

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

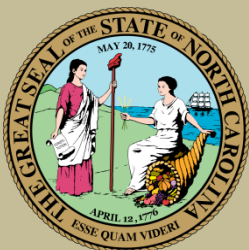
BETH A. WOOD, CPA



## ELIZABETH CITY STATE UNIVERSITY

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

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



**NCOSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Elizabeth City State 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.

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Beth A. Wood, CPA  
State Auditor

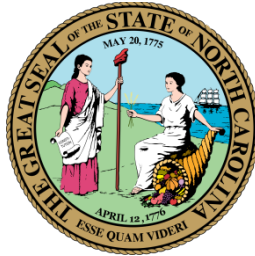


Beth A. Wood, CPA  
State Auditor

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



# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## **INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Elizabeth City State University  
Elizabeth City, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of Elizabeth City State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of The Elizabeth City State University Foundation, which represent 6.9 percent and 2.0 percent, respectively, of the assets and revenues of the University. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Elizabeth City State University Foundation, is 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.

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 opinion.

### Opinion

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 financial position of Elizabeth City State University, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 18 to the financial statements, during the year ended June 30, 2018, Elizabeth City State 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 December 17, 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

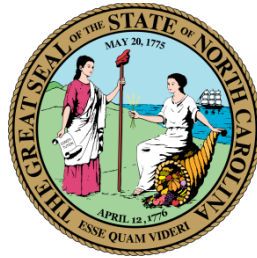
*Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

December 17, 2018



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



This section of the Elizabeth City State University (University) annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2018. This discussion has been prepared by University management along with the financial statements and notes to the financial statements and should be read in conjunction with, and is qualified in its entirety by, the financial statements and notes. The Management's Discussion and Analysis has comparative data for the applicable years (past and current) with emphasis on the current year. The financial statements, notes, and this discussion are the responsibility of University management.

### **Using the Annual Report**

This annual report consists of a series of financial statements, prepared in accordance with the standards of the Governmental Accounting Standards Board (GASB). GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis for the University as a whole, with resources classified for accounting and reporting purposes into four net position categories. One of the most important questions asked is whether the University, as a whole, is better or worse off because of the year's activities. The key to understanding this question is the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources. The University's net position (the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources) is an indicator of the University's financial health. Over time, increases or decreases in net position is one indicator of the improvement or erosion of the University's financial health when considered with nonfinancial facts such as enrollment levels and the condition of the facilities.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public University's dependency on state appropriations and gifts will result in operating deficits, because GASB Statement No. 35 classifies state appropriations and gifts as nonoperating revenues.

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

### **Reporting Entity**

The financial statements report information about the University as a whole using accounting methods similar to those used by private-sector companies. The University's supporting organization, The Elizabeth City State University Foundation, (Foundation), is an independent

nonprofit corporation formed for the exclusive benefit of the University. In accordance with accounting principles prescribed by the Governmental Accounting Standards Board, the Foundation meets the requirements to be blended in these financial statements.

### Financial Highlights

During fiscal year 2017-2018, the University had a 1% decrease in state appropriations as shown in the Comparative Condensed Statement of Revenues, Expenses and Changes in Net Position below. The decrease is attributable to a reduction in budget stabilization funds from the legislature. S.L. 2015-241 provided \$6 million for the fiscal year 2016 and 2017. In 2017, \$3.7 million was available and spent. Comparatively, S.L. 2017-57 made only \$2.8 million available in stabilization funds. The \$0.9 million decrease in stabilization funding was offset by an increase in appropriations related to employee salaries and benefits and enrollment growth.

State appropriations accounts for the majority of the University's operating budget and is critical revenue that supports instruction and key academic operations. Enrollment numbers showed a modest increase during the fiscal year, however, the University continues to experience auxiliary revenue shortfalls and budget challenges. Management has shown the ability to manage through those challenges with minimal impact on personnel. The University continues to exercise strong budget discipline providing for balanced operations despite years of acute revenue declines.

The University's financial position at June 30, 2018, remained strong with total current assets of \$10.9 million which is sufficient to cover current liabilities of \$5.1 million by 2.14 times. This scenario demonstrates the University's ability to pay current liabilities as they become due.

Net position, which was \$79.3 million at June 30, 2018, represents the residual interest in the University's assets and deferred outflows after deducting liabilities and deferred inflows. During the year, the University's net position decreased by \$1.5 million which resulted from total revenues (operating and nonoperating) of \$58.4 million and other revenues of \$2.3 million being slightly less than total expenditures (operating and nonoperating) of \$62.2 million for the year.

Significant for this year was the University's implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. As discussed in more detail in the section on the Statement of Net Position, this implementation caused the University to restate its net position balance for June 30, 2017 by \$54 million, record new noncurrent net OPEB assets and liabilities of \$55.3 million and associated deferred outflows of resources of \$1.3 million.

### Condensed Financial Information

#### Statement of Net Position

The Statement of Net Position presents the assets (current and noncurrent), liabilities (current and noncurrent), deferred resources (outflows and inflows), and the net position (total assets, plus deferred outflows, less total liabilities and deferred inflows) of the University. This financial statement provides a comparative University fiscal snapshot as of June 30, 2018 and June 30, 2017. This provides the readers of this statement with information on assets available to continue operations.

Comparative Condensed Statements of Net Position  
June 30, 2018 and June 30, 2017

	2018	2017 Restated	\$ Change	% Chg
<b>Assets</b>				
Current Assets	\$ 10,898,766.27	\$ 14,428,219.06	\$ (3,529,452.79)	-24%
Noncurrent Assets				
Capital	141,778,914.56	143,938,528.87	(2,159,614.31)	-2%
Other	19,927,270.44	18,418,004.24	1,509,266.20	8%
<b>Total Assets</b>	<u>172,604,951.27</u>	<u>176,784,752.17</u>	<u>(4,179,800.90)</u>	-2%
<b>Deferred Outflows of Resources</b>	<u>5,760,683.13</u>	<u>8,081,004.81</u>	<u>(2,320,321.68)</u>	-29%
<b>Liabilities</b>				
Current Liabilities	5,137,431.14	4,734,129.94	403,301.20	9%
Long-term Liabilities, Net	73,816,056.37	96,529,360.59	(22,713,304.22)	-24%
Other Noncurrent Liabilities	206,275.91	832,011.86	(625,735.95)	-75%
<b>Total Liabilities</b>	<u>79,159,763.42</u>	<u>102,095,502.39</u>	<u>(22,935,738.97)</u>	-22%
<b>Deferred Inflows of Resources</b>	<u>19,872,812.00</u>	<u>1,915,331.00</u>	<u>17,957,481.00</u>	938%
<b>Net Position*</b>				
Net Investment in Capital Assets	112,201,344.04	113,080,078.28	(878,734.24)	-1%
Restricted:				
Nonexpendable	8,108,796.96	8,020,800.76	87,996.20	1%
Expendable	13,433,566.64	12,602,675.13	830,891.51	7%
Unrestricted	(54,410,648.66)	(52,848,630.58)	(1,562,018.08)	3%
<b>Total Net Position</b>	<u>\$ 79,333,058.98</u>	<u>\$ 80,854,923.59</u>	<u>\$ (1,521,864.61)</u>	-2%

\* Net Position categories are defined in Note 1-M of the Notes to the Financial Statements.

During the fiscal year, total university assets decreased by \$4.2 million. Current assets decreased by \$3.5 million, noncurrent assets capital decreased by \$2.2 million and other noncurrent assets increased by \$1.5 million. Other noncurrent assets increased mainly due to market performance from investments in the university and foundation investment accounts. The decrease in current assets was primarily the result of a large grant repayment to the Department of Education and a reduction in auxiliary cash due to current year operations. The \$2.2 million decrease in capital assets is largely attributable to depreciation expense of \$4.2 million which is offset by increases in construction in progress and equipment of \$2.1 million. See the capital assets and debt administration section below for more details.

The University recorded deferred outflows of resources for the University's amortized loss on bond refunding, and the deferred outflows for pensions and OPEB. The majority of the \$2.3 million decrease in total deferred outflows is related to deferred outflows for pensions. For additional information on deferred outflows related to pensions, refer to Note 13 of the Notes to the Financial Statements.

