

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

Financial Statements

Years Ended June 30, 2019 and 2018

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
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Years Ended June 30, 2019 and 2018

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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
System Office
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, 2019 and 2018, 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, 2019 and 2018, 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 System Office as of June 30, 2019, 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 10, 2020 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.

Emphasis of Matter Regarding Restatement

As discussed in note 21 to the financial statements, certain errors resulting in misstatements of amounts previously reported for net position as of June 30, 2018 were discovered by UNC-TV during the year ended June 30, 2019. Accordingly, amounts reported for net position as of June 30, 2018 have been restated to correct this misstatement. We audited the adjustments detailed in note 21 that were applied to restate the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Thomas J. Gillette CMA, PCA

Durham, North Carolina
January 10, 2020

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THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Years Ended June 30, 2019

As management of The University of North Carolina Center for Public Television (UNC-TV), we offer readers of the financial statements this narrative overview and analysis of the financial activities of UNC-TV for the fiscal years ended June 30, 2019 and 2018.

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 \$72 million (net position). Of this amount, \$29 million may be used to meet UNC-TV's operating obligations. This amount equates to 99% of operating expenses.

Net Position compared to prior year: UNC-TV's total net position (assets less liabilities) increased by \$19 million, with total revenue exceeding operating expenses by the same amount. The major impact was the spectrum repacking project mandated by the Federal Communications Commission (the "FCC") to upgrade the transmission infrastructure and repack the television band to accommodate new channel assignments. \$19.4 million in capital funding revenue from the FCC was recorded with corresponding increases primarily in capital assets and remainder in operating expenses.

- **Liabilities:** UNC-TV's liabilities increased \$4.8 million due to accrued expense. These liabilities include deferred revenue, accrued vacation leave, note payable, and accrued expenses for operations, payroll, and capital projects.

Note Payable: In FY2016 UNC-TV participated in the University of North Carolina System wide 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, 2019, the principle owed was \$174,213.

Unearned Revenue – Production Projects: Underwriting revenue received and not yet expended to produce programming is deferred until those projects are completed. Revenue of \$448,000 was deferred which was a \$252,000 increase due to normal fluctuation in the timing of receipts and program projects currently in production. Total deferred revenue for productions included \$342,000 for Blue Cross Blue Shield Opioid Crisis.

Unearned 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. Approximately, \$137,500 is recognized each year as revenue from these contracts thereby reducing deferred revenue by the same amount.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Years Ended June 30, 2019

Compensated Absences: Leave liability increased \$123,000 due to typical fluctuations for accrued vacation leave.

Accounts Payable and Accrued Expenses: Accounts payable and accrued expenses increased \$4.5 million primarily due to the repack capital project. Other variances are typical due to fluctuations in the timing of projects and the subsequent receipt of vendor invoices crossing the fiscal year end.

Capital assets: Increased \$19 million from capitalized assets for the repack project.

Current Assets: Increased \$9.3 million. This includes cash, receivables, unexpired program rights, and prepaid expenses.

Cash and investments - Increased \$2.1 million primarily due to transfers from investments to cover capital expenditures for transmission infrastructure upgrades to accommodate the FCC spectrum auction repack. Eligible reimbursable expenses should eventually be returned to investments from FCC funding.

Account Receivable – Increased \$6.8 million due to \$6.9 million due from FCC for the repack project.

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, 2019

After addition of non-operating revenues and other revenue, including the State operating appropriation, net position increased \$19.1 million. This increase is the amount that total revenue exceeded operating expense for the year.

