01/2019	29,360,000	27,475,000	1,885,000
Softball Field Project	2009A	4.25-5.0	10/01/2019	4,885,000	4,580,000	305,000
Refunding of 1998 Housing and Dining Bonds	2009A	4.25	10/01/2018	2,820,000	2,445,000	375,000
East End Zone Project	2010A	4.0	04/01/2020	17,400,000	15,870,000	1,530,000
Refunding of 2004C College Hill Dormitory Construction	2010A	4.0-5.0	10/01/2021	4,370,000	760,000	3,610,000
Refunding of 2001C Student Fee Revenue Refunding Bonds	2011A	5.0	05/01/2019	7,125,000	6,135,000	990,000
Refunding of 2003A West End Dining Project	2011A	4.0-5.0	05/01/2021	5,215,000	2,425,000	2,790,000
Refunding of 2004C College Hill Dormitory Construction	2011A	4.0	05/01/2023	2,545,000	1,545,000	1,000,000
Total The University of North Carolina System Pool Revenue Bonds				81,770,000	68,555,000	13,215,000
Total Revenue Bonds Payable (principal only)				$ 501,285,000	$ 92,905,000	408,380,000
Plus: Unamortized Premium						21,365,847
Less: Unamortized Discount						(3,509,485)
Total Revenue Bonds Payable, Net						$ 426,236,362

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

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

	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2019	$ 16,810,000	$ 15,475,512	$ 2,344,836	$ 111,624
2020	14,555,000	15,043,059	1,647,399	65,979
2021	14,270,000	14,407,721	919,598	41,910
2022	14,650,000	13,747,748	956,719	24,716
2023	14,225,000	13,177,447	740,620	6,832
2024-2028	73,665,000	56,479,893		
2029-2033	77,510,000	40,679,640		
2034-2038	67,085,000	27,359,144		
2039-2043	68,740,000	15,484,178		
2044-2048	46,870,000	3,206,200		
Total Requirements	$ 408,380,000	$ 215,060,542	$ 6,609,172	$ 251,061

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

On October 12, 2017, the University issued $8,145,000 in a General Revenue Refunding Bond, Series 2017B with an average interest rate of 1.99%. The bond was issued for a current refunding of $8,055,000 of the outstanding General Revenue Refunding Bond, Series 2012 with an average interest rate of 2.984%. The refunding was undertaken to reduce total debt service payments by $529,096 over the next ten years and resulted in an economic gain of $409,173.

On October 12, 2017, the University issued $12,490,000 in a General Revenue Refunding Bond, Series 2017A with an average interest rate of 2.19%. The bond was issued to advance refund $11,620,000 of outstanding UNC System Pool Revenue Bonds, Series 2010A with an average interest rate of 4.373%. The net proceeds of the refunding bond along with $15,871 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 $1,090,492 over the next 13 years and resulted in an economic gain of $959,139. At June 30, 2018, the outstanding balance was $11,620,000 for the defeased UNC System Pool Revenue Bonds, Series 2010A.

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2018, the outstanding balance of prior year defeased bonds was $30,505,000.

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
Auxiliary Gym	US Bank NA	1.98%	11/1/19	$ 13,251,670	$ 10,991,484	$ 2,260,186
Energy Savings	Banc of America	1.84%	2/14/23	4,797,969	1,401,434	3,396,535
Energy Savings	Banc of America	1.84%	2/14/23	1,345,439	392,988	952,451
Total Notes Payable				$ 19,395,078	$ 12,785,906	$ 6,609,172

NOTE 9 - LEASE OBLIGATIONS

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

Fiscal Year	Amount
2019	$ 373,961
2020	391,047
2021	346,142
2022	331,173
2023	284,769
2024-2027	626,680
Total Minimum Lease Payments	2,353,772
Amount Representing Interest (0-6.510% Rate of Interest)	402,855
Present Value of Future Lease Payments	$ 1,950,917

Machinery and equipment acquired under capital lease amounted to $2,802,821 at June 30, 2018.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $763,687 at June 30, 2018.

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

Fiscal Year	Amount
2019	$ 5,286,818
2020	4,526,292
2021	4,198,923
2022	3,236,542
2023	2,537,371
2024-2027	946,086
Total Minimum Lease Payments	$ 20,732,032

Rental expense for all operating leases during the year was $6,010,259.