Long-term liabilities (net) decreased by \$22.7 million primarily as a result of the decrease in net OPEB liabilities. For additional information on the reporting of net OPEB liabilities, refer to Note 14 of the Notes to the Financial Statements. Other noncurrent liabilities decreased by \$0.6 million was primarily due to the liquidation of the Perkins loan fund. Overall, total liabilities decreased by \$22.9 million from the prior year.

The University recorded deferred inflows of \$19.9 million, an increase of \$18.0 million from prior year. For more information about the University's deferred inflows related to OPEB, refer to Note 14 of the Notes to the Financial Statements.

The University's net position was \$79.3 million at June 30, 2018, a \$1.5 million decrease from the prior year's restated net position. This change primarily consists of a decrease in net investment in capital assets of \$0.9 million, an increase in restricted expendable net position of \$0.8 million and a decrease in unrestricted net position of \$1.6 million.

As noted in the Financial Highlights Section, the University implemented GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)* during the current year. As a result of this new accounting and reporting change, participants in the State's OPEB plans, including the University, were allocated a proportionate share of the OPEB plan's net OPEB liabilities/assets, deferred outflows of resources, deferred inflows of resources and OPEB benefit expense, specifically for the Disability Income Plan of North Carolina (DIPNC) and the Retiree Health Benefit Fund (RHBF). For the purpose of reporting actuarial determined OPEB benefit liability for Fiscal Year 2018, the Statement of Net Position was restated as of June 30, 2017. The amounts for the restatement as well as the amounts for June 30, 2018 were based on the allocated proportionate shares from the State's Plans as determined by actuarial valuation and the deferred outflows for current contributions as determined by the participating entity.

Significant to this reporting change was that the OPEB restatement for the RHBF resulted in a significant decrease in the University's June 30, 2017 unrestricted net position by \$54.0 million that reduced the University's overall unrestricted net position balance at June 30, 2017 to a negative \$52.8 million. To understand the continuing impact of the GASB 75 change as of June 30, 2018 and the effect of reporting the proportionate share of the RHBF as well as the University's proportionate share of the State's Pension Plan on unrestricted net position, Note 10 "Net Position" has been added to the Notes to the Financial Statements. As reported in Note 10, the total impact from reporting the RHBF as well as the Pension Plan obligations at June 30, 2018 was a negative \$58.3 million. The difference between the net effect amount reported in Note 10 and the unrestricted net position reported on financial statements (a negative \$54.4 million) is a positive \$3.9 million. This positive difference represents unrestricted funds held by the University in its institutional trust, special, debt, and investment funds, as well as any unrestricted funds held by the University's blended component unit, as well as any operating state funds authorized for carryforward. More information regarding the GASB 75 change can be located in Note 14 to the Financial Statements on OPEB.

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

The Statement of Revenues, Expenses, and Changes in Net Position reports the revenues earned and expenses incurred during the fiscal year. A summarized comparison for the two fiscal years is presented below.

**Comparative Condensed Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2018 and June 30, 2017**

	2018	2017*	Change	% Chg
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 4,014,451.57	\$ 4,343,669.61	\$ (329,218.04)	-8%
Grants and Contracts	406,550.36	152,020.20	254,530.16	167%
Sales and Services, Net	3,304,104.36	4,246,544.59	(942,440.23)	-22%
Other	561,423.64	533,651.45	27,772.19	5%
<b>Total Operating Revenues</b>	<u>8,286,529.93</u>	<u>9,275,885.85</u>	<u>(989,355.92)</u>	-11%
<b>Operating Expenses:</b>				
Salaries and Benefits	30,353,040.40	31,641,863.65	(1,288,823.25)	-4%
Supplies and Materials	6,119,249.29	3,333,576.01	2,785,673.28	84%
Services	14,149,251.61	11,407,528.32	2,741,723.29	24%
Scholarships and Fellowships	2,840,851.59	2,903,704.09	(62,852.50)	-2%
Utilities	2,461,535.44	2,384,927.51	76,607.93	3%
Depreciation	4,269,462.32	4,225,302.94	44,159.38	1%
<b>Total Operating Expenses</b>	<u>60,193,390.65</u>	<u>55,896,902.52</u>	<u>4,296,488.13</u>	8%
<b>Operating Loss</b>	(51,906,860.72)	(46,621,016.67)	(5,285,844.05)	11%
<b>Nonoperating Revenues and Expenses:</b>				
State Appropriations	33,007,662.92	33,375,070.00	(367,407.08)	-1%
Noncapital Grants - Student Financial Aid	6,102,240.74	6,040,538.86	61,701.88	1%
Other Noncapital Grants	8,900,877.42	6,888,855.17	2,012,022.25	29%
Noncapital Gifts	798,937.16	631,397.74	167,539.42	27%
Investment Income (Net of Expense)	882,451.16	1,039,512.48	(157,061.32)	-15%
Interest and Fees on Debt	(2,006,533.80)	(2,063,260.81)	56,727.01	-3%
Other Nonoperating Revenues and Expenses	392,222.44	412,407.36	(20,184.92)	-5%
<b>Net Nonoperating Revenues</b>	<u>48,077,858.04</u>	<u>46,324,520.80</u>	<u>1,753,337.24</u>	4%
<b>Loss Before Other Revenues and Expenses</b>	(3,829,002.68)	(296,495.87)	(3,532,506.81)	1191%
Capital Grants	2,150,033.33	714,409.00	1,435,624.33	201%
Additions to Endowment	157,104.74	104,334.25	52,770.49	51%
<b>Total Other Revenues</b>	<u>2,307,138.07</u>	<u>818,743.25</u>	<u>1,488,394.82</u>	182%
<b>Change in Net Position</b>	(1,521,864.61)	522,247.38	(2,044,111.99)	-391%
<b>Net Position at the Beginning of the Year</b>	80,854,923.59	133,950,005.31	(53,095,081.72)	-40%
<b>Restatement</b>		(53,617,329.10)		
<b>Net Position at the End of the Year</b>	<u>\$ 79,333,058.98</u>	<u>\$ 80,854,923.59</u>	<u>\$ (1,521,864.61)</u>	-2%
<b>Total Revenues</b>	\$ 60,678,059.84	\$ 58,482,410.71	\$ 2,195,649.13	4%
<b>Total Expenses</b>	\$ 62,199,924.45	\$ 57,960,163.33	\$ 4,239,761.12	7%

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

The increase or decrease of revenues over expenses directly affects (increases/decreases) the total net position reported on the Statement of Net Position. These transactions are classified as operating or nonoperating. Operating revenues primarily consist of student tuition

and fees reported net of discounts and scholarships allowances, federal grants and contracts, and auxiliary sales and services revenues. Operating expenses primarily consist of salaries, supplies, services, scholarships, utilities and depreciation.

Total operating revenues for the University decreased by \$1.0 million when compared to 2017. Although student headcount increased when compared to 2017, student tuition and fees revenue decreased by \$0.3 million and sales and services decreased by \$0.9 million. This decrease was mostly attributable to higher tuition discounting, meaning the student body qualified for more scholarship support than the previous year's student population. Note 11 illustrates an increase in gross revenue consistent with the increase in student enrollment and provides more detail regarding tuition discounting. The increase in operating grants and contracts revenue as well as other operating revenues are minor and result from an increase in those activities. For additional information on enrollment, see the Comparative Enrollment Data section below.

The University increased total operating expenses for the year by \$4.3 million. This represents a 8% increase from 2017. Salaries and Benefits declined by \$1.3 million due to reductions in staff. Supplies and materials increased \$2.8 million due to an increase in purchases of expendable equipment and expendable supplies. Services increased \$2.7 million due to increased contractual services and in maintenance expenses that included the campus beautification project, software maintenance, and expenditures related to enrollment and grant transactions.

The University also experienced an increase of \$1.8 million in net nonoperating revenues for the year. This increase resulted primarily from an increase in nonoperating grants and contracts of \$2.0 million from an increase of Title III for \$1 million and \$0.4 million to finish the Kahn Planetarium. A reduction in state appropriations of \$0.4 million also contributed to the difference.

Capital grants increased by \$1.4 million as a result of receiving more repair and renovation funds from the State.

The University had a \$2.2 million increase in total revenues in 2018 when compared to total revenues in 2017. The increase is primarily driven by the increases in capital grants and noncapital grants.

