

THE UNIVERSITY OF NORTH CAROLINA
CENTER FOR PUBLIC TELEVISION
Research Triangle Park, North Carolina

Financial Statements

Years Ended June 30, 2017 and 2016

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
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Years Ended June 30, 2017 and 2016

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Report of Independent Auditors

To the Board of Trustees
The University of North Carolina
Center for Public Television
The University of North Carolina
General Administration
Research Triangle Park, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina Center for Public Television (“UNC-TV”), a public telecommunications entity, which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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 audits. We conducted our audits 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 includes 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 entity’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 entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UNC-TV as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1(a), the financial statements of UNC-TV are intended to present the financial position, the changes in financial position and cash flows of UNC-TV. They do not purport to, and do not, present fairly the financial position of The University of North Carolina General Administration as of June 30, 2017, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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 on pages 3 - 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Government 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 January 8, 2018 on our consideration of UNC-TV'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 UNC-TV's internal control over financial reporting and compliance.

Thomas & Gilbo CA, PLLC

Durham, North Carolina
January 8, 2018

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THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Years Ended June 30, 2017 and 2016

As management of The University of North Carolina Center for Public Television ("UNC-TV"), we offer readers of UNC-TV's financial statements this narrative overview and analysis of the financial activities of The University of North Carolina Center for Public Television for the fiscal years ended June 30, 2017 and 2016.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with UNC-TV's financial statements.

Financial Highlights

- **Net Position:** The assets of UNC-TV exceeded liabilities at the close of the most recent fiscal year by \$51 million (net position). Of this amount, \$25 million may be used to meet UNC-TV's ongoing obligations. This amount equates to 89% of operating expenses.

Net Position compared to prior year: UNC-TV's total net position (assets less liabilities) decreased by \$628 thousand due to operating expenses exceeding total revenue. This deficiency declined significantly from the previous year.

- **Liabilities:** UNC-TV's liabilities increased \$835 thousand. These liabilities include deferred revenue, accrued vacation leave, and accrued expenses for operations, payroll, and capital projects.

Note Payable: UNC-TV participated in the University of North Carolina System wide Lighting Performance Lighting Contract for the purpose of financing the cost of energy conservation measures by installing Cree LED lighting. Payments made under the financing contract will be offset by energy savings supported by a Guaranteed Energy Savings Contract. As of June 30, 2017, the principle owed was \$256,978.

Deferred revenue – Production Projects: Underwriting revenue received and not yet expended for the production of programming is deferred until those projects are completed. This amount decreased \$70 thousand due to normal fluctuation in the timing of receipts and program projects currently in production. Most significantly the production of North Carolina Science Now, funded by GSK, had unearned revenue of \$198 thousand.

Deferred revenue – Use of Facilities: Rental revenue received in prior years for the use of UNC-TV's transmission infrastructure is recognized over the contract life. Currently, \$137.5 thousand is recognized each year as revenue from these contracts thereby reducing unearned revenue by the same amount.

Vacation Leave: Leave liability decreased \$100 thousand due to staff turnover and subsequent payout of significant leave balances.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Years Ended June 30, 2017 and 2016

Accounts Payable and Accrued Expenses: Increased \$488 thousand due to the completion of capital projects that increased these liabilities over the last couple of years. Other variances are typical due to fluctuations in the timing of projects and the subsequent receipt of invoices crossing the fiscal year end.

- Assets: UNC-TV's assets decreased \$2 million.

Capital assets: Decreased \$1.9 million as depreciation of existing assets exceeded capital purchases during the year. See detail analysis in the Capital Asset section.

Current assets: Decreased \$1.8 million, including a \$1.3 million decrease in cash due to expenditures exceeding revenue.

Expense exceeded revenue due to the continued implementation of strategic initiatives. The University of North Carolina in conjunction with UNC-TV previously undertook an extensive review of the organization that resulted in recommendations to restructure and redirect the activities of UNC-TV to expand distribution of programming content, broaden sources of revenue generation, and implement operational efficiencies. UNC-TV still maintains a significant cash balance as an operating reserve to provide flexibility in budgeting and stability during revenue declines. The use of cash reserves declined significantly from the prior year as UNC-TV continues to progress to a balanced budget. See the Statement of Cash Flows for additional detail.

Financial Statements

Statement of Net Position

The Statement of Net Position reflects the financial position of UNC-TV presenting information on all assets and liabilities, with the difference between the two reported as net position. Net position is divided into categories to show the availability to meet UNC-TV's obligations. Unrestricted funds are available to UNC-TV for any purpose related to public broadcasting, other than funds held in long-term investments.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position describes the results of operations and other non-operating revenues and expenses for the year, and shows how those results increase or decrease net position.