NOTE 10 - NET POSITION

The deficit in unrestricted net position of $890,248,645 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	$ 59,379,296	$ 0	$ 59,379,296
Deferred Outflows Related to OPEB		25,114,158	25,114,158
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	109,675,398		109,675,398
Net OPEB Liability		747,188,074	747,188,074
Deferred Inflows Related to Pensions	3,947,392		3,947,392
Deferred Inflows Related to OPEB		379,677,950	379,677,950
Net Effect on Unrestricted Net Position	$ (54,243,494)	$ (1,101,751,866)	$ (1,155,995,360)

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	Less Indigent Care and Contractual Adjustments	Net Revenues
Operating Revenues:						
Student Tuition and Fees, Net	$ 251,314,816	$ 0	$ 47,528,519	$ 585,022	$ 0	$ 203,201,275
Patient Services, Net	$ 451,295,763	$ 0	$ 0	$ 20,823,437	$ 208,120,423	$ 222,351,903
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	$ 32,801,830	$ 1,565,094	$ 5,857,766	$ 0	$ 0	$ 25,378,970
Dining	30,152,061	1,411,145	3,656,429			25,084,487
Student Union Services	89,510	10,901				78,609
Health, Physical Education, and Recreation Services	1,992,580	656,104				1,336,476
Bookstore	12,314,710	514,048	1,162,938			10,637,724
Parking	3,516,626	137,746		4,177		3,374,703
Athletic	17,445,161	72,949				17,372,212
Other	2,119,683	593,104				1,526,579
Sales and Services of Education and Related Activities	13,020,480	1,924,566				11,095,914
Total Sales and Services, Net	$ 113,452,641	$ 6,885,657	$ 10,677,133	$ 4,177	$ 0	$ 95,885,674

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 / Amortization	Total
Instruction	$ 256,887,086	$ 10,587,825	$ 20,363,624	$ 0	$ 93,170	$ 0	$ 287,931,705
Research	14,431,197	4,093,972	3,505,950		4,000		22,035,119
Public Service	18,324,484	404,163	2,859,848		30,107		21,618,602
Academic Support	23,397,514	10,163,015	4,812,233		14,309		38,387,071
Student Services	10,909,458	435,102	1,430,526				12,775,086
Institutional Support	46,517,828	6,010,637	13,120,598		66,059		65,715,122
Operations and Maintenance of Plant	27,065,425	19,320,370	6,091,045		16,375,607		68,852,447
Student Financial Aid				41,174,709			41,174,709
Auxiliary Enterprises	204,856,002	43,606,496	68,368,184		2,095,386		318,926,068
Depreciation / Amortization						31,227,100	31,227,100
Total Operating Expenses	$ 602,388,994	$ 94,621,580	$ 120,552,008	$ 41,174,709	$ 18,678,638	$ 31,227,100	$ 908,643,029

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 $12,441,160, and the University's contributions were $22,352,617 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 $109,675,398 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 1.38227%, which was an increase of .04727 from its proportion measured as of June 30, 2016, which was 1.335%.

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

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

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

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

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

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

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

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

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

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

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

Net Pension Liability		
1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
$ 225,757,368	$ 109,675,398	$ 12,413,503

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 $30,705,032. 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	$ 2,377,560	$ 3,588,055
Changes of Assumptions	17,327,059	
Net Difference Between Projected and Actual Earnings on Plan Investments	14,842,801	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,479,259	359,337
Contributions Subsequent to the Measurement Date	22,352,617	
Total	$ 59,379,296	$ 3,947,392

The amount of $22,352,617 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	$ 7,033,223
2020	21,343,803
2021	10,642,510
2022	(5,940,249)
Total	$ 33,079,287

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 $415,110,052, of which $207,757,390 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $12,465,443 and $14,210,605, respectively. The amount of expense recognized in the current year related to ORP was $13,405,089 which equals the employer contributions minus the ORP forfeitures of $805,516.

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 benefits 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 19. 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 $25,114,158 for the year ended June 30, 2018.

2. Disability Income

Plan Administration: As discussed in Note 19, 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 $581,154 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 $747,188,074 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 2.27894%, which was a decrease of .33473 from its proportion measured as of June 30, 2016, which was 2.61367%.

Net OPEB Asset: At June 30, 2018, the University reported an asset of $1,503,026 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 2.45914%, which was an increase of .03544 from its proportion measured as of June 30, 2016, which was 2.42370%.

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 (the valuation date) was 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	$ 891,351,775	$ 747,188,074	$ 632,844,774
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (1,277,794)	$ (1,503,026)	$ (1,728,775)

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	$ 610,383,382	$ 747,188,074	$ 829,017,662
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 $13,033,721 for RHB and $792,955 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	$ 412,103	$ 412,103
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		329,451	329,451
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions			
Contributions Subsequent to the Measurement Date	25,114,158	581,154	25,695,312
Total	$ 25,114,158	$ 1,322,708	$ 26,436,866

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 53,574,759	$ 0	$ 53,574,759
Changes of Assumptions	205,772,184		205,772,184
Net Difference Between Projected and Actual Earnings on Plan Investments	277,687		277,687
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	120,053,320	16,806	120,070,126
Total	$ 379,677,950	$ 16,806	$ 379,694,756

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	$ (75,949,475)	$ 214,171
2020	(75,949,475)	214,171
2021	(75,949,475)	214,097
2022	(75,949,475)	82,309
2023	(75,880,050)	
Total	$ (379,677,950)	$ 724,748

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 .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. University departments, as an individual business decision, may also purchase through the Fund for primary extended coverage for buildings and contents. Coverage may be purchased through the Fund for sprinkler leakage, theft, vandalism, or all-risk perils. Flood insurance may be purchased for qualifying assets. University departments also have the option to purchase all-risk coverage for computers and miscellaneous equipment on a scheduled basis.