### **Capital Asset and Debt Administration**

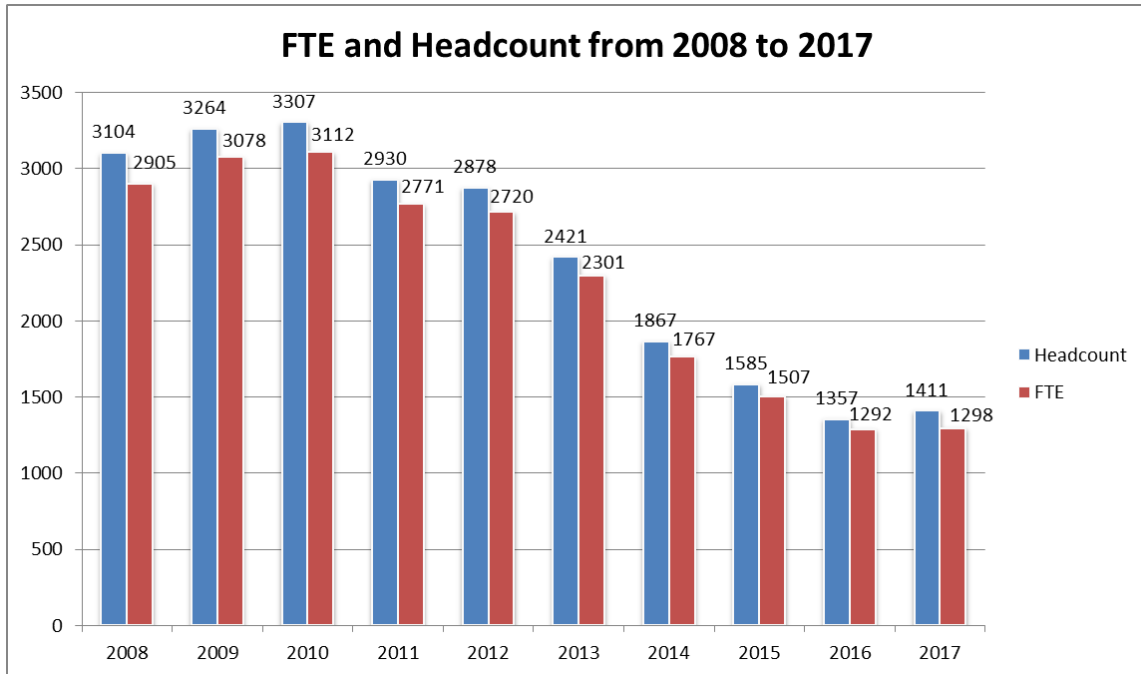
In 2018, ECSU completed IT Infrastructure projects that were in progress during the prior year. This resulted in changes to the general infrastructure of \$6.3 million.

The University's capital assets, net of accumulated depreciation at June 30, 2018, were \$141.8 million. For more information about the University's asset holdings, refer to Note 6 of the Notes to the Financial Statements.

The University had \$75.3 million in total long-term liabilities at June 30, 2018, of which \$29.6 million related to revenue bonds and notes payables. The University continues to make all of its debt payments in a timely manner. Refer to Note 8 of the Notes to the Financial Statements for more detailed information about the University's debt obligations.

**Comparative Enrollment Data**

During the academic year, the University experienced a student increase in total enrollment when comparing fall 2017 with fall 2016. The increase in enrollment is a direct result of management’s focus on stabilizing and growing the University. The University anticipates a significant increase in enrollment in fall 2018 as this year marks the first year of the NC Promise Tuition plan. The University remains focused on its efforts in recruiting talented students and in retaining current students in order to grow the student body.



**Factors Impacting Future Periods**

Several factors impact the outlook for the University, such as student enrollment, support from the State of North Carolina, Connect NC Bonds and the NC Promise Tuition Plan. As a result of improved recruiting processes, the University posted its first enrollment increase in 7 years. The total headcount was 1,411 for fall 2017 and full time equivalents (FTE) were 1,298. The University’s focus will continue in the recruitment and retention areas as it pushes for additional growth.

Support from the State of North Carolina remains solid. After reporting on the successful investments made in House Bill 97, the legislature provided additional stabilization funds to the University as part of Senate Bill 257. A total of \$4.8 million was appropriated for the 2017-2019 biennium. The funds are earmarked to support temporary faculty, aviation science programs, and student success initiatives. The first year of this investment has proven successful as the University has seen rapid growth in its aviation science program and is expecting the largest freshman class in 5 years.

The 2016 Appropriations Act, House Bill 1030, was passed by the General Assembly and signed by Governor McCrory on July 14, 2016. The Bill included the NC Promise Tuition Plan



(NC Promise) in Section 11.4(c). NC Promise will set the tuition rates for the University at \$500 per semester (\$1,000 per year) for resident undergraduate students and \$2,500 per semester (\$5,000 per year) for nonresident undergraduate students. Those rates go into effect in the fall of 2018.

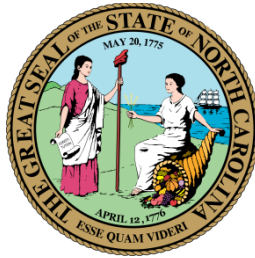
The University was chosen to participate in efforts of providing a geographically diverse opportunity for residents in North Carolina to have an affordable higher education. Participating will make the University more affordable and enrollment increases are anticipated. NC Promise is funding neutral for the University. Any potential loss in funding for the University due to lower tuition will be compensated by state appropriations. To that end, the 2017 Appropriations Act, Senate Bill 744, increased the total funding for NC Promise from \$40 million to \$51 million, based on enrollment estimates from the campuses participating in this program.

During the 2015-2016 North Carolina General Assembly Session, \$2 billion was authorized for a statewide referendum issuance of general obligation bonds, (Connect NC Bond). On June 7, 2016, the Council of State authorized the sale of up to \$200 million in general obligation bonds to provide funds for the Connect NC project. The University will receive \$13 million of the funding and will utilize the funds to renovate Moore Hall and the G. R. Little Library on campus. The projects began during the spring of 2017. As of June 30, 2018, the design phase of both projects were nearly complete.

In May 2017, the University received approval from the UNC Board of Governors to obtain financing through the United States Department of Agriculture's (USDA) Community Facilities loan program. The loan would be used to refinance bonds issued in 2003 by the Elizabeth City State University Housing Foundation LLC, to finance the Viking Village student housing facility and to finance the renovation of Bias and Butler Residence Halls, the demolition of Hugh Cale and Doles Halls and the completion of a campus master plan on behalf of ECSU. House Bill 620, which was ratified in June 2017 approved the construction and financing of these projects from non-appropriated sources. The University received approval of this loan from the USDA in September of 2018.

The University remains dedicated to providing the most powerful academic experience possible and the highest quality of education possible for our students. The University will continue with ongoing efforts of prudent fund allocations, cost containment measures, implementation of efficiencies and continual reassessment of the resources available to meet our core mission and goals.





# FINANCIAL STATEMENTS

**Elizabeth City State University**  
**Statement of Net Position**  
**June 30, 2018**

**Exhibit A-1**  
**Page 1 of 2**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 4,980,799.17
Restricted Cash and Cash Equivalents	3,092,636.72
Receivables, Net (Note 5)	1,988,819.22
Due from State of North Carolina Component Units	290,641.68
Inventories	80,795.37
Notes Receivable (Note 5)	271,173.26
Other Assets	193,900.85
	<hr/>
Total Current Assets	10,898,766.27

Noncurrent Assets:

Restricted Cash and Cash Equivalents	3,405,177.64
Endowment Investments	11,712,530.68
Restricted Investments	4,136,573.91
Other Investments	85,495.09
Notes Receivable (Note 5)	200.00
Prepaid Items	515,966.12
Net Other Postemployment Benefits Asset	71,327.00
Capital Assets - Nondepreciable (Note 6)	2,939,716.23
Capital Assets - Depreciable, Net (Note 6)	138,839,198.33
	<hr/>
Total Noncurrent Assets	161,706,185.00

Total Assets	<hr/> 172,604,951.27
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Loss on Refunding	135,113.54
Deferred Outflows Related to Pensions	4,279,164.59
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	1,346,405.00
	<hr/>
Total Deferred Outflows of Resources	5,760,683.13

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	2,888,162.67
Unearned Revenue	363,105.28
Interest Payable	355,455.99
Long-Term Liabilities - Current Portion (Note 8)	1,530,707.20
	<hr/>
Total Current Liabilities	5,137,431.14

Noncurrent Liabilities:

Funds Held for Others	206,275.91
Long-Term Liabilities, Net (Note 8)	73,816,056.37
	<hr/>
Total Noncurrent Liabilities	74,022,332.28