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 65%, 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, 2019

UNC-TV's net position was as follows:

| | June 30, | | |
|---|----------------------|----------------------|----------------------|
| | 2019 | 2018 | Variance |
| Assets | | | |
| Current assets | \$ 20,773,519 | \$ 11,506,972 | \$ 9,266,547 |
| Capital assets | 43,257,152 | 24,222,393 | 19,034,759 |
| Other non-current assets | 17,151,139 | 21,548,741 | (4,397,602) |
| Total assets | <u>81,181,810</u> | <u>57,278,106</u> | <u>23,903,704</u> |
| Liabilities | | | |
| Current liabilities | 7,264,562 | 2,889,084 | 4,375,478 |
| Non-current liabilities | <u>1,666,299</u> | <u>1,243,920</u> | <u>422,379</u> |
| Total liabilities | <u>8,930,861</u> | <u>4,133,004</u> | <u>4,797,857</u> |
| Net position | | | |
| Net investment in capital assets | 43,257,152 | 24,116,550 | 19,140,602 |
| Unrestricted | 22,974,023 | 23,422,252 | (448,229) |
| Restricted for: | | | |
| Time restricted pledges | 1,391,397 | 1,056,126 | 335,271 |
| Time restricted CPB grants | 3,595,331 | 3,392,914 | 202,417 |
| Restricted for Bryan Center & equipment | 1,000,000 | 1,000,000 | - |
| Purpose restrictions - CPB and other grants | <u>33,046</u> | <u>157,260</u> | <u>(124,214)</u> |
| Total net position | <u>\$ 72,250,949</u> | <u>\$ 53,145,102</u> | <u>\$ 19,105,847</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, 2019

Comparison of Revenues, Expenses and Changes in Net Position

| | June 30, | | |
|---|---------------|---------------|---------------|
| | 2019 | 2018 | Variance |
| Revenues: | | | |
| Contributions | \$ 12,654,830 | \$ 11,995,077 | \$ 659,753 |
| State appropriations - operating | 9,376,292 | 9,142,341 | 233,951 |
| Grants from CPB | 3,595,331 | 3,509,878 | 85,453 |
| Capital grant non governmental - PBS | 144,410 | - | 144,410 |
| State appropriations - capital | - | 220,000 | (220,000) |
| Federal grant and contracts - U.S. Department of Commerce | 19,375,332 | 207,646 | 19,167,686 |
| Net realized and unrealized gains on investments | 1,542,259 | 2,578,627 | (1,036,368) |
| Loss on disposal of capital assets | 114,547 | (91,931) | 206,478 |
| Other revenue | 1,671,255 | 1,413,868 | 257,387 |
| Total revenues | 48,474,256 | 28,975,506 | 19,498,750 |
| Expenses: | | | |
| Program services | | | |
| Programming and production | 12,969,350 | 12,060,740 | 908,610 |
| Broadcasting and engineering | 8,255,965 | 7,742,344 | 513,621 |
| Supporting services | | | |
| Development and fund raising | 3,550,365 | 3,348,004 | 202,361 |
| Management and general | 4,592,729 | 3,801,025 | 791,704 |
| Total expenses | 29,368,409 | 26,952,113 | 2,416,296 |
| Change in net position | \$ 19,105,847 | \$ 2,023,393 | \$ 17,082,454 |

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Years Ended June 30, 2019

Capital Assets

The recorded value of capital assets increased \$19 million.

Capital assets are increased by asset additions and replacements and decreased each year as these assets are depreciated over their useful life or retired. Capital asset additions exceeded depreciation expense and asset retirements. This resulted from the spectrum repacking process mandated by FCC channel reassignments and will provide major upgrades to the transmission infrastructure. The majority of funding for these upgrades of aging equipment are being funded by the FCC from proceeds of the spectrum auction. The following is a summary of UNC-TV's capital assets, net of accumulated depreciation, at year-end.

| | June 30, | |
|-------------------------------|----------------------|----------------------|
| | 2019 | 2018 |
| Land | \$ 185,963 | \$ 185,963 |
| Construction in progress | 20,772,857 | 432,856 |
| Building and other structures | 10,941,153 | 11,746,716 |
| Occupancy rights | 97,376 | 105,843 |
| Other structures | 9,093,356 | 9,512,678 |
| Antennas and other equipment | 2,083,458 | 2,111,809 |
| Motor vehicles | 82,988 | 126,527 |
| Total | <u>\$ 43,257,152</u> | <u>\$ 24,222,393</u> |

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. Revenue from these sources increased by 5%. There were additional gains in revenue from investment gains, royalties, and production services. An operating budget surplus reducing total expense by 2% also improved UNC-TV's financial position.