The GASB requires that state appropriations, certain grants, and gifts be classified as non-operating revenues. As a result, this statement reflects an operating loss. Capital grants are considered neither operating nor non-operating.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Years Ended June 30, 2017 and 2016

After addition of non-operating revenues and other revenue, including the State operating appropriation, net position decreased \$628 thousand. This decrease is the amount that operating expenses exceeded total revenue for the year. Cash basis operating expense exceeded total revenues while purchase of capital assets and non-cash expense for depreciation also contribute to the decrease in net position.

Statement of Cash Flows

The Statement of Cash Flows describes the sources of cash and the expense categories to which those funds were directed. The statement includes cash acquired during the current year, and funds that have been held in reserve from operating surpluses in previous years.

Notes to the Financial Statements

The notes provide additional information essential to facilitating a full understanding of the data provided in the accompanying financial statements.

Overview of UNC-TV's Financial Activity

Statement of Net Position

Net position may serve over time as a useful indicator of UNC-TV's financial position. The largest portion of UNC-TV's net position, approximately 50%, reflects its investment in capital assets (e.g. buildings, towers, and equipment). UNC-TV uses these capital assets to provide services to citizens, consequently these assets are not available for future spending.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Years Ended June 30, 2017 and 2016

UNC-TV's net position was as follows:

	June 30,		Variance
	2017	2016	
Assets			
Current assets	\$ 6,970,732	\$ 8,790,503	\$ (1,819,771)
Capital assets	25,609,178	27,552,702	(1,943,524)
Other non-current assets	22,166,155	19,865,231	2,300,924
Total assets	<u>54,746,065</u>	<u>56,208,436</u>	<u>(1,462,371)</u>
Liabilities			
Current liabilities	2,019,181	2,694,931	(675,750)
Non-current liabilities	<u>1,371,770</u>	<u>1,530,555</u>	<u>(158,785)</u>
Total liabilities	<u>3,390,951</u>	<u>4,225,486</u>	<u>(834,535)</u>
Net position			
Net investment in capital assets	25,609,178	27,552,702	(1,943,524)
Unrestricted	19,833,340	18,652,631	1,180,709
Restricted for:			
Expendable:			
Time restricted pledges	1,073,988	1,288,711	(214,723)
Time restricted community service grants	3,838,608	3,488,906	349,702
Restricted for Bryan Center & equipment	<u>1,000,000</u>	<u>1,000,000</u>	<u>-</u>
Total net position	<u>\$ 51,355,114</u>	<u>\$ 51,982,950</u>	<u>\$ (627,836)</u>

A portion of UNC-TV's net position, approximately 2%, represents resources that are subject to external purpose restrictions on how they may be used. The remaining balance of unrestricted and time restricted net position may be used to meet UNC-TV's ongoing obligations.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Years Ended June 30, 2017 and 2016

Comparison of Revenues, Expenses and Changes in Net Position

	June 30,		
	2017	2016	Variance
Revenues:			
Contributions	\$ 11,016,591	\$ 11,409,124	\$ (392,533)
State appropriations - operating	9,217,804	9,336,638	(118,834)
Grants from CPB	3,838,608	3,488,906	349,702
Interest and dividend income	13,236	40,398	(27,162)
Realized and unrealized gains on investments	2,405,098	(341,244)	2,746,342
Loss on disposal of capital assets	(30,473)	(68,434)	37,961
Other revenue	566,821	560,470	6,351
	Total revenues	24,425,857	2,601,828
Expenses:			
Program services			
Programming and production	11,723,297	12,261,508	(538,211)
Broadcasting and engineering	8,465,707	8,920,175	(454,468)
Supporting services			
Development and fund raising	3,399,120	3,915,321	(516,201)
Management and general	4,067,397	4,175,354	(107,957)
	Total expenses	29,272,358	(1,616,837)
	Change in net position	\$ (4,846,501)	\$ 4,218,665

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 Years Ended June 30, 2017 and 2016

Capital Assets

The recorded value of capital assets decreased \$2.0 million from the previous year. This continues a trend from prior years as major capital projects concluded with the transition from analog to digital transmission and the availability of capital project funds has become limited.

Capital assets are increased by asset additions and replacements, and decreased each year as these assets are depreciated over their useful life. This depreciation expense exceeded asset additions resulting in the decreased capital asset value.

Over an extended period of time this decreasing balance may indicate an aging transmission and broadcast infrastructure that requires maintenance and replacement. If the lack of capital funding persists into future years, UNC-TV's capabilities may be impacted. This is being addressed in part by pursuing the outsourcing of UNC-TV's operation centers that monitor broadcast transmissions, reducing the need to replace the associated aging equipment.