Total Liabilities	<hr/> 79,159,763.42
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**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	1,239,259.00
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	18,633,553.00
	<hr/>
Total Deferred Inflows of Resources	19,872,812.00

**Elizabeth City State University**  
**Statement of Net Position**  
**June 30, 2018**

**Exhibit A-1**  
**Page 2 of 2**

**NET POSITION**

Net Investment in Capital Assets	112,201,344.04
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,947,296.96
Endowed Professorships	5,010,000.00
Departmental Uses	151,500.00
Expendable:	
Scholarships and Fellowships	4,390,442.63
Endowed Professorships	1,856,000.76
Loans	315,633.10
Capital Projects	2,853,136.61
Debt Service	3,833,595.76
Other	184,757.78
Unrestricted	<u>(54,410,648.66)</u>
Total Net Position	<u><u>\$ 79,333,058.98</u></u>

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

**Elizabeth City State 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)	\$ 4,014,451.57
Federal Grants and Contracts	406,164.93
State and Local Grants and Contracts	385.43
Sales and Services, Net (Note 11)	3,304,104.36
Other Operating Revenues	561,423.64

Total Operating Revenues	8,286,529.93
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	30,353,040.40
Supplies and Materials	6,119,249.29
Services	14,149,251.61
Scholarships and Fellowships	2,840,851.59
Utilities	2,461,535.44
Depreciation	4,269,462.32

Total Operating Expenses	60,193,390.65
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Operating Loss	(51,906,860.72)
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	33,007,662.92
Noncapital Grants - Student Financial Aid	6,102,240.74
Noncapital Grants	8,900,877.42
Noncapital Gifts	798,937.16
Investment Income (Net of Investment Expense of \$44,185.90)	882,451.16
Interest and Fees on Debt	(2,006,533.80)
Federal Interest Subsidy on Debt	390,773.43
Other Nonoperating Revenues	1,449.01

Net Nonoperating Revenues	48,077,858.04
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Loss Before Other Revenues	(3,829,002.68)
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Capital Grants	2,150,033.33
Additions to Endowments	157,104.74

Decrease in Net Position	(1,521,864.61)
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**NET POSITION**

Net Position - July 1, 2017, as Restated (Note 19)	80,854,923.59
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Net Position - June 30, 2018	\$ 79,333,058.98
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The accompanying notes to the financial statements are an integral part of this statement.

**Elizabeth City State University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2018**

**Exhibit A-3**  
**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 8,755,953.60
Payments to Employees and Fringe Benefits	(31,428,623.95)
Payments to Vendors and Suppliers	(21,609,523.55)
Payments for Scholarships and Fellowships	(2,840,851.59)
Loans Issued	(85,022.09)
	<hr/>
Net Cash Used by Operating Activities	(47,208,067.58)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	33,007,662.92
Noncapital Grants - Student Financial Aid	6,092,216.01
Noncapital Grants	8,251,706.15
Noncapital Gifts	798,937.16
Additions to Endowments	157,104.74
William D. Ford Direct Lending Receipts	6,935,440.00
William D. Ford Direct Lending Disbursements	(6,935,440.00)
Related Activity Agency Receipts	23,435.32
Other Receipts	7,139.93
	<hr/>
Net Cash Provided by Noncapital Financing Activities	48,338,202.23

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES**

Capital Grants	2,150,033.33
Proceeds from Sale of Capital Assets	512.40
Acquisition and Construction of Capital Assets	(2,087,306.05)
Principal Paid on Capital Debt	(1,346,485.16)
Interest and Fees Paid on Capital Debt	(2,008,334.05)
Federal Interest Subsidy on Debt Received	390,773.43
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(2,900,806.10)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	3,042,849.21
Investment Income	455,470.57
Purchase of Investments and Related Fees	(3,008,963.99)
	<hr/>
Net Cash Provided by Investing Activities	489,355.79
Net Decrease in Cash and Cash Equivalents	(1,281,315.66)
Cash and Cash Equivalents - July 1, 2017	12,759,929.19
	<hr/>
Cash and Cash Equivalents - June 30, 2018	\$ 11,478,613.53

**Elizabeth City State University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2018**

**Exhibit A-3**  
**Page 2 of 2**

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

Operating Loss	\$ (51,906,860.72)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,269,462.32
Allowances and Write-Offs	119,240.42
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	220,177.89
Due from State of North Carolina Component Units	286,791.15
Inventories	8,359.30
Prepaid Assets	609,265.36
Notes Receivable, Net	(85,022.09)
Net Other Postemployment Benefits Asset	2,293.00
Deferred Outflows Related to Pensions	2,346,464.00
Deferred Outflows Related to Other Postemployment Benefits	(42,356.00)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	400,339.65
Due to Primary Government	(9,080.49)
Unearned Revenue	(37,545.37)
Net Pension Liability	(2,005,891.00)
Net Other Postemployment Benefits Liability	(19,288,263.00)
Compensated Absences	(52,923.00)
Deferred Inflows Related to Pensions	(676,072.00)
Deferred Inflows Related to Other Postemployment Benefits	18,633,553.00
Net Cash Used by Operating Activities	<u>\$ (47,208,067.58)</u>

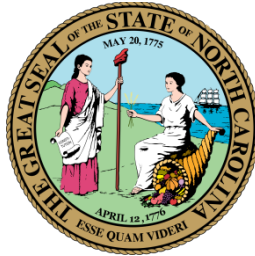
**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 4,980,799.17
Restricted Cash and Cash Equivalents	3,092,636.72
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>3,405,177.64</u>
Total Cash and Cash Equivalents - June 30, 2018	<u>\$ 11,478,613.53</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through the Assumption of a Liability	\$ 29,770.08
Change in Fair Value of Investments	426,980.59
Loss on Disposal of Capital Assets	(6,715.72)
Amortization of Bond Premiums/Discounts	8,344.71
Increase in Receivables Related to Nonoperating Income	10,024.73

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

The accompanying financial statements present all funds belonging to the University and its component 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 blended 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.

**Blended Component Unit** - Although legally separate, The Elizabeth City State University Foundation (Foundation), a component unit of the University, is reported as if it were part of the University.

The Foundation is governed by a 22-member board. There are 18 voting directors consisting of the University's Chancellor, 6 directors appointed by the Chancellor, 10 elected directors and 1 ex officio director. The Foundation also has 4 nonvoting ex officio members. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the University directly or indirectly appoints the Foundation Board and the Foundation's sole purpose is to benefit Elizabeth City State University, its financial statements have been blended with those of the University.

Separate financial statements for the Foundation and the Investment Fund may be obtained from the University Controller's Office, 1704 Weeksville Road, Elizabeth City, NC 27909, or by calling 252-335-3211.

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

- 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, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	50-100 years
Machinery and Equipment	2-25 years
General Infrastructure	10-75 years

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, 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 and notes payable. Other long-term liabilities include: compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

Revenue bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method that approximates the effective interest method. Deferred gains and losses on refundings are amortized over the life of the new debt 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 14 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 copy centers, 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 \$11,058,510.43, 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.

The carrying amount of the University's deposits not with the State Treasurer was \$420,103.10, and the bank balance was \$420,103.10. 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 exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$33,704.72.

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

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 Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

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

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

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

**Long-Term Investment Pool** - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit value method. Under this method, each participating fund's investment balance is determined on market value basis. The investment strategy, including the selection of investment managers, is based on the directives of the Board of Trustees of the Endowment Fund.