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

Requests for Information

This report is designed to provide an overview of UNC-TV's finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the 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, 2019

| | 2019 | 2018 |
|---|---------------|---------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 11,351,869 | \$ 9,223,928 |
| Receivables, net (note 4) | 7,184,529 | 344,033 |
| Unconditional promises to give, net (note 4) | 1,391,397 | 1,056,126 |
| Unexpired program rights | 173,514 | 245,462 |
| Prepaid expenses | 672,210 | 637,423 |
| Total current assets | 20,773,519 | 11,506,972 |
| Non-current assets: | | |
| Capital assets, net (note 5 and 6) | 43,257,152 | 24,222,393 |
| Investments, net (note 3) | 17,151,139 | 21,548,741 |
| Total non-current assets | 60,408,291 | 45,771,134 |
| Total assets | \$ 81,181,810 | \$ 57,278,106 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses (note 7) | 5,490,568 | \$ 996,961 |
| Unearned revenue (note 8) | 1,667,476 | 1,553,248 |
| Long term liabilities- current portion (note 9) | 106,518 | 338,875 |
| Total current liabilities | 7,264,562 | 2,889,084 |
| Non-current liabilities: | | |
| Long term liabilities (note 9) | 1,666,299 | 1,243,920 |
| Total liabilities | 8,930,861 | 4,133,004 |
| Net position | | |
| Net investment in capital assets | 43,257,152 | 24,116,550 |
| Unrestricted | 22,974,023 | 23,422,252 |
| Restricted for: | | |
| Time restricted pledges | 1,391,397 | 1,056,126 |
| Time restricted CPB grants | 3,595,331 | 3,392,914 |
| Restricted for Bryan Center & equipment | 1,000,000 | 1,000,000 |
| Purpose restrictions - CPB and other grants | 33,046 | 157,260 |
| Total net position | \$ 72,250,949 | \$ 53,145,102 |

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, 2019

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Operating revenues: | | |
| Community service grants from the corporation for public broadcasting (note 10) | \$ 3,402,636 | \$ 3,282,869 |
| Other grants from the Corporation of Public Broadcasting | 192,695 | 227,009 |
| Other grants | 33,047 | 40,296 |
| Sales and royalties | 1,235,955 | 815,264 |
| Total operating revenues | <u>4,864,333</u> | <u>4,365,438</u> |
| Operating expenditures: | | |
| Program services: | | |
| Programming and production | 12,969,350 | 12,060,740 |
| Broadcasting and engineering | 8,255,965 | 7,742,344 |
| Total program services | <u>21,225,315</u> | <u>19,803,084</u> |
| Supporting services: | | |
| Development and fund raising | 3,550,365 | 3,348,004 |
| Management and general | 4,592,729 | 3,801,025 |
| Total supporting services | <u>8,143,094</u> | <u>7,149,029</u> |
| Total operating expenses | <u>29,368,409</u> | <u>26,952,113</u> |
| Operating loss | <u>(24,504,076)</u> | <u>(22,586,675)</u> |
| Non-operating revenues: | | |
| State appropriation | 9,376,292 | 9,142,341 |
| Contributions | 12,654,830 | 11,995,077 |
| Use of facilities | 306,143 | 344,384 |
| Other income | 96,110 | 213,924 |
| Gain (loss) on disposal of capital assets | 114,547 | (91,931) |
| Net investment gain (loss) | 1,542,259 | 2,578,627 |
| Net non-operating revenues | <u>24,090,181</u> | <u>24,182,422</u> |
| Gain (loss) before other revenue gains or (losses) | <u>(413,895)</u> | <u>1,595,747</u> |
| Other revenue | | |
| State appropriation- capital investment | - | 220,000 |
| Federal grant and contracts - U.S. Department of Commerce | 19,375,332 | 207,646 |
| Capital grant non governmental - PBS | 144,410 | - |
| Total other revenue | <u>19,519,742</u> | <u>427,646</u> |
| Changes in net position | 19,105,847 | 2,023,393 |
| Net position – beginning of year | <u>53,145,102</u> | <u>51,121,709</u> |
| Net position – end of year | <u>\$ 72,250,949</u> | <u>\$ 53,145,102</u> |