The following is a summary of UNC-TV's capital assets, net of accumulated depreciation, at year-end.

	June 30,	
	2017	2016
Land	\$ 185,963	\$ 185,963
Construction in progress	-	138,424
Building and other structures	12,727,351	13,982,526
Other structures	10,102,528	10,632,757
Antennas and other equipment	2,424,801	2,402,484
Motor vehicles	168,536	210,548
Total	\$ 25,609,178	\$ 27,552,702

Changes in UNC-TV's Financial Position

UNC-TV continues to depend on contributions from viewers, corporate partners and grants from the Corporation for Public Broadcasting for a large portion of operating expenses. These revenues were in line with the prior year, however total revenue was increased by investment gains of \$2.4 million.

UNC-TV retains sufficient funds in cash and investments as an operating reserve to effectively pursue its objectives and general operations and respond to unforeseen circumstances.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Years Ended June 30, 2017 and 2016

Requests for Information

This report is designed to provide an overview of UNC-TV's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Senior Director of Finance and Administration, The University of North Carolina Center for Public Television, Post Office Box 14900, Research Triangle Park, North Carolina 27709, and telephone (919) 549-7000.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
STATEMENTS OF NET POSITION
Years Ended June 30, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,912,549	\$ 6,260,354
Receivables, net (note 4)	91,909	88,375
Unconditional promises to give, net (note 4)	1,073,987	1,288,712
Unexpired program rights	271,123	517,264
Prepaid expenses	621,164	635,798
Total current assets	6,970,732	8,790,503
Non-current assets:		
Capital assets, net (note 6)	25,609,178	27,552,702
Occupancy rights, at cost, net (note 5)	114,310	122,778
Investments, net (note 3)	22,051,845	19,742,453
Total non-current assets	47,775,333	47,417,933
Total assets	\$ 54,746,065	\$ 56,208,436
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses (note 7)	\$ 757,599	\$ 1,245,240
Unearned revenue (note 8)	1,170,850	1,378,181
Long term liabilities- current portion (note 9)	90,732	71,510
Total current liabilities	2,019,181	2,694,931
Non-current liabilities:		
Long term liabilities (note 9)	1,371,770	1,530,555
Total liabilities	3,390,951	4,225,486
Net position		
Net investment in capital assets	25,609,178	27,552,702
Unrestricted	19,833,340	18,652,631
Restricted for:		
Expendable:		
Time restricted pledges	1,073,988	1,288,711
Time restricted community service grants	3,838,608	3,488,906
Restricted for Bryan Center & equipment	1,000,000	1,000,000
Total net position	\$ 51,355,114	\$ 51,982,950

See accompanying notes to financial statements.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Community service grants from the Corporation for Public Broadcasting (note 10)	\$ 3,478,325	\$ 3,433,112
Other grants from the Corporation of Public Broadcasting	360,283	55,794
Other grants	11,524	106,818
Sales and royalties	194,696	162,795
Total operating revenues	4,044,828	3,758,519
Operating expenditures:		
Program services:		
Programming and production	11,723,297	12,261,508
Broadcasting and engineering	8,465,707	8,920,175
Total program services	20,189,004	21,181,683
Supporting services:		
Development and fund raising	3,399,120	3,915,321
Management and general	4,067,397	4,175,354
Total supporting services	7,466,517	8,090,675
Total operating expenses	27,655,521	29,272,358
Operating loss	(23,610,693)	(25,513,840)
Non-operating revenues:		
State appropriation	9,217,804	9,336,638
Contributions	11,016,591	11,409,124
Interest and dividend income	13,236	40,398
Use of facilities	330,677	252,430
Other income	29,924	38,427
Loss on disposal of capital assets	(30,473)	(68,434)
Investment gain (loss)	2,405,098	(341,244)
Net non-operating revenues	22,982,857	20,667,339
Changes in net position	(627,836)	(4,846,501)
Net position – beginning of year	51,982,950	56,829,451
Net position – end of year	\$ 51,355,114	\$ 51,982,950

See accompanying notes to financial statements.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
STATEMENTS OF CASH FLOW
Years Ended June 30, 2017 and 2016