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 Type	Amount	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Debt Mutual Funds	\$ 2,480,649.15	\$ 0.00	\$ 0.00	\$ 2,480,649.15
Money Market Mutual Funds	246,255.49	246,255.49		
<b>Total Debt Securities</b>	<b>2,726,904.64</b>	<b>\$ 246,255.49</b>	<b>\$ 0.00</b>	<b>\$ 2,480,649.15</b>
Other Securities				
International Mutual Funds	3,143,514.76			
Equity Mutual Funds	6,074,497.60			
<b>Total Long-Term Investment Pool</b>	<b>\$ 11,944,917.00</b>			

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	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	\$ 2,480,649.15	\$ 1,243,012.40	\$ 89,348.08	\$ 259,530.10	\$ 306,115.44	\$ 166,579.60	\$ 416,063.53
Money Market Mutual Funds	246,255.49	246,255.49					
<b>Totals</b>	<b>\$ 2,726,904.64</b>	<b>\$ 1,489,267.89</b>	<b>\$ 89,348.08</b>	<b>\$ 259,530.10</b>	<b>\$ 306,115.44</b>	<b>\$ 166,579.60</b>	<b>\$ 416,063.53</b>

Rating Agency: Moody's

**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 Type	Amount	Investment Maturities (in Years)
		Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 3,906,733.75	\$ 3,906,733.75
Other Securities		
Other	82,948.93	
<b>Total Non-Pooled Investments</b>	<b>\$ 3,989,682.68</b>	

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

	Amount	AAA Aaa
Money Market Mutual Funds	\$ 3,906,733.75	\$ 3,906,733.75

Rating Agency: Moody's



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

Investment Type	Amount
Debt Securities	
Debt Mutual Funds	\$ 2,480,649.15
Money Market Mutual Funds	4,152,989.24
Other Securities	
International Mutual Funds	3,143,514.76
Equity Mutual Funds	6,074,497.60
Other	82,948.93
<b>Total Investments</b>	<b>\$ 15,934,599.68</b>

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

Amount of Deposits with Private Financial Institutions	\$ 420,103.10
Deposits in the Short-Term Investment Fund	11,058,510.43
Long-Term Investment Pool	11,944,917.00
Non-Pooled Investments	3,989,682.68
<b>Total Deposits and Investments</b>	<b>\$ 27,413,213.21</b>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 4,980,799.17
Restricted Cash and Cash Equivalents	3,092,636.72
Noncurrent:	
Restricted Cash and Cash Equivalents	3,405,177.64
<b>Total Deposits</b>	<b>11,478,613.53</b>
Investments	
Noncurrent:	
Endowment Investments	11,712,530.68
Restricted Investments	4,136,573.91
Other Investments	85,495.09
<b>Total Investments</b>	<b>15,934,599.68</b>
<b>Total Deposits and Investments</b>	<b>\$ 27,413,213.21</b>

**NOTE 3 - FAIR VALUE MEASUREMENTS**

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

participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

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

	Fair Value Measurements Using			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Debt Mutual Funds	\$ 2,480,649.15	\$ 2,480,649.15	\$ 0.00	\$ 0.00
Money Market Mutual Funds	4,152,989.24	4,152,989.24		
<b>Total Debt Securities</b>	<b>6,633,638.39</b>	<b>6,633,638.39</b>		
Other Securities				
International Mutual Funds	3,143,514.76	3,143,514.76		
Equity Mutual Funds	6,074,497.60	6,074,497.60		
<b>Total Investments by Fair Value Level</b>	<b>15,851,650.75</b>	<b>\$ 15,851,650.75</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
Investments Measured at the Net Asset Value (NAV)				
Other (Unallocated Insurance Contracts)	82,948.93			
<b>Total Investments Measured at the NAV</b>	<b>82,948.93</b>			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	11,058,510.43			
<b>Total Investments as a Position in an External Investment Pool</b>	<b>11,058,510.43</b>			
<b>Total Investments Measured at Fair Value</b>	<b>\$ 26,993,110.11</b>			

**Short-Term Investment Fund** - Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the

STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The University’s position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

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

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
Other (Unallocated Insurance Contracts)	\$ 82,948.93	\$ 0.00	Ineligible	N/A

**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). The non-mandatory spending policy is to take annual withdrawals on August 1 of each year in the annual amount of 5% of a three-year rolling average of the market value of the endowment. The investment manager is expected to liquidate such investments as may be necessary to accomplish this objective, while still maintaining a balanced portfolio. At June 30, 2018, endowment net position of \$4,345,480.46 was available to be spent, of which \$4,233,515.62 was classified in net position as restricted: expendable: scholarships and fellowships and endowed professorships as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 1,237,138.76	\$ 780,612.99	\$ 456,525.77
Student Sponsors	130,017.62		130,017.62
Accounts	223,534.67		223,534.67
Intergovernmental	946,120.92		946,120.92
Grant Sponsors	232,620.24		232,620.24
<b>Total Current Receivables</b>	<u>\$ 2,769,432.21</u>	<u>\$ 780,612.99</u>	<u>\$ 1,988,819.22</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 265,346.66	\$ 0.00	\$ 265,346.66
Institutional Student Loan Programs	5,826.60		5,826.60
<b>Total Notes Receivable - Current</b>	<u>\$ 271,173.26</u>	<u>\$ 0.00</u>	<u>\$ 271,173.26</u>
<b>Notes Receivable - Noncurrent:</b>			
Institutional Student Loan Programs	\$ 200.00	\$ 0.00	\$ 200.00

**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 (as Restated)	Increases	Decreases	Balance June 30, 2018
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 2,230,872.20	\$ 0.00	\$ 0.00	\$ 2,230,872.20
Construction in Progress	6,367,093.58	635,139.23	6,293,388.78	708,844.03
<b>Total Capital Assets, Nondepreciable</b>	<u>8,597,965.78</u>	<u>635,139.23</u>	<u>6,293,388.78</u>	<u>2,939,716.23</u>
<b>Capital Assets, Depreciable:</b>				
Buildings	170,947,285.74			170,947,285.74
Machinery and Equipment	12,960,489.07	1,481,936.90	12,821.62	14,429,604.35
General Infrastructure	16,757,781.90	6,293,388.78		23,051,170.68
<b>Total Capital Assets, Depreciable</b>	<u>200,665,556.71</u>	<u>7,775,325.68</u>	<u>12,821.62</u>	<u>208,428,060.77</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	49,071,417.48	2,828,126.46		51,899,543.94
Machinery and Equipment	8,422,761.60	686,759.47	5,593.50	9,103,927.57
General Infrastructure	7,830,814.54	754,576.39		8,585,390.93
<b>Total Accumulated Depreciation</b>	<u>65,324,993.62</u>	<u>4,269,462.32</u>	<u>5,593.50</u>	<u>69,588,862.44</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>135,340,563.09</u>	<u>3,505,863.36</u>	<u>7,228.12</u>	<u>138,839,198.33</u>
<b>Capital Assets, Net</b>	<u>\$ 143,938,528.87</u>	<u>\$ 4,141,002.59</u>	<u>\$ 6,300,616.90</u>	<u>\$ 141,778,914.56</u>

**NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	Amount
<b>Current Accounts Payable and Accrued Liabilities</b>	
Accounts Payable	\$ 690,264.38
Accounts Payable - Capital Assets	551,710.40
Accrued Payroll	1,071,760.02
Contract Retainage	7,461.95
Intergovernmental Payables	158,759.56
Other	408,206.36
	<hr/>
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 2,888,162.67</b>

**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	\$ 26,445,000.00	\$ 0.00	\$ 1,095,000.00	\$ 25,350,000.00	\$ 1,150,000.00
Plus: Unamortized Premium	37,595.40		3,823.25	33,772.15	
Less: Unamortized Discount	(193,231.02)		(12,167.96)	(181,063.06)	
	<hr/>		<hr/>	<hr/>	<hr/>
Total Revenue Bonds Payable, Net	26,675,826.42		1,110,991.21	25,202,709.09	1,150,000.00
Notes Payable	4,675,113.64		251,485.16	4,423,628.48	270,960.61
	<hr/>		<hr/>	<hr/>	<hr/>
Total Long-Term Debt	31,350,940.06		1,362,476.37	29,626,337.57	1,420,960.61
	<hr/>		<hr/>	<hr/>	<hr/>
Other Long-Term Liabilities					
Compensated Absences	1,811,175.00	1,302,032.65	1,354,955.65	1,758,252.00	109,746.59
Net Pension Liability	9,889,552.00		2,005,891.00	7,883,661.00	
Net Other Postemployment Benefits Liability	55,366,776.00		19,288,263.00	36,078,513.00	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Long-Term Liabilities	67,067,503.00	1,302,032.65	22,649,109.65	45,720,426.00	109,746.59
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Long-Term Liabilities, Net</b>	<b>\$ 98,418,443.06</b>	<b>\$ 1,302,032.65</b>	<b>\$ 24,011,586.02</b>	<b>\$ 75,346,763.57</b>	<b>\$ 1,530,707.20</b>

Additional information regarding the net pension liability is included in Note 13.