See accompanying notes to financial statements.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
STATEMENTS OF CASH FLOW
Years Ended June 30, 2019

| | 2019 | 2018 |
|---|------------------------|------------------------|
| Operating activities: | | |
| Operating revenues | \$ 4,899,449 | \$ 4,937,712 |
| Operating expenses | (26,625,487) | (24,886,937) |
| Net cash (used) by operating activities | <u>(21,726,038)</u> | <u>(19,949,225)</u> |
| Non capital financing activities: | | |
| State appropriation | 9,376,292 | 9,142,341 |
| Contributions and underwriting | 12,475,711 | 11,846,350 |
| Other non-operating revenue | 221,104 | 434,048 |
| Net cash provided by non capital financing activities | <u>22,073,107</u> | <u>21,422,739</u> |
| Capital and related financing activities: | | |
| Capital contributions – State | - | 220,000 |
| Capital contributions – Federal | 12,638,746 | 19,015 |
| Proceeds from sale of capital assets | 117,605 | 29,068 |
| Purchases of capital assets | (17,017,524) | (556,826) |
| Principal paid on capital debt and leases | (42,229) | (40,535) |
| Other capital grants | 144,410 | - |
| Net cash (used) by capital and related financing activities | <u>(4,158,992)</u> | <u>(329,278)</u> |
| Investing activities: | | |
| Purchases of investments | (1,425,587) | (391,031) |
| Proceeds from Investments transferred to Cash | 7,200,828 | 3,500,000 |
| Interest on cash | 164,620 | 58,173 |
| Net cash provided by investing activities | <u>5,939,861</u> | <u>3,167,142</u> |
| Net decrease in cash and cash equivalents | 2,127,938 | 4,311,378 |
| Cash and cash equivalents - beginning of year | 9,223,928 | 4,912,549 |
| Cash and cash equivalents - end of year | <u>\$ 11,351,868</u> | <u>\$ 9,223,929</u> |
| Reconciliation of operating loss to net cash used by operating activities: | | |
| Operating loss | (24,504,076) | (22,586,675) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation and amortization | 2,080,525 | 2,159,350 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 35,314 | (116,595) |
| Unexpired program rights/licenses | 71,947 | 25,661 |
| Prepaid expenses | (34,788) | (16,258) |
| Accounts payable and accrued expenses | 392,789 | 14,613 |
| Unearned revenue | - | 689,490 |
| Workers compensation payable | 109,042 | (7,301) |
| Compensated absences | 123,209 | (111,510) |
| Net cash (used) by operating activities | <u>\$ (21,726,038)</u> | <u>\$ (19,949,225)</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, 2019

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 System Office (the “System Office”) 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. The System Office 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, 2019

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, 2019

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
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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.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
NOTES TO FINANCIAL STATEMENTS
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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.

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
NOTES TO FINANCIAL STATEMENTS
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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 2019 and 2018. These funds are aggregated with other funds held by the University of North Carolina System Office. At June 30, 2019 and 2018, \$1,571,152 and \$1,388,515 of UNC-TV's funds was held in these accounts. At June 30, 2019 and 2018, the uninsured cash balance was \$1,321,152 and \$1,138,515, respectively.

At June 30, 2019, the amount shown on the Statement of Net Position as cash and cash equivalents includes deposits with private institutions of \$1,571,152, and \$9,780,717 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, 2019. 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, 2019, UNC-TV's investments include \$17,151,139 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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NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 3 – Fair market value measurement

To the extent available, UNC-TV's investments are recorded at fair value as of June 30, 2019. 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, 2019:

| | 2019 | | | |
|---------------------------------------|-------------------------------|-------------|---------------------|----------------------|
| | Fair Value Measurements Using | | | |
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Investments by fair value level | | | | |
| Short Term Investment Fund | \$ 9,780,717 | \$ - | \$ 9,780,717 | \$ - |
| UNC Investment Fund | 17,151,139 | - | - | 17,151,139 |
| Total investments by fair value level | <u>\$ 26,931,856</u> | <u>\$ -</u> | <u>\$ 9,780,717</u> | <u>\$ 17,151,139</u> |