	2017	2016
Operating activities:		
Community service grants	\$ 3,478,323	\$ 3,433,112
Other CPB grants	360,283	55,794
Other grants	-	437,914
Sales and royalties	295,824	148,215
Operating expenses	(25,378,907)	(26,945,299)
Net cash used by operating activities	<u>(21,244,477)</u>	<u>(22,870,264)</u>
Non capital financing activities:		
State appropriation	9,217,804	9,336,638
Contributions	10,977,731	11,205,377
Other non-operating revenue	278,444	81,185
Net cash provided by non capital financing activities	<u>20,473,979</u>	<u>20,623,201</u>
Capital and related financing activities:		
Purchases of capital assets	(552,678)	(975,014)
Net cash (used) by capital and related financing activities	<u>(552,678)</u>	<u>(975,014)</u>
Investing activities:		
Purchases of investments	(123,499)	(100,807)
Investment expense netted with investment allowance	85,632	78,683
Interest on cash	13,238	40,399
Net cash (used) provided by investing activities	<u>(24,629)</u>	<u>18,275</u>
Net decrease in cash and cash equivalents	(1,347,805)	(3,203,801)
Cash and cash equivalents - beginning of year	6,260,354	9,464,155
Cash and cash equivalents - end of year	<u>\$ 4,912,549</u>	<u>\$ 6,260,354</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	(23,610,692)	(25,513,840)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	2,220,760	2,422,792
In-kind expenses	59,725	239,031
Changes in assets and liabilities:		
Accounts receivable	(5,818)	304,994
Unexpired program rights/licenses	246,141	(88,314)
Prepaid expenses	14,634	(3,115)
Accounts payable and accrued expenses	(159,451)	(116,544)
Unearned revenue	90,653	11,523
Compensated absences	(100,429)	(126,792)
Net cash (used) by operating activities	<u>\$ (21,244,477)</u>	<u>\$ (22,870,264)</u>

See accompanying notes to financial statements.

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THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

Note 1 – Summary of significant accounting policies

A. Financial reporting entity

The University of North Carolina Center for Public Television (“UNC-TV”) is a constituent organizational division of The University of North Carolina General Administration (“UNC-GA”) authorized by North Carolina General Statute Section 116-37.1 for establishment by the Board of Governors of The University of North Carolina at Chapel Hill (the “University”). The Board of Governors is authorized to establish the Board of Trustees of UNC-TV and to delegate to the Board of Trustees such powers and duties deemed necessary or appropriate except for broadcasting licensee responsibilities. The broadcast licenses issued by the Federal Communications Commission are issued to the Board of Governors of the University. UNC-GA provides administrative support to UNC-TV.

UNC-TV is directed by statute to provide research, development, and production of noncommercial educational television programming and program materials, to provide distribution of noncommercial television programming through the broadcasting licenses issued to the University of North Carolina Board Of Governors, and to enhance the uses of television for public purposes. Administrative offices and studio facilities are located in the Joseph and Kathleen Bryan Communications Center in Research Triangle Park, North Carolina. Twelve digital full power stations and twenty-five digital translators provide broadcasting services.

B. Basis of presentation

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 UNC-TV’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 accompanying financial statements of UNC-TV 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.

Non-exchange transactions, in which UNC-TV receives (or gives) value without directly giving (or receiving) equal value in exchange includes 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.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

Note 1 – Summary of significant accounting policies (continued)

D. Cash and cash equivalents

This classification includes receipts not deposited, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty

E. Investments

To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. The fair value for investments in the UNC Investment Fund was based on amounts reported to UNC-TV by UNC Management Company, Inc. 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 increase (decrease) in the fair value of investments is recognized as a component of investment income. Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by UNC-TV for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.

F. Accounts receivable

Receivables consist of amounts due from the federal government, state and local governments, other universities, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied, and accrued interest receivable from investments. Receivables are recorded net of estimated uncollectible amounts.

G. Prepaid broadcast rights

UNC-TV acquires broadcast rights for programs or a series of programs produced for public television. The cost of these rights is amortized using the straight line method based on the number of future broadcasts estimated by management over their remaining contractual lives.

H. Unearned revenue

Unearned revenue represents cash advances received from third parties, relating to programs which have not yet been broadcast. As these programs are broadcast, the costs incurred are included in operating expenses and the associated unearned revenue is included in revenue.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

Note 1 – Summary of significant accounting policies (continued)

I. Capital assets

Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

UNC-TV 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	15 -75 years
Machinery & Equipment	5-75 years
Other Structures	2-20 years

Estimated useful lives that later prove to be incorrect based on new information are adjusted and considered changes in estimates treated prospectively. The intent is to allocate the cost of a capital asset over its entire useful life and minimize reporting assets still in service as fully depreciated.

J. Occupancy rights

Occupancy rights represent payments for the privilege to occupy real property and to occupy space in a service building and certain support facilities.

K. Noncurrent long-term liabilities

Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.

L. Compensated absences

UNC-TV'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 1st or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and non-current, leave is considered taken using a last-in-first-out 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

Note 1 – Summary of significant accounting policies (continued)

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 UNC-TV has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

M. Net position

UNC-TV's net position is classified as follows:

Net investment in capital assets – This represents UNC-TV's total investments in capital assets, net of outstanding debt obligations 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 invested in capital assets net of related debt.