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

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

Purpose	Series	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding 43,281.00	See Table Below
<b>Revenue Bonds Payable</b>							
<b>Dormitory System Revenue Bonds of 1981</b>							
Wamack Hall and Mitchell-Lewis Hall	A	3.00%	10/01/2017	\$ 675,000.00	\$ 675,000.00	\$ -	(1)
Wamack Hall and Mitchell-Lewis Hall	B	3.00%	10/01/2020	1,680,000.00	1,475,000.00	205,000.00	(1)
Total Dormitory System Revenue Bonds of 1981				2,355,000.00	2,150,000.00	205,000.00	
<b>Educational Facilities Revenue Bonds</b>							
Elizabeth City Housing Foundation	A	2.00%-5.25%	06/01/2033	13,895,000.00	4,310,000.00	9,585,000.00	(2)
Total Educational Facilities Revenue Bonds				13,895,000.00	4,310,000.00	9,585,000.00	
<b>General Revenue Bonds Series 2010</b>							
Refund UNC System Pool Revenue Bonds 2002B	2010A	3.00%-5.50%	04/01/2027	4,525,000.00	3,470,000.00	1,055,000.00	
Student Housing Project (BAB)	2010B	6.386%-8.347%*	04/01/2040	14,720,000.00	215,000.00	14,505,000.00	
Total General Revenue Bonds				19,245,000.00	3,685,000.00	15,560,000.00	
<b>Total Revenue Bonds Payable (principal only)</b>				<u>\$ 35,495,000.00</u>	<u>\$ 10,145,000.00</u>	25,350,000.00	
Plus: Unamortized Premium						33,772.15	
Less: Unamortized Discount						(181,063.06)	
<b>Total Revenue Bonds Payable, Net</b>						<u>\$ 25,202,709.09</u>	

\* 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.

The University has pledged future revenues, net of specific operating expenses, to repay revenue bonds and special indebtedness as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Dormitory Revenues	\$ 214,375.00	\$ 1,151,710.58	\$ 90,000.00	\$ 7,500.00	17%
(2)	Educational Facilities Revenue	13,848,805.00	1,131,823.68	425,000.00	496,535.00	79%

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

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2019	\$ 1,150,000.00	\$ 1,718,956.86	\$ 270,960.61	\$ 176,839.99
2020	900,000.00	1,663,370.06	291,425.79	165,447.16
2021	975,000.00	1,616,261.36	312,926.68	153,201.58
2022	980,000.00	1,559,056.56	335,505.17	140,060.20
2023	1,065,000.00	1,497,603.26	359,214.05	125,978.22
2024-2028	6,175,000.00	6,392,530.42	2,194,913.97	382,329.76
2029-2033	7,460,000.00	4,270,911.38	658,682.21	20,369.43
2034-2038	4,490,000.00	2,063,378.42		
2039-2043	2,155,000.00	272,112.22		
<b>Total Requirements</b>	<u>\$ 25,350,000.00</u>	<u>\$ 21,054,180.54</u>	<u>\$ 4,423,628.48</u>	<u>\$ 1,164,226.34</u>

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Energy Conservation Improvement	Bank of America Public Capital Corp.	4.09%	9/20/2029	\$ 5,621,819.86	\$ 1,198,191.38	\$ 4,423,628.48

**NOTE 9 - OPERATING LEASE OBLIGATIONS**

The University entered into operating leases for rental of postage meter equipment, classrooms and airport hangers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	\$ 9,756.00

Rental expense for all operating leases during the year was \$17,448.20.

**NOTE 10 - NET POSITION**

The deficit in unrestricted net position of \$54,410,648.66 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	\$ 4,279,164.59	\$ 0.00	\$ 4,279,164.59
Deferred Outflows Related to OPEB		1,274,734.00	1,274,734.00
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	7,883,661.00		7,883,661.00
Net OPEB Liability		36,078,513.00	36,078,513.00
Deferred Inflows Related to Pensions	1,239,259.00		1,239,259.00
Deferred Inflows Related to OPEB		18,633,553.00	18,633,553.00
<b>Net Effect on Unrestricted Net Position</b>	<b>\$ (4,843,755.41)</b>	<b>\$ (53,437,332.00)</b>	<b>\$ (58,281,087.41)</b>

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

**NOTE 11 - REVENUES**

A summary of eliminations and allowances by revenue classification is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
Student Tuition and Fees, Net	\$ 8,477,734.85	\$ 0.00	\$ 4,446,070.22	\$ 17,213.06	\$ 4,014,451.57
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 4,251,073.29	\$ 0.00	\$ 2,419,283.16	\$ 0.00	\$ 1,831,790.13
Dining	1,783,684.72		1,003,761.09	1,672.64	778,250.99
Bookstore	635,218.17		292,714.46	228.26	342,275.45
Parking	2,053.00				2,053.00
Athletic	193,602.83				193,602.83
Vending	23,323.38				23,323.38
Other	799,760.53	666,951.95			132,808.58
<b>Total Sales and Services, Net</b>	<b>\$ 7,688,715.92</b>	<b>\$ 666,951.95</b>	<b>\$ 3,715,758.71</b>	<b>\$ 1,900.90</b>	<b>\$ 3,304,104.36</b>

**NOTE 12 - OPERATING EXPENSES BY FUNCTION**

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 11,976,966.66	\$ 501,405.14	\$ 321,640.95	\$ 0.00	\$ 233.24	\$ 0.00	\$ 12,800,245.99
Research	346,404.56	559,095.88	201,520.00				1,107,020.44
Public Service	615,463.27	27,994.65	159,581.92				803,039.84
Academic Support	1,450,645.12	554,270.67	207,763.14				2,212,678.93
Student Services	4,249,614.34	2,123,222.85	3,053,860.96		44,287.89		9,470,986.04
Institutional Support	5,598,199.11	474,433.95	3,595,915.04		116.58		9,668,664.68
Operations and Maintenance of Plant	4,011,883.51	1,525,102.98	2,137,483.63		1,712,072.47		9,386,542.59
Student Financial Aid				2,840,851.59			2,840,851.59
Auxiliary Enterprises	2,103,863.83	353,723.17	4,471,485.97		704,825.26		7,633,898.23
Depreciation						4,269,462.32	4,269,462.32
<b>Total Operating Expenses</b>	<b>\$ 30,353,040.40</b>	<b>\$ 6,119,249.29</b>	<b>\$ 14,149,251.61</b>	<b>\$ 2,840,851.59</b>	<b>\$ 2,461,535.44</b>	<b>\$ 4,269,462.32</b>	<b>\$ 60,193,390.65</b>

**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 \$999,537.65, and the University's contributions were \$1,795,835.98 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 \$7,883,661.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. The University’s proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the University’s proportion was 0.09936%, which was a decrease of 0.00824 from its proportion measured as of June 30, 2016, which was 0.10760%.

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

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

\* Salary increases include 3.5% inflation and productivity factor.

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

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer), and health status (i.e. disabled and healthy). The current mortality rates are based on

published tables and based on studies that cover significant portions of the U.S. population. The mortality rates also contain a provision to reflect future mortality improvements.

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

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

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

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
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 (Asset)		
1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
\$ 16,227,837.00	\$ 7,883,661.00	\$ 892,304.00

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* For the year ended June 30, 2018, the University recognized pension expense of \$1,458,609.00. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 170,903.00	\$ 257,916.00
Changes of Assumptions	1,245,499.00	
Net Difference Between Projected and Actual Earnings on Plan Investments	1,066,926.61	
Change in Proportion and Differences Between Employer’s Contributions and Proportionate Share of Contributions		981,343.00
Contributions Subsequent to the Measurement Date	1,795,835.98	
<b>Total</b>	<b>\$ 4,279,164.59</b>	<b>\$ 1,239,259.00</b>

The amount of \$1,795,835.98 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:

<u>Year Ended June 30:</u>	<u>Amount</u>
2019	\$ (177,954.00)
2020	1,206,639.00
2021	642,381.00
2022	<u>(426,996.39)</u>
Total	<u>\$ 1,244,069.61</u>

- B. Defined Contribution Plan** - The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and staff of the University may join 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 \$24,004,482.54, of which \$4,411,024.60 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$264,661.48 and \$301,714.08, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. The University was allocated \$124,566.96 of forfeitures from the Optional Retirement Program.

**NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS**

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

**A. Summary of Significant Accounting Policies and Plan Asset Matters**

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

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

**B. Plan Descriptions****1. Health Benefits**

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



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

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

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

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

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

*Contributions:* Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The University's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The University's contributions to the RHBF were \$1,274,734.00 for the year ended June 30, 2018.