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NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 3 – Fair market value measurement (continued)

The following table summarizes UNC-TV's investments within the fair value hierarchy at June 30, 2018:

| | 2018 | | | |
|---------------------------------------|-------------------------------|-------------|---------------------|----------------------|
| | Fair Value Measurements Using | | | |
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Investments by fair value level | | | | |
| Short Term Investment Fund | \$ 7,835,413 | \$ - | \$ 7,835,413 | \$ - |
| UNC Investment Fund | 21,548,741 | - | - | 21,548,741 |
| Total investments by fair value level | <u>\$ 29,384,154</u> | <u>\$ -</u> | <u>\$ 7,835,413</u> | <u>\$ 21,548,741</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:

| | 2019 | | | 2018 | | |
|--------------------------------|---------------------|--------------------------------------|---------------------|---------------------|--------------------------------------|---------------------|
| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
| Accounts receivable | \$ 7,184,529 | \$ - | \$ 7,184,529 | \$ 344,033 | \$ - | \$ 344,033 |
| Unconditional promises to give | 2,496,892 | 1,105,495 | 1,391,397 | 2,147,980 | 1,091,854 | 1,056,126 |
| Receivables, net | <u>\$ 9,681,421</u> | <u>\$ 1,105,495</u> | <u>\$ 8,575,926</u> | <u>\$ 2,492,013</u> | <u>\$ 1,091,854</u> | <u>\$ 1,400,159</u> |

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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>2019</u> | <u>2018</u> |
|-------------------------------|-------------------------|--------------------------|
| Occupancy rights, at cost | \$ 995,042 | \$ 995,042 |
| Less accumulated amortization | <u>(897,666)</u> | <u>(889,199)</u> |
| Occupancy rights, net | <u><u>\$ 97,376</u></u> | <u><u>\$ 105,843</u></u> |

Amortization expense for occupancy rights was \$8,467 and \$8,467 for the years ended June 30, 2019 and 2018, 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 2019.

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Note 6 – Capital assets

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

| | Beginning June 30, 2018 | Increases | Decreases | Ending June 30, 2019 |
|--|----------------------------|----------------------|-------------------|-------------------------|
| Capital assets, non-depreciable | | | | |
| Land | \$ 185,963 | \$ - | \$ - | \$ 185,963 |
| Construction in progress | 432,856 | 20,560,434 | 220,433 | 20,772,857 |
| Total capital assets, non-depreciable | <u>618,819</u> | <u>20,560,434</u> | <u>220,433</u> | <u>20,958,820</u> |
| Capital assets, depreciable | | | | |
| Buildings | 70,381,555 | 307,919 | 1,129,634 | 69,559,840 |
| Other structures | 20,818,272 | 37,560 | - | 20,855,832 |
| Equipment | 7,409,477 | 432,862 | 229,812 | 7,612,527 |
| Motor vehicles | 903,357 | - | 122,376 | 780,981 |
| Total capital assets, depreciable | <u>99,512,661</u> | <u>778,341</u> | <u>1,481,822</u> | <u>98,809,180</u> |
| Less accumulated depreciation | | | | |
| Buildings | 58,634,839 | 1,113,482 | 1,129,634 | 58,618,687 |
| Other structures | 11,305,594 | 456,882 | - | 11,762,476 |
| Equipment | 5,297,668 | 461,213 | 229,812 | 5,529,069 |
| Motor vehicles | 776,830 | 40,481 | 119,318 | 697,993 |
| Total accumulated depreciation | <u>76,014,930</u> | <u>2,072,058</u> | <u>1,478,764</u> | <u>76,608,224</u> |
| Capital assets, net | <u>\$ 24,116,550</u> | <u>\$ 19,266,717</u> | <u>\$ 223,491</u> | <u>\$ 43,159,776</u> |

Depreciation expense charged to operations were \$2,072,058 and \$2,150,883 for the years ended June 30, 2019 and 2018, respectively.