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 is resources in which UNC-TV is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted net position – Unrestricted net position is all resources not invested in capital assets or restricted by external parties.

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 UNC-TV. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

N. Revenue and expense recognition

UNC-TV classifies its revenues and expenses as operating or non-operating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

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Note 1 – Summary of significant accounting policies (continued)

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with UNC-TV's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) sales and services of auxiliary enterprises, and (2) certain federal, state, and local grants and contracts that are essentially contracts for services.

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. Non-operating revenues include activities that have the characteristics of non-exchange transactions. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to UNC-TV, as well as investment income, are considered non-operating since these are investing, capital, or noncapital financing activities. Capital contributions are presented separately after non-operating revenues and expenses.

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. Income taxes

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(1) of the Internal Revenue Code, as amended. However, income generated from activities unrelated to the University's exempt purpose is subject to income taxes under Internal Revenue Code 511(a)(2)(B). Such amounts have historically been insignificant. As a department of the University, UNC-TV is also exempt from income taxes.

Note 2 – Deposits and investments

Unless specifically exempt, UNC-TV 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 UNC-TV 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, UNC-TV may voluntarily deposit institutional trust funds, endowment funds, special funds, and revenue bond proceeds with the State Treasurer.

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Note 2 – Deposits and investments (continued)

The majority of UNC-TV's cash balances are on deposit with the State Treasurer and are either insured or fully collateralized. A small amount of UNC-TV's cash balances are placed with high quality financial institutions that are insured up to \$250,000 under the Federal Deposit Insurance Corporation (FDIC) for 2017 and 2016. These funds are aggregated with other funds held by the University of North Carolina General Administration. At June 30, 2017 and 2016, \$591,613 and \$380,084 of UNC-TV's funds was held in these accounts. At June 30, 2017 and 2016, the uninsured cash balance was \$341,612 and \$130,084, respectively.

At June 30, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes deposits with private institutions of \$591,613, cash on hand of \$400, and \$4,320,135 which represents UNC-TV'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 1.5 years as of June 30, 2017. 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 State of North Carolina's Comprehensive Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

UNC Investment Fund, LLC - At June 30, 2017, UNC-TV's investments include \$22,051,845 which represents UNC-TV's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Investments are subject to the following risks:

Interest rate risk: Interest rate risk is the risk UNC-TV may face should interest rate variances affect the fair value of investments. UNC-TV 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. UNC-TV does not have a formal policy that addresses credit risk.

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, UNC-TV will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. UNC-TV does not have a formal policy for custodial credit risk.

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Note 3 – Fair market value measurement

To the extent available, UNC-TV’s investments are recorded at fair value as of June 30, 2017. 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 UNC-TV’s investments within the fair value hierarchy at June 30, 2017:

	2017			
	Fair Value	<u>Fair Value Measurements Using</u>		
		Level 1	Level 2	Level 3
Investments by fair value level				
Short Term Investment Fund	\$ 4,320,936	\$ -	\$ 4,320,936	\$ -
UNC Investment Fund	22,051,845	-	-	22,051,845
Total investments by fair value level	<u>\$ 26,372,781</u>	<u>\$ -</u>	<u>\$ 4,320,936</u>	<u>\$ 22,051,845</u>

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Note 3 – Fair market value measurement (continued)

The following table summarizes UNC-TV’s investments within the fair value hierarchy at June 30, 2016:

	2016			
	Fair Value	<u>Fair Value Measurements Using</u>		
		Level 1	Level 2	Level 3
Investments by fair value level				
Short Term Investment Fund	\$ 5,879,870	\$ -	\$ 5,879,870	\$ -
UNC Investment Fund	19,719,953	-	-	19,719,953
Investments in real estate	<u>22,500</u>	<u>-</u>	<u>-</u>	<u>22,500</u>
Total investments by fair value level	<u>\$ 25,622,323</u>	<u>\$ -</u>	<u>\$ 5,879,870</u>	<u>\$ 19,742,453</u>

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.

UNC Investment Fund - Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund’s operating procedures.

Investments in real estate - These investments of donated real estate held for profit are valued at fair market value. The fair market values were estimated using recent appraisals, tax values, and purchase price.