## 2. Disability Income

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

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



25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

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

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

*Contributions:* Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The University's contributions to DIPNC were \$29,498.00 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 \$36,078,513.00 for its proportionate share of the collective net OPEB

liability for RHBF. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The University's proportion of the net OPEB liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the University's proportion was 0.11004%, which was a decrease of 0.01723 from its proportion measured as of June 30, 2016, which was 0.12727%.

*Net OPEB Asset:* At June 30, 2018, the University reported an asset of \$71,327.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The University's proportion of the net OPEB asset was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the University's proportion was 0.11670%, which was a decrease of 0.00185 from its proportion measured as of June 30, 2016, which was 0.11855%.

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

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

\* Salary increases include 3.5% inflation and productivity factor.

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

N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health

status (i.e. disabled and healthy). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

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

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

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

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

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially

determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

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

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

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

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

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

*Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate:* The following presents the University's proportionate share of the

net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

		Net OPEB Liability (Asset)		
		1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
RHBF	\$	43,039,461.00	\$ 36,078,513.00	\$ 30,557,294.00
		1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$	(60,638.00)	\$ (71,327.00)	\$ (82,040.00)

*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	\$	29,472,732.00	\$ 36,078,513.00	\$ 44,858,181.00
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 \$569,236.00 for RHBF and \$40,223.00 for DIPNC. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 0.00	\$ 19,557.00	\$ 19,557.00
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		15,634.00	15,634.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		6,982.00	6,982.00
Contributions Subsequent to the Measurement Date	<u>1,274,734.00</u>	<u>29,498.00</u>	<u>1,304,232.00</u>
<b>Total</b>	<b><u>\$ 1,274,734.00</u></b>	<b><u>\$ 71,671.00</u></b>	<b><u>\$ 1,346,405.00</u></b>

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 2,586,896.00	\$ 0.00	\$ 2,586,896.00
Changes of Assumptions	9,935,858.00		9,935,858.00
Net Difference Between Projected and Actual Earnings on Plan Investments	13,408.00		13,408.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>6,097,391.00</u>		<u>6,097,391.00</u>
<b>Total</b>	<b><u>\$ 18,633,553.00</u></b>	<b><u>\$ 0.00</u></b>	<b><u>\$ 18,633,553.00</u></b>

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:

<u>Year Ended June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2019	\$ (3,727,381.00)	\$ 12,757.00
2020	(3,727,381.00)	12,757.00
2021	(3,727,381.00)	12,753.00
2022	(3,727,381.00)	3,906.00
2023	(3,724,029.00)	
<b>Total</b>	<b>\$ (18,633,553.00)</b>	<b>\$ 42,173.00</b>

**NOTE 15 - RISK MANAGEMENT**

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

**A. Employee Benefit Plans**

**1. State Health Plan**

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

**2. Death Benefit Plan of North Carolina**

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

### **3. Disability Income Plan**

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

## **B. Other Risk Management and Insurance Activities**

### **1. Automobile, Fire, and Other Property Losses**

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The University also purchased through the Fund extended coverage for all buildings which cover windstorm or hail and 'all risk' coverage for selected buildings and contents such as high value equipment and computers. The extended coverage deductible is \$5,000 per occurrence for theft losses and all other losses.

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

### **2. Public Officers' and Employees' Liability Insurance**

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

### **3. Employee Dishonesty and Computer Fraud**

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company



and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$100,000 deductible.

**4. Statewide Workers' Compensation Program**

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

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

**5. Other Insurance Held by the University**

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance and State's Agent of Record. Examples of insurance policies purchases include, but are not limited to fine arts, boiler, machinery, pharmacist professional liability, aviation, boat, and music related equipment.

**NOTE 16 - COMMITMENTS AND CONTINGENCIES**

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$1,806,496.24 at June 30, 2018.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

**NOTE 17 - BLENDED COMPONENT UNIT**

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

*Condensed Statement of Net Position  
June 30, 2018*

	Elizabeth City State University	ECSU Foundation	Eliminations	Total
<b>ASSETS</b>				
Current Assets	\$ 8,279,085.27	\$ 2,619,681	\$ 0	\$ 10,898,766.27
Capital Assets, Net	141,778,914.56			141,778,914.56
Other Noncurrent Assets	13,564,104.44	9,209,125	(2,845,959)	19,927,270.44
Component Unit Receivable from Primary Government		8,849,049	(8,849,049)	
Total Assets	<u>163,622,104.27</u>	<u>20,677,855</u>	<u>(11,695,008)</u>	<u>172,604,951.27</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>5,760,683.13</u>			<u>5,760,683.13</u>
<b>LIABILITIES</b>				
Current Liabilities	4,642,015.14	495,416		5,137,431.14
Long-Term Liabilities, Net	64,756,332.37	9,059,724		73,816,056.37
Other Noncurrent Liabilities	206,275.91	2,845,959	(2,845,959)	206,275.91
Primary Government Payable to Component Unit	8,849,049.00		(8,849,049)	
Total Liabilities	<u>78,453,672.42</u>	<u>12,401,099</u>	<u>(11,695,008)</u>	<u>79,159,763.42</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>19,872,812.00</u>			<u>19,872,812.00</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	112,201,344.04			112,201,344.04
Restricted - Nonexpendable	5,719,409.96	2,389,387		8,108,796.96
Restricted - Expendable	7,917,392.64	5,516,174		13,433,566.64
Unrestricted	(54,781,843.66)	371,195		(54,410,648.66)
Total Net Position	<u>\$ 71,056,302.98</u>	<u>\$ 8,276,756</u>	<u>\$ 0</u>	<u>\$ 79,333,058.98</u>

# NOTES TO THE FINANCIAL STATEMENTS

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

	Elizabeth City State University	ECSU Foundation	Eliminations	Total
<b>OPERATING REVENUES</b>				
Tuition and Fees	\$ 4,014,451.57	\$ 0	\$ 0	\$ 4,014,451.57
Grants and Contracts	406,550.36			406,550.36
Sales and Services, Net	3,304,104.36			3,304,104.36
Contribution		572,073	(572,073)	
Donated Facilities and Services		233,014	(233,014)	
Other Operating Revenue	561,423.64	134,257	(134,257)	561,423.64
Total Operating Revenues	<u>8,286,529.93</u>	<u>939,344</u>	<u>(939,344)</u>	<u>8,286,529.93</u>
<b>OPERATING EXPENSES</b>				
Operating Expenses	54,916,764.59	1,282,002	(274,838)	55,923,928.33
Depreciation	4,269,462.32			4,269,462.32
Total Operating Expenses	<u>59,186,226.91</u>	<u>1,282,002</u>	<u>(274,838)</u>	<u>60,193,390.65</u>
Operating Loss	<u>(50,899,696.98)</u>	<u>(342,658)</u>	<u>(664,506)</u>	<u>(51,906,860.72)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State Appropriations	33,007,662.92			33,007,662.92
Noncapital Grants	15,003,118.16			15,003,118.16
Noncapital Gifts	92,607.16		706,330	798,937.16
Interest on Direct Financing Lease		642,824	(642,824)	
Investment Income (Loss), Net	514,826.16	367,625		882,451.16
Interest and Fees on Debt	(1,472,942.80)	(533,591)		(2,006,533.80)
Federal Interest Subsidy on Debt	390,773.43			390,773.43
Other Nonoperating Revenues (Expenses)	1,449.01			1,449.01
Net Nonoperating Revenues (Expenses)	<u>47,537,494.04</u>	<u>476,858</u>	<u>63,506</u>	<u>48,077,858.04</u>
Capital Grants	2,150,033.33			2,150,033.33
Distribution of Repairs and Maintenance Reserve Funds		(601,000)	601,000	
Additions to Endowments		157,105		157,104.74
Increase (Decrease) in Net Position	(1,212,169.61)	(309,695)		(1,521,864.61)
<b>NET POSITION</b>				
Net Position, July 1, 2017, as Restated	<u>72,268,472.59</u>	<u>8,586,451</u>		<u>80,854,923.59</u>
Net Position, June 30, 2018	<u>\$ 71,056,302.98</u>	<u>\$ 8,276,756</u>	<u>\$ 0</u>	<u>\$ 79,333,058.98</u>