Note 7 – Accounts payable and accrued expenses

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

| | 2019 | 2018 |
|---|---------------------|-------------------|
| Accounts payable | \$ 5,020,676 | \$ 573,641 |
| Accrued payroll | 469,504 | 422,988 |
| Accrued interest expense | <u>388</u> | <u>332</u> |
| Total accounts payable and accrued expenses | <u>\$ 5,490,568</u> | <u>\$ 996,962</u> |

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June 30, 2019

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, 2019, is presented as follows:

| | 2019 | 2018 |
|------------------------------|----------------------------|----------------------------|
| Balance, beginning of year | \$ 1,553,248 | \$ 1,170,850 |
| Additional revenues received | 1,454,730 | 1,302,859 |
| Revenue recognized | <u>(1,340,502)</u> | <u>(920,461)</u> |
| Balance, end of year | <u><u>\$ 1,667,476</u></u> | <u><u>\$ 1,553,248</u></u> |

Note 9 – Long term liabilities

A summary of changes is as follows:

| | Balance July 1, 2018 | Additions | Reductions | Balance June 30, 2019 | Current Portion |
|----------------------------------|----------------------------|--------------------------|-------------------------|----------------------------|--------------------------|
| Notes payable | \$ 216,442 | \$ - | \$ 42,229 | \$ 174,213 | \$ 43,972 |
| Compensated absences | - | 381,380 | - | 381,380 | 38,110 |
| Workers compensation | 1,094,015 | 123,209 | - | 1,217,224 | 24,436 |
| Total long-term liabilities, net | <u><u>\$ 1,310,457</u></u> | <u><u>\$ 504,589</u></u> | <u><u>\$ 42,229</u></u> | <u><u>\$ 1,772,817</u></u> | <u><u>\$ 106,518</u></u> |

Annual requirements to pay principal and interest on the long-term obligations at June 30, 2019, are as follows:

| | <u>Annual Requirements</u> <u>Notes Payable</u> | |
|---------------------------|--|------------------------|
| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> |
| 2020 | 43,972 | 2,908 |
| 2021 | 45,767 | 2,086 |
| 2022 | 47,614 | 1,230 |
| 2023 | <u>36,860</u> | <u>340</u> |
| Total Requirements | <u><u>\$ 174,213</u></u> | <u><u>\$ 6,564</u></u> |

THE UNIVERSITY OF NORTH CAROLINA CENTER FOR PUBLIC TELEVISION
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June 30, 2019

Note 9 – Long term liabilities (continued)

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

| Purpose | Financial Institution | Interest Rate/ Ranges | Final Maturity Date | Original Amount of Issue | Principal Paid Through June 30, 2019 | Principal Outstanding June 30, 2019 |
|---------------------------|--|--------------------------|---------------------|--------------------------|--------------------------------------|-------------------------------------|
| Energy Services Agreement | Banc of America Public Capital Corp | 1.84% | 02/14/2023 | <u>\$ 305,747</u> | <u>\$ 131,534</u> | <u>\$ 174,213</u> |

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, 2019 |
|---------------|----------------------|---------------------|---------------------|-----------------------|
| | | 2016-17 | 2017-18 | |
| 2016-17 | \$ 3,478,325 | \$ 3,478,325 | \$ - | \$ - |
| 2017-18 | 3,282,869 | - | 3,282,869 | - |
| 2018-19 | 3,402,636 | - | - | 3,402,636 |
| Total | <u>\$ 10,163,830</u> | <u>\$ 3,478,325</u> | <u>\$ 3,282,869</u> | <u>\$ 3,402,636</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, 2019 and 2018 is \$1,313,856 and \$1,313,856, respectively, as illustrated below:

| | <u>2019</u> | <u>2018</u> |
|-----------------------|----------------------------|----------------------------|
| Center outlays | \$ 2,252,170 | \$ 2,252,170 |
| Federal outlays | <u>1,313,856</u> | <u>1,313,856</u> |
| Total costs of assets | <u><u>\$ 3,566,026</u></u> | <u><u>\$ 3,566,026</u></u> |

Note 12 – Retirement plan

UNC-TV through the System Office 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, 2019 and 2018, covered employees contributed 6% of gross wages and UNC-TV contributed 12.29% in FY 2019 and 10.79% in FY 2018 to this retirement system. UNC-TV's matching retirement plan costs during the years ended June 30, 2019 and 2018, was \$727,952 and \$648,202, 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 2019 and 6.84% in FY 2018 to this retirement program. UNC-TV's matching retirement plan cost for this program during the years ended June 30, 2019 and 2018 were \$146,080 and \$139,829, respectively.