Note 4 – Receivables

Receivables at June 30, were as follows:

	2017			2016		
	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Accounts receivable	\$ 91,909	\$ -	\$ 91,909	\$ 88,375	\$ -	\$ 88,375
Unconditional promises to give	2,015,738	941,751	1,073,987	2,194,204	905,492	1,288,712
Receivables, net	<u>\$ 2,107,647</u>	<u>\$ 941,751</u>	<u>\$ 1,165,896</u>	<u>\$ 2,282,579</u>	<u>\$ 905,492</u>	<u>\$ 1,377,087</u>

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Note 5 – Occupancy rights

Occupancy rights represent payments for UNC-TV’s privilege to occupy real property, space in service buildings and space in certain support facilities. The following is a summary of UNC-TV’s occupancy rights at June 30:

	<u>2017</u>	<u>2016</u>
Occupancy rights, at cost	\$ 995,042	\$ 995,042
Less accumulated amortization	<u>(880,732)</u>	<u>(872,264)</u>
Occupancy rights, net	<u>\$ 114,310</u>	<u>\$ 122,778</u>

Amortization expense for occupancy rights was \$8,467 and \$8,467 for the years ended June 30, 2017 and 2016, respectively.

During FY2011, in consideration for the use of a communications tower constructed by the State Highway Patrol, UNC-TV provided funding assistance of \$169,349 for the construction of the tower. This agreement was made on May 17, 2010 and runs for a period of 20 years.

UNC-TV also occupies space in a storage facility owned by WLOS-TV and located on Mount Pisgah, North Carolina. The lease dated November 18, 2002 has a twelve- year (12) term beginning July 1, 2002. This lease required an initial investment for facility improvement. The total cost of the project was \$783,693 and was completed in FY 2005. The original lease expired June 30, 2014 and was renewed with an expiration of June 30, 2024. There were no payments for occupancy rights in FY 2017.

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Note 6 – Capital assets

A summary of changes in capital assets is presented as follows:

	Beginning June 30, 2016	Increases	Decreases	Ending June 30, 2017
Capital assets, non-depreciable				
Land	\$ 185,963	\$ -	\$ -	\$ 185,963
Construction in progress	138,424	-	138,424	-
Total capital assets, non-depreciable	<u>324,387</u>	<u>-</u>	<u>138,424</u>	<u>185,963</u>
Capital assets, depreciable				
Buildings	74,519,324		698,950	73,820,374
Other structures	20,961,913	8,781		20,970,694
Equipment	7,071,582	449,955	203,417	7,318,120
Motor vehicles	1,071,060		161,093	909,967
Total capital assets, depreciable	<u>103,623,879</u>	<u>458,737</u>	<u>1,063,460</u>	<u>103,019,156</u>
Less accumulated depreciation				
Buildings	60,536,798	1,211,306	655,081	61,093,024
Other structures	10,329,156	539,011		10,868,166
Equipment	4,669,098	419,966	195,744	4,893,320
Motor vehicles	860,513	42,010	161,093	741,431
Total accumulated depreciation	<u>76,395,565</u>	<u>2,212,293</u>	<u>1,011,918</u>	<u>77,595,941</u>
Capital assets, net	<u>\$ 27,552,702</u>	<u>\$ (1,753,556)</u>	<u>\$ 189,966</u>	<u>\$ 25,609,178</u>

Depreciation expense charged to operations were \$2,212,293 and \$2,414,325 for the years ended June 30, 2017 and 2016, respectively.

Note 7 – Accounts payable and accrued expenses

Accounts payable and accrued expenses are as follows as of June 30:

	2017	2016
Accounts payable	\$ 326,696	\$ 812,265
Accrued payroll	430,509	432,520
Accrued interest expense	394	455.00
Total accounts payable and accrued expenses	<u>\$ 757,599</u>	<u>\$ 1,245,240</u>

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Note 8 – Unearned revenue

Unearned revenue represent UNC-TV's financial equity in unused cash balances provided by grantors and donors for specific purposes not yet fulfilled.

A summary of changes for the year ended June 30, 2017, is presented as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 1,378,181	\$ 1,360,829
Additional revenues received	414,147	416,023
Revenue recognized	<u>(621,478)</u>	<u>(398,671)</u>
Balance, end of year	<u>\$ 1,170,850</u>	<u>\$ 1,378,181</u>

Note 9 – Long term liabilities

A summary of changes is as follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>	<u>Current Portion</u>
Notes payable	\$ 296,112	\$ -	\$ 39,134	\$ 256,978	\$ 40,536
Compensated absences	<u>1,305,954</u>		<u>100,429</u>	<u>1,205,525</u>	<u>50,196</u>
Total long-term liabilities, net	<u>\$ 1,602,066</u>	<u>\$ -</u>	<u>\$ 139,563</u>	<u>\$ 1,462,503</u>	<u>\$ 90,732</u>