The University has the option to purchase through the Fund different levels of coverage for the University's buildings and contents. The optional levels of coverage are decided upon and paid for by the departments occupying the University's buildings.

The types of optional coverage are: Sprinkler Leakage Coverage for buildings with fire sprinklers; Flood Coverage for buildings prone to flood; Extended Coverage for windstorm, hail, explosion, aircraft or vehicles, riot or civil commotion and smoke; Broad Form Coverage for windstorm, hail explosion, aircraft or vehicles, riot or civil commotion, smoke, vandalism, sprinkler leakage, sinkhole collapse, volcanic action, falling objects, weight of snow, ice or sleet, and water damage; All Risk Special Form Coverage for windstorm, hail, explosion, aircraft or vehicles, riot or civil commotion, smoke, vandalism, sprinkler leakage, sinkhole collapse, volcanic action, falling objects, weight of snow, ice or sleet, water damage, theft, any other loss not specifically excluded. The coverage rates are determined by the Department of Insurance State Property Fire Insurance Fund.

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. University departments, as an individual business decision may also purchase physical damage coverage for state-owned vehicles.

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 and the State's Agent of Record. The types of insurance policies purchased include: professional liability, medical malpractice, accident health, athletic accident, postal contract bond, surety bond, student internship liability, oceanographic equipment, leased equipment, boiler and machinery, inland marine property, drones, cyber insurance, watercraft, fine arts, musical instruments, modular units, international students, study abroad students, business travel and policies as the need for additional coverage arises.

The University provides medical malpractice insurance for Brody School of Medicine faculty physicians and employed independently licensed allied health providers (Nurse Practitioners, Certified Registered Nurse Anesthetists, Certified Nurse Midwives, and Physician Assistants). Each faculty physician and allied health provider has coverage of $3,000,000 per occurrence with $5,000,000 annual aggregate. There is a shared blanket policy for all other employees of the ECU Physicians with coverage of $3,000,000 per occurrence and $5,000,000 annual aggregate. The primary layer of medical malpractice insurance is provided by a private professional liability insurance company. There is also a shared, excess policy in the amount of $10,000,000 per occurrence and in aggregate.

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 $93,694,316 and on other purchases were $15,081,884 at June 30, 2018.

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

NOTE 17 - JOINT VENTURES

A. **Carolina Behavioral Health Alliance, LLC –** The University participates in a joint venture with The University of North Carolina at Chapel Hill and Wake Forest University to operate Carolina Behavioral Health Alliance, LLC. The University has an equity interest of $260,802 which has been reflected in the financial statements. The University has an ongoing financial responsibility for the joint venture because of its 33.33% ownership stake in the company. Complete financial statements for Carolina Behavioral Health Alliance, LLC can be obtained from 3800 East Tenth Street, Second Floor, Greenville, NC 27858.

B. **Medical Arts Center of Greenville Property Owners Association** – The University participates in a joint venture with Vidant Medical Center and Cambridge Highway, USA, LLC to operate the Medical Arts Center of Greenville Property Owners Association (MACOG). The University has an equity interest of $30,114 which has been reflected in the financial statements. The University has an ongoing financial responsibility for the joint venture because of its 20.64% ownership stake in the company. Complete financial statement for the Medical Arts Center of Greenville Property Owners Association can be obtained from 3800 East Tenth Street, Second Floor, Greenville, NC 27858.

NOTE 18 - RELATED PARTIES

Foundations - There are three separately incorporated nonprofit foundations associated with the University. These foundations are the East Carolina University Educational Foundation, Inc., the East Carolina University Medical and Health Sciences Foundation, Inc., and the East Carolina University Alumni Association, Inc.

These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the foundations, except for support from each organization to the University. This support approximated $10,998,362 for the year ended June 30, 2018. Indirect support from the foundations that was not included in the University's financial statements was $1,111,990. The University had receivables from the related parties of $136,700, $37,255 and $0, respectively, as of June 30, 2018.