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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 6.27% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2018 and 2017, were 6.05% and 5.81%, respectively. UNC-TV made 100% of its annual required contributions to the Plan for the years ended June 30, 2019, 2018, and 2017 which were \$500,519, \$482,658, and \$485,658 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.

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B - Disability income (continued)

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.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2019, UNC-TV made a statutory contribution of 0.14% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2018 and 2017, were .14% and .38%, respectively. UNC-TV made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2019 and 2018 which were \$11,170 and \$11,185 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

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A – Insurance activities (continued)

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.

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, 2019 and 2018 were \$701,465 and \$688,988, 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, 2019 and 2018 was \$121,817 and \$184,212, 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, 2019:

| Fiscal Year | Amount |
|------------------------------|-------------------|
| 2020 | \$ 140,129 |
| 2021 | 93,946 |
| 2022 | 88,657 |
| 2023 | 80,300 |
| 2024 | 77,158 |
| 2025-2033 | <u>120,179</u> |
| Total Minimum Lease Payments | <u>\$ 600,369</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, 2019 and 2018 was \$0 and \$0, 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, 2019 and 2018, the amounts recorded in the financial statements were \$3,096 and \$18,417 respectively.

Note 18 – Indirect administrative support

UNC-TV received administrative and operating support during the year ended June 30, 2019 and 2018 from the System Office. 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, 2019 and 2018 were \$490,703 and \$475,528, 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, 2019 and 2018, contributions from the Foundation to UNC-TV were \$305,712 and \$176,237, respectively.

Note 20 – Concentrations

During the years ended June 30, 2019 and 2018, UNC-TV received 32% and 34%, 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 FY2019 or FY2018.

Note 21 – Net position restatement

During the fiscal year ended June 30, 2019, the UNC-TV discovered a correction was needed for prior periods, related to workers compensation expense. The correction increased workers compensation expense and long term liabilities by \$38,932 and \$272,388, respectively for the year ended June 30, 2018. The restatement of fiscal year 2018 financial statements is reflected in the 2018 Statement of Financial Position, Statement Revenues, Expenses, and Changes in Net Position and Statement of Cash flows. This correction decreased change in net position and total net position by \$272,388 and \$38,932, respectively for the period ending June 30, 2019. As of July 1, 2017, net position as previously reported was restated as follows:

| | <u>Amount</u> |
|--|----------------------|
| July 1, 2017 Net Position previously reported | \$ 51,355,114 |
| Prior period adjustment: | |
| Record UNC-TV’s workers compensation liability | <u>233,405</u> |
| July 1, 2017 Net Position restated | <u>\$ 51,121,709</u> |

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Note 21 – Net position restatement (continued)

As of July 1, 2018, net position as previously reported was restated as follows:

| | <u>Amount</u> |
|--|----------------------|
| July 1, 2018 Net Position previously reported | \$ 53,417,439 |
| Restatement: | |
| Record UNC-TV's workers compensation expense | (38,933) |
| Prior period adjustment: | |
| Record UNC-TV's workers compensation liability | <u>(233,405)</u> |
| July 1, 2018 Net Position restated | <u>\$ 53,145,102</u> |

Note 22 – Subsequent events

In November 2019, UNC-TV was awarded a Community Service Grant in the amount of \$3,008,370 Distance Service Grant in the amount of \$391,600, an Interconnection Grant in the amount of \$58,473, and a Universal Service Support Grant in the amount of \$55,451 from the Corporation for Public Broadcasting for FY2019.

UNC-TV has evaluated subsequent events from the date of the statement of net assets through January 10, 2020, 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.