Annual requirements to pay principal and interest on the long-term obligations at June 30, 2017, are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 40,537	\$ 4,456
2019	42,229	3,698
2020	43,972	2,908
2021	45,767	2,086
2022-2026	<u>84,474</u>	<u>1,570</u>
Total Requirements	<u>\$ 256,978</u>	<u>\$ 14,718</u>

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
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Note 9 – Long term liabilities (continued)

UNC-TV was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Rate/ Ranges	Maturity Date	Amount of Issue	Paid Through June 30, 2017	Outstanding June 30, 2017
Energy Services Agreement	Banc of America Public Capital Corp	1.84%	02/14/2023	\$ 305,747	\$ 48,769	\$ 256,978

Note 10 – Community service grants

The Corporation for Public Broadcasting (CPB) is a private, nonprofit corporation, funded by federal appropriations authorized by the United States Congress and other sources. CPB distributes annual Community Service Grants to qualifying public telecommunications entities. These grants are used to augment the financial resources of public television stations and thereby to enhance the quality of programming and expand the scope of public television services. Each grant may be expended over two federal fiscal years as described in the Communications Act, 47 United States Code Annotated Section 396(k)(7), (1983) Supplement.

According to the Communications Act, funds may be used at the discretion of recipients. UNC-TV uses these funds for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with Community Service Grants awarded in prior years.

The grants are reported in the accompanying financial statements as unrestricted operating funds; however, certain guidelines must be satisfied in connection with application for and use of the grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of grant funds, recordkeeping, audits, financial reporting, and licensee status with the Federal Communications Commission.

The Community Service Grants received and expended during the most recent fiscal years were as follows:

Year of Grant	Amount Received	Expended		Balance June 30, 2017
		2015-16	2016-17	
2014-15	\$ 3,742,277	\$ 3,742,277	\$ -	\$ -
2015-16	3,433,112	-	3,433,112	-
2016-17	3,478,325	-	-	3,478,325
Total	<u>\$ 10,653,714</u>	<u>\$ 3,742,277</u>	<u>\$ 3,433,112</u>	<u>\$ 3,478,325</u>

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Note 11 – Reversionary interest in assets

UNC-TV has received grants from the U. S. Department of Commerce's National Telecommunications and Information Administration/Public Telecommunications Facility Program (NTIA/PTFP) for construction and purchase of equipment. The Federal Government retains a priority reversionary interest in the equipment purchased with these funds through a ten-year period after the official completion dates of the projects.

The Federal interest in the property at June 30, 2017 and 2016 is \$1,313,856 and \$2,162,529, respectively, as illustrated below:

	2017	2016
Center outlays	\$ 2,252,170	\$ 3,400,812
Federal outlays	1,313,856	2,162,529
Total costs of assets	\$ 3,566,026	\$ 5,563,341

Note 12 – Retirement plan

UNC-TV through UNC-GA participates in the 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. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

As a condition of employment, each permanent full-time employee of the State of North Carolina is a member of a North Carolina State Retirement System. Accordingly, employees of UNC-TV are members of the North Carolina Teachers' and State Employees' Retirement System.

During the years ended June 30, 2017 and 2016, covered employees contributed 6% of gross wages and UNC-TV contributed 9.98% in FY 2017 and 9.15% in FY 2016 to this retirement system. UNC-TV's matching retirement plan costs during the years ended June 30, 2017 and 2016, was \$651,712 and \$648,881, respectively.

Employees can alternatively elect to participate in the Optional Retirement Program (ORP) that also requires the employee to contribute 6% of gross wages. UNC-TV contributed 6.84% in FY 2017 and 6.84% in FY 2016 to this retirement program. UNC-TV's matching retirement plan cost for this program during the years ended June 30, 2017 and 2016 were \$132,330 and \$93,307, respectively.

In FY16, UNC-GA Implemented No 68, Accounting and Financial Reporting for Pensions - An amendment of GASB Statement No 27 and GASB Statement No 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. The implementation of these statements resulted in the University recognizing a net pension liability, deferred inflows and deferred outflows.

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Note 13 - Other postemployment benefits

A - Health benefits

UNC-TV participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS) or the Optional Retirement Program (ORP). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement. The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year UNC-TV contributed 5.81% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2017 and 2016, were 5.60% and 5.49%, respectively. UNC-TV made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were \$485,658, \$466,348, and \$439,643, respectively. UNC-TV assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's Comprehensive Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B - Disability income

UNC-TV participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS and ORP. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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B - Disability income (continued)

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2017, UNC-TV made a statutory contribution of 0.38% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2016 and 2015, were both 0.41%, respectively. UNC-TV made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were \$31,796, \$34,185, and \$32,885, respectively. UNC-TV assumes no liability for long term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's Comprehensive Annual Financial Report.

Note 14- Risk management

A – Insurance activities

Automobile, fire, and other property losses - UNC-TV 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 UNC-TV for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. UNC-TV has elected to purchase additional "all risk" coverage for all computers, equipment, buildings, and contents

Losses covered by the Fund are subject to a \$5,000 per occurrence deductible.

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

UNC-TV pays premiums to the North Carolina Department of Insurance for the coverage. Auto policy is subject to a \$500 per occurrence deductible. UNC-TV purchased other authorized coverage from private companies through the North Carolina Department of Insurance. These purchased coverages are: leased computer equipment (stated value with \$500 deductible) and fine art (stated value with \$2,500 deductible).

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. UNC-TV pays the premium, based on a composite rate, directly to the private insurer.

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A – Insurance activities (continued)

Employee dishonesty and computer fraud - UNC-TV 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. UNC-TV is 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.

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, UNC-TV's primary responsibility is to arrange for and provide the necessary treatment for work related injury. UNC-TV is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. UNC-TV retains the risk for workers' compensation.

UNC-TV's costs for extended coverage during the years ended June 30, 2017 and 2016 were \$680,961 and \$679,323, respectively. 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.

B- Employee benefit plans

State Health Plan- UNC-TV employees and retirees 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 has contracted with third parties to process claims.

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.

Note 15 – Lease commitments

UNC-TV is obligated for annual rental payments under various long-term operating lease agreements for tower sites and office facilities. Rental expense for the years ended June 30, 2017 and 2016 was \$196,874 and \$195,429, respectively.

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Note 15 – Lease commitments (continued)

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2017:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 179,693
2019	138,937
2020	124,946
2021	80,813
2022	77,296
2023-2027	223,621
2028-2032	<u>41,237</u>
Total Minimum Lease Payments	<u>\$ 866,543</u>

Note 16 – In-kind contributions

Certain in-kind contributions are not reported in the statement of revenues, expenses, and changes in net position which consist of non-monetary support, in the form of property and personal services, provided to UNC-TV by organizations and persons outside the licensee entity. However, this support significantly contributes to the fulfillment of UNC-TV's statutory purpose.

Donation of goods in return for on-air promotion reported in the statement of revenues, expenses, and changes in net position for the years ended June 30, 2017 and 2016 was \$15,968 and \$135,705, respectively.

Note 17 – Contributed professional services

UNC-TV recognizes donated services that creates or enhances non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. UNC-TV receives significant amounts of professional services in exchange for underwriting recognition on air. For the years ended June 30, 2017 and 2016, the amounts recorded in the financial statements were \$43,758 and \$103,326, respectively.

Note 18 – Indirect administrative support

UNC-TV received administrative and operating support during the year ended June 30, 2017 and 2016 from UNC-GA. This support was in the form of assistance, guidance, and service in accounting, budget, personnel, and purchasing and was provided without direct cost to UNC-TV. The fair value of these services is significant but is not reported in the statement of revenues, expense and changes in net position as revenues and expenses.

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Note 18 – Indirect administrative support (continued)

Fair value is computed by a formula using appropriate rates applied to relevant costs. The fair values of indirect administrative support for the years ended June 30, 2017 and 2016 were \$566,567 and \$565,990, respectively.

Note 19 – Related party transactions

The North Carolina Public Television Foundation, Inc. (the “Foundation”) is organized and operated exclusively to engage in fundraising activities for the purpose of supporting UNC-TV including, without limitation, the purchase of equipment determined by UNC-TV to be necessary or desirable for carrying out its public service functions. The bylaws of the Foundation direct that the chair of the Board of Trustees of UNC-TV and the director of UNC-TV must be two of the possible nineteen members of the Board of the Foundation.

During the years ended June 30, 2017 and 2016, contributions from the Foundation to UNC-TV were \$142,000 and \$172,135, respectively.

Note 20 – Concentrations

During the years ended June 30, 2017 and 2016, UNC-TV received 34% and 38%, respectively, of its total operating support and revenue in the form of appropriations from the State of North Carolina. No funding for capital improvements was received in either FY2017 or FY2016.

Note 21 – Subsequent events

In November 2017, UNC-TV was awarded a Community Service Grant in the amount of \$2,893,928, Distance Service Grant in the amount of \$388,940, an Interconnection Grant in the amount of \$55,219, and a Universal Service Support Grant in the amount of \$54,827 from the Corporation for Public Broadcasting for FY2018.

UNC-TV has evaluated subsequent events from the date of the statement of net assets through January 8, 2018, the date the report is available to be issued which is the date of the auditors' report. During this period, there were no additional material subsequent events requiring disclosure.