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. 85, *Omnibus 2017*

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

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

NOTE 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	$ 1,067,383,667
Restatement:	
Record the University's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	(1,110,811,574)
July 1, 2017 Net Position as Restated	$ (43,427,907)

REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	1.38227%	1.33500%	1.34568%	1.37251%	1.32460%
Proportionate Share of TSERS Collective Net Pension Liability	$ 109,675,398	$ 122,700,291	$ 49,590,972	$ 16,091,595	$ 80,416,718
Covered Payroll	$ 199,309,636	$ 193,108,255	$ 190,483,460	$ 191,033,860	$ 186,582,942
Net Pension Liability as a Percentage of Covered Payroll	55.03%	63.54%	26.03%	8.42%	43.10%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	94.64%	98.24%	90.60%

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

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

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 22,352,617	$ 19,891,102	$ 17,669,405	$ 17,429,237	$ 16,600,842
Contributions in Relation to the Contractually Determined Contribution	22,352,617	19,891,102	17,669,405	17,429,237	16,600,842
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 207,352,661	$ 199,309,636	$ 193,108,255	$ 190,483,460	$ 191,033,860
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 15,542,359	$ 13,443,661	$ 8,949,291	$ 6,302,924	$ 6,011,035
Contributions in Relation to the Contractually Determined Contribution	15,542,359	13,443,661	8,949,291	6,302,924	6,011,035
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 186,582,942	$ 180,694,365	$ 181,527,201	$ 176,549,683	$ 178,899,854
Contributions as a Percentage of Covered Payroll	8.33%	7.44%	4.93%	3.57%	3.36%

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

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

Changes of Benefit Terms:

Cost of Living Increase

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

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

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

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

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

	2017	2016
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	2.27894%	2.61367%
Proportionate Share of Collective Net OPEB Liability (Asset)	$ 747,188,074	$ 1,137,035,289
Covered Payroll	$ 398,444,199	$ 384,271,288
Net OPEB Liability as a Percentage of Covered Payroll	187.53%	295.89%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	3.52%	2.41%
Disability Income Plan of North Carolina		
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	2.45914%	2.42370%
Proportionate Share of Collective Net OPEB Liability (Asset)	$ 1,503,026	$ 1,505,118
Covered Payroll	$ 398,444,199	$ 384,271,288
Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.38%	0.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	116.23%	116.06%

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

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

Retiree Health Benefit Fund	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 25,114,158	$ 23,149,608	$ 21,519,192	$ 20,768,826	$ 20,270,787
Contributions in Relation to the Contractually Determined Contribution	25,114,158	23,149,608	21,519,192	20,768,826	20,270,787
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 415,110,052	$ 398,444,199	$ 384,271,288	$ 378,302,835	$ 375,384,941
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%

	2013	**2012**	**2011**	**2010**	**2009**
Contractually Required Contribution	$ 19,231,505	$ 17,661,628	$ 17,220,963	$ 15,418,663	$ 13,999,202
Contributions in Relation to the Contractually Determined Contribution	19,231,505	17,661,628	17,220,963	15,418,663	13,999,202
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 362,858,587	$ 353,232,567	$ 351,448,225	$ 342,636,958	$ 341,443,955
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%

Disability Income Plan of North Carolina	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 581,154	$ 1,514,088	$ 1,575,512	$ 1,551,042	$ 1,651,694
Contributions in Relation to the Contractually Determined Contribution	581,154	1,514,088	1,575,512	1,551,042	1,651,694
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 415,110,052	$ 398,444,199	$ 384,271,288	$ 378,302,835	$ 375,384,941
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%

	2013	**2012**	**2011**	**2010**	**2009**
Contractually Required Contribution	$ 1,596,578	$ 1,836,809	$ 1,827,531	$ 1,781,712	$ 1,775,509
Contributions in Relation to the Contractually Determined Contribution	1,596,578	1,836,809	1,827,531	1,781,712	1,775,509
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 362,858,587	$ 353,232,567	$ 351,448,225	$ 342,636,958	$ 341,443,955
Contributions as a Percentage of Covered Payroll	0.44%	0.52%	0.52%	0.52%	0.52%

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

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

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

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

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

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

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

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

Independent Auditor's Report

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

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

Board of Trustees
East Carolina University
Greenville, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Carolina University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 7, 2018. Our report includes a reference to other auditors who audited the financial statements of East Carolina University Foundation, Inc. and Consolidated Affiliates, as described in our report on the University's financial statements. The financial statements of East Carolina University Foundation, Inc. and Consolidated Affiliates were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with East Carolina University Foundation, Inc. and Consolidated Affiliates.

<u>Internal Control Over Financial Reporting</u>

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

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

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

<u>Compliance and Other Matters</u>

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

<u>Purpose of this Report</u>

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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 7, 2018

Ordering Information

Copies of this report may be obtained by contacting:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: http://www.ncauditor.net

To report alleged incidents of fraud, waste or abuse in state government contact the Office of the State Auditor Fraud Hotline: **1-800-730-8477** or download our free app.

https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor

https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745

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

NCOSA The Taxpayers' Watchdog

This audit required 910 hours at an approximate cost of $93,730.