*Condensed Statement of Cash Flows  
June 30, 2018*

	Elizabeth City State University	ECSU Foundation	Total
Net Cash Used by Operating Activities	\$ (46,844,313.58)	\$ (363,754)	\$ (47,208,067.58)
Net Cash Provided by Noncapital Financing Activities	47,181,097.23	157,105	47,338,202.23
Net Cash Used by Capital and Related Financing Activities	(2,519,261.10)	(381,545)	(2,900,806.10)
Net Cash Provided by Investing Activities	63,846.79	425,509	489,355.79
Net Decrease in Cash and Cash Equivalents	(2,118,630.66)	(162,685)	(2,281,315.66)
Cash and Cash Equivalents, July 1, 2017	<u>9,977,563.19</u>	<u>2,782,366</u>	<u>12,759,929.19</u>
Cash and Cash Equivalents, June 30, 2018	<u>\$ 7,858,932.53</u>	<u>\$ 2,619,681</u>	<u>\$ 10,478,613.53</u>

**NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

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

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

*GASB Statement No. 85, Omnibus 2017*

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

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

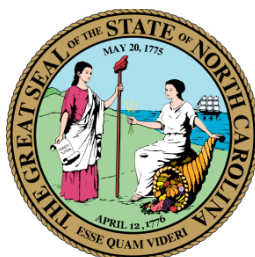
**NOTE 19 - NET POSITION RESTATEMENTS**

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

	Amount
July 1, 2017 Net Position as Previously Reported	\$ 134,472,252.69
Restatements:	
Capital Additions Previously Expensed	371,777.90
Record the University's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	(53,989,107.00)
July 1, 2017 Net Position as Restated	\$ 80,854,923.59

### NOTE 20 - SUBSEQUENT EVENTS

In May 2017, the University received approval from the UNC Board of Governors to obtain financing through the United States Department of Agriculture's (USDA) Community Facilities loan program. The loan will be used to refinance bonds issued in 2003 by the Elizabeth City State University Housing Foundation LLC, to finance the Viking Village student housing facility and to finance the renovation of Bias and Butler Residence Halls, the demolition of Hugh Cale and Doles Halls and the completion of a campus master plan on behalf of ECSU. House Bill 620, which was ratified in June 2017 approved the construction and financing of these projects from non-appropriated sources. The University received approval of this loan from the USDA in September of 2018.



# **REQUIRED SUPPLEMENTARY INFORMATION**

**Elizabeth City State University**  
**Required Supplementary Information**  
**Schedule of the Proportionate Net Pension Liability**  
**Teachers' and State Employees' Retirement System**  
**Last Five Fiscal Years**

**Exhibit B-1**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.09936%	0.10760%	0.11752%	0.14748%	0.17140%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 7,883,661.00	\$ 9,889,552.00	\$ 4,330,845.00	\$ 1,729,086.00	\$ 1,032,073.23
Covered Payroll	\$ 16,435,156.17	\$ 17,042,981.80	\$ 18,749,889.40	\$ 22,430,604.26	\$ 25,144,234.15
Net Pension Liability as a Percentage of Covered Payroll	47.97%	58.03%	23.10%	7.71%	4.10%
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.

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

**Exhibit B-2**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 1,795,835.98	\$ 1,640,228.59	\$ 1,559,432.84	\$ 1,715,615.80	\$ 1,949,219.51
Contributions in Relation to the Contractually Determined Contribution	<u>1,795,835.98</u>	<u>1,640,228.59</u>	<u>1,559,432.84</u>	<u>1,715,615.80</u>	<u>1,949,219.51</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 16,658,960.88	\$ 16,435,156.17	\$ 17,042,981.80	\$ 18,749,899.40	\$ 22,430,604.26
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

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	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 2,094,514.70	\$ 1,859,713.37	\$ 1,229,306.66	\$ 876,277.73	\$ 830,963.76
Contributions in Relation to the Contractually Determined Contribution	<u>2,094,514.70</u>	<u>1,859,713.37</u>	<u>1,229,306.66</u>	<u>876,277.73</u>	<u>830,963.76</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 25,144,234.15	\$ 24,996,147.39	\$ 24,935,226.37	\$ 24,545,594.69	\$ 24,731,067.37
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.



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

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Changes of Benefit Terms:

<u>Cost of Living Increase</u>									
<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
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*.

**Elizabeth City State 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 B-3**

	<u>2017</u>	<u>2016</u>
<b>Retiree Health Benefit Fund</b>		
Proportionate Share Percentage of Collective Net OPEB Liability	0.11004%	0.12727%
Proportionate Share of Collective Net OPEB Liability	\$ 36,078,513.00	\$ 55,366,776.00
Covered Payroll	\$ 21,080,508.05	\$ 21,561,500.56
Net OPEB Liability as a Percentage of Covered Payroll	171.15%	256.79%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%
<b>Disability Income Plan of North Carolina</b>		
Proportionate Share Percentage of Collective Net OPEB Asset	0.11670%	0.11855%
Proportionate Share of Collective Net OPEB Asset	\$ 71,327.00	\$ 73,620.00
Covered Payroll	\$ 21,080,508.05	\$ 21,561,500.56
Net OPEB Asset as a Percentage of Covered Payroll	0.34%	0.34%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	116.23%	116.06%

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

**Elizabeth City State University  
Required Supplementary Information  
Schedule of University Contributions  
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans  
Last Ten Fiscal Years**

**Exhibit B-4**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Retiree Health Benefit Fund</b>					
Contractually Required Contribution	\$ 1,274,734.00	\$ 1,224,777.52	\$ 1,207,444.13	\$ 1,332,771.34	\$ 1,562,914.76
Contributions in Relation to the Contractually Determined Contribution	<u>1,274,734.00</u>	<u>1,224,777.52</u>	<u>1,207,444.13</u>	<u>1,332,771.34</u>	<u>1,562,914.76</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 21,069,983.47	\$ 21,080,508.05	\$ 21,561,500.56	\$ 24,275,345.04	\$ 28,942,865.94
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 1,683,409.44	\$ 1,593,179.72	\$ 1,558,687.84	\$ 1,376,559.42	\$ 1,270,251.50
Contributions in Relation to the Contractually Determined Contribution	<u>1,683,409.44</u>	<u>1,593,179.72</u>	<u>1,558,687.84</u>	<u>1,376,559.42</u>	<u>1,270,251.50</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 31,762,442.35	\$ 31,863,594.42	\$ 31,809,955.76	\$ 30,590,209.30	\$ 30,981,743.87
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%
<b>Disability Income Plan of North Carolina</b>					
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 29,498.00	\$ 80,105.93	\$ 88,402.16	\$ 99,533.01	\$ 127,348.61
Contributions in Relation to the Contractually Determined Contribution	<u>29,498.00</u>	<u>80,105.93</u>	<u>88,402.16</u>	<u>99,533.01</u>	<u>127,348.61</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 21,069,983.47	\$ 21,080,508.05	\$ 21,561,500.56	\$ 24,275,345.04	\$ 28,942,865.94
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 139,754.75	\$ 165,690.69	\$ 165,411.77	\$ 159,069.09	\$ 161,105.07
Contributions in Relation to the Contractually Determined Contribution	<u>139,754.75</u>	<u>165,690.69</u>	<u>165,411.77</u>	<u>159,069.09</u>	<u>161,105.07</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 31,762,442.35	\$ 31,863,594.42	\$ 31,809,955.76	\$ 30,590,209.30	\$ 30,981,743.87
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.

**Elizabeth City State University**  
**Notes to Required Supplementary Information**  
**Schedule of University Contributions**  
**Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**  
**Last Ten Fiscal Years**

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

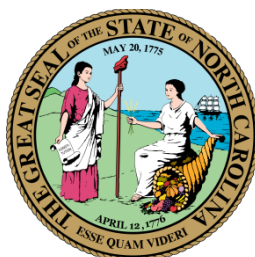
Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

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

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

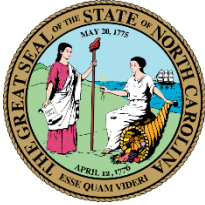
In 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the Retiree Health Benefit Fund were reduced based upon the plan's most recent experience.

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



# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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

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Board of Trustees  
Elizabeth City State University  
Elizabeth City, 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 Elizabeth City State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, 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 December 17, 2018. Our report includes a reference to other auditors who audited the financial statements of The Elizabeth City State University Foundation, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be

prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### Compliance and Other Matters

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

### Purpose of this Report

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



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

December 17, 2018

# ORDERING INFORMATION

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



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This audit required 565 hours at an approximate cost of \$58,195